

May 2020

**Proposal to grant a variation of appointment to Icosa  
Water Services Limited to enable it to provide sewerage  
services to a site called Harbour Place, Havant**

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## 1. About this document

We propose granting a Variation of appointment to Icosa Water Services Limited (“**Icosa Water**”) as a sewerage company and varying the appointment of Southern Water Services Limited (“**Southern Water**”) as a sewerage company. This notice is a consultation on this proposal under section 8(3) of the Water Industry Act 1991 (“**WIA91**”).

The consultation period will last for 28 days from the date of publication of this notice. Having considered any representations submitted during the consultation period in response to this consultation notice, Ofwat will decide whether or not to grant the variation of appointment set out above.

## 2. The Site

Icosa Water has applied for a variation of appointment to be able to provide sewerage services to a site called Harbour Place, Havant (“**the Site**”). The Site boundary map can be viewed in section 8 of this document.

The Site is within the sewerage services area of Southern Water. Icosa Water proposes to provide sewerage services to the Site by way of a bulk discharge agreement with Southern Water.

The Site will comprise 320 residential properties, and 1 business property, and is expected to be fully built out in 2024.

The Site is within the water supply area of Portsmouth Water Limited. Independent Water Services Limited has made an application to supply water services to the same site.

### **3. The applicant**

On 20 October 2016, Icosa Water Limited was appointed as a water and sewerage undertaker for a site called West Raynham in Norfolk. On 20 December 2016, Icosa Water (the applicant), who is a subsidiary of Icosa Water Limited, applied to take over the appointment for the West Raynham site under the consent criterion. Since then Ofwat has agreed to vary Icosa Water's areas of appointment so that it serves a further 16 sites for water and/or sewerage services. The register of new appointments and variations can be viewed [here](#).

## **4. The proposal**

Ofwat proposes to:

- grant a variation of appointment to Icosa Water as a sewerage company to include the Site in its sewerage services area; and
- vary the appointment of Southern Water as a sewerage company by excluding the Site from its sewerage services area.

By means of the above, Icosa Water will become the sewerage services supplier for the Site.

## 5. Our approach to the assessment of this application

The new appointment and variation mechanism, set out in primary legislation,<sup>1</sup> provides an opportunity for entry and expansion into the water and sewerage sectors by allowing one company to replace the existing appointee as the provider of water and/or sewerage services for a specific area. This mechanism can be used by new companies to enter the market and by existing appointees to expand their businesses.

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our statutory duty to protect consumers, wherever appropriate by promoting effective competition. In particular, in relation to unserved sites, we consider that we must ensure that the future customers on a site – who do not have a choice of supplier – are adequately protected. When assessing applications for new appointments and variations, the two key policy principles we apply are that:

- customers, or future customers, should be no worse off than if the site had been supplied by the existing appointee; and
- Ofwat must be satisfied that an applicant will be able to finance the proper carrying out of its functions as a water and/or sewerage company.

We clarified these two policy principles in February 2011, and updated them more recently, when we published our new appointments and variations – [policy \(2015 and 2019\)](#) and [process \(2018\)](#) documents. In December 2015, we published our '[Statement on our approach for assessing financial viability of applications for new appointments and variations](#)'. This states that we will adopt a company-based assessment of financial viability, rather than a detailed site-based assessment, where it is appropriate to do so.

When we assess whether customers will be no worse off as a result of the appointment, we not only consider the customers on the site but also the generality of customers – i.e. customers of the existing provider and customers more generally across England and Wales, who in our view benefit from the effective operation of the new appointment and variation mechanism.

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<sup>1</sup> The legal framework for new appointments is set out in the WIA91. Section 7 of the WIA91 sets out the criteria by which an appointment or variation may be made. Section 8 sets out the procedure for making that appointment or variation.

## 6. The application

Icosa Water has applied to be the sewerage company for the Site under the unserved criterion, set out in section 7(4)(b) of the WIA91.

### 6.1 Unserved status of the Site

To qualify under the unserved criterion, an applicant must show that at the time the appointment is made, none of the premises in the proposed area of appointment is served by the existing appointee.

Aerial photographs show existing buildings within the perimeter of the site. Southern Water identified Forty Acre Farm as being a potential Southern Water served property for wastewater services. Icosa Water confirmed that any existing buildings on the site will be permanently disconnected and demolished by completion of construction.

Icosa Water has provided a letter from Southern Water which confirms that, in its view, the Site is unserved for sewerage services.

Given the information provided by the applicant and the incumbent company, we are satisfied that the Site may be considered unserved.

### 6.2 Protecting customers

Ofwat acts to protect consumers, especially those who are unable to choose their supplier. In assessing applications to supply new development sites, Ofwat acts on behalf of both existing customers as well as potential new customers who are not yet on site, to protect their interests. The fact that future customers on a site have not directly chosen their supplier is not a position unique to new appointments and variations – only business, charity and public sector customers (“**Business Customers**”) in England and Wales are able to choose their supplier.<sup>2</sup>

Recognising this, our assessment of an applicant’s proposals includes analysis of its plans to ensure customers will be at least no worse off in terms of their annual bills and levels of service than if they had been supplied by the existing appointee in whose geographical area the relevant site sits.

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<sup>2</sup> The majority of Business Customers where the area of the relevant appointed company is not wholly or mainly in Wales (and whose premises are, or are likely to be, supplied with at least 50 Ml where the relevant area is wholly or mainly in Wales) have been able to effectively switch suppliers of water and/or sewerage since 1 April 2017.



### **6.3 Price**

Customers on the site will be no worse off as Icosa Water proposes to match the charges to customers on the Site of Southern Water.

### **6.4 Levels of service**

Every appointee is required under its licence conditions to publish and make available the Core Customer Information for its household customers (often referred to as 'codes'). We have assessed Icosa Water's proposed Customer Code of Practice, and our view is that it is of an appropriate standard. Our view is that customers on the Site would be no worse off in relation to the scope of Icosa Water's proposed Customer Code of Practice than they would be if Southern Water were to be the customers' sewerage services supplier.

### **6.5 Site owner choice**

Icosa Water has the consent of the Site developer BDW Trading Limited (Southampton) to become the sewerage services provider.

### **6.6 Environment Agency (EA) and Drinking Water Inspectorate (DWI)**

We take the views of these organisations into account before progressing to formal consultation on an application for a new appointment. Both the EA and DWI informed us that they are content for us to consult on this application<sup>3</sup>.

### **6.7 Incumbent's existing customers**

In considering whether customers will be no worse off, we also considered the potential effects of this variation on the prices that Southern Water's existing customer base may face.

The calculation necessarily depends on a range of assumptions, and there are clearly difficulties involved in quantifying the effect. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try to quantify the possible effect in an easily understandable way.

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<sup>3</sup> The Environment Agency and the Drinking Water Inspectorate will also be formally consulted on the proposals, as they are on the list of organisations which must be formally consulted as set out in section 8(4)(b) of WIA91.

We have assessed the potential magnitude of this impact by comparing how much Southern Water might have expected to receive in revenue from serving the Site directly, were they to serve the Site, with the revenues they might expect from the proposed arrangement with Icosa Water.

We estimate a potential £0.01 annual increase on the sewerage bills of existing Southern Water customers if we grant this variation to Icosa Water. This is once the Site is fully built out.

This estimate does not take into account the potential spill-over benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win sites.

Therefore we consider that granting this variation to Icosa Water would have a very small financial impact on customers' bills and could have potential benefits for customers.

## **6.8 Ability to finance and properly carry out its functions**

We have a statutory duty to ensure that efficient appointees can finance the proper carrying out of their functions. When a company applies for a new appointment or variation, it must satisfy us that it is able to carry out all of the duties and obligations associated with being an appointed water and/or sewerage company.

We have considered the revenues and costs of the Site relating to the provision of sewerage services should the variation be granted.

We assess the financial viability on a site basis and also consider the financial position of the company. We have concluded that the Site demonstrates sufficient viability under a set of central assumptions and have also considered the impact of varying assumptions using sensitivity analysis.

Following our review, we have concluded that in all scenarios we have considered the Site is able to demonstrate that its expected revenues will cover its expected operating costs.

Icosa Water will supply the Site with wastewater services via a bulk discharge agreement with Southern Water.

We are satisfied that the financial security that Icosa Water has in place meets our minimum requirements in that it covers one year's annual operating costs required to supply the number of connections the business is projected to have in two years' time.

On this basis, our view is that the risk of this Site not being financially viable is small and as a result we are currently satisfied that Icosa Water would be able to finance the proper carrying out of its statutory functions, if the variation is granted.

## 7. Conclusion and next steps

In assessing Icosa Water's application, we have considered the general benefits of new appointments. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and Icosa Water would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed variation on the existing customers of Southern Water.

We are currently minded to grant the variation under the unserved criterion. We are consulting on our proposal to do so.

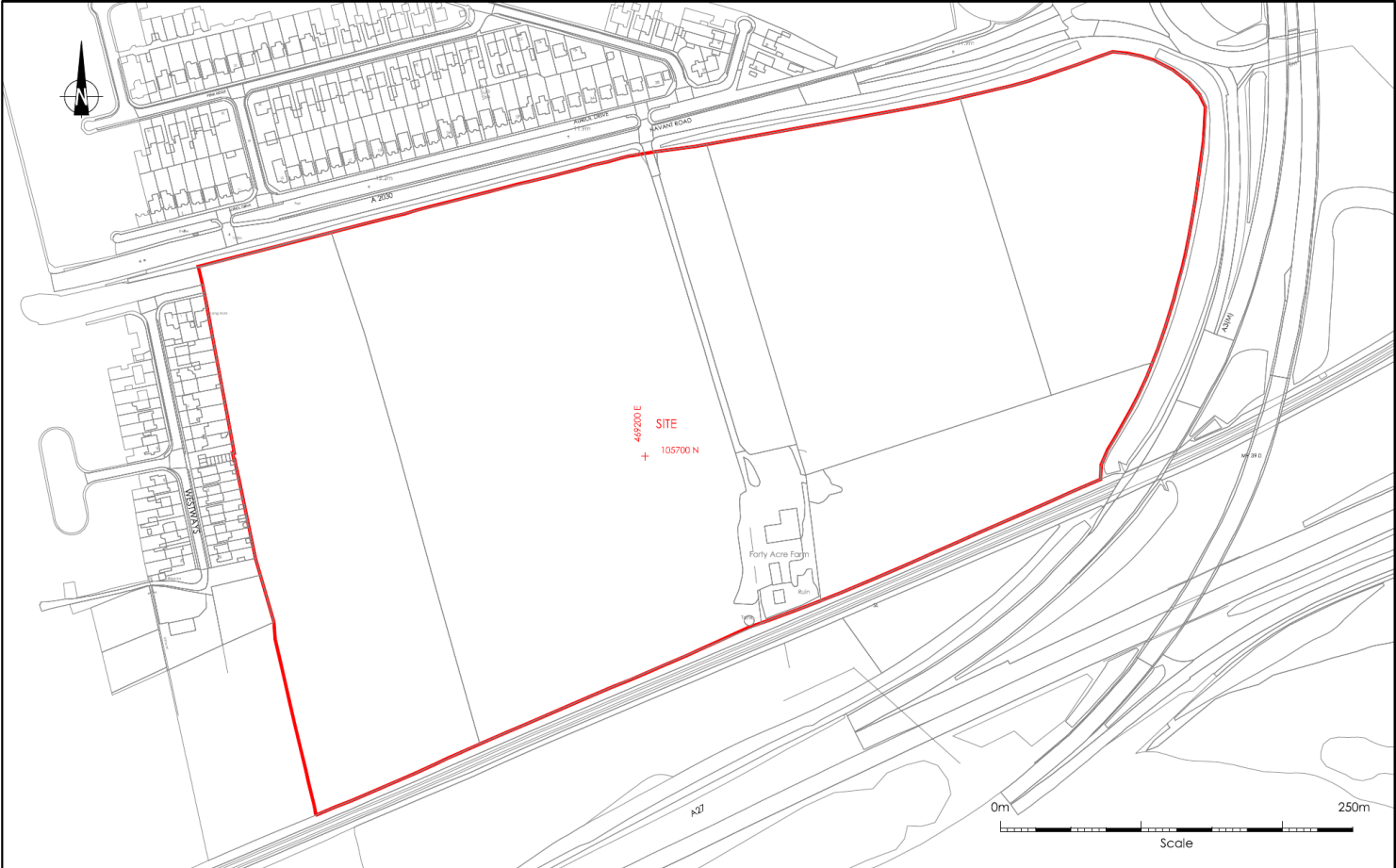
### Where to send submissions

Any person who wishes to make representations or objections with respect to the application should do so in writing to Fenella Brown at Centre City Tower, 7 Hill Street, Birmingham, B5 4UA or by email at [Fenella.Brown@ofwat.gov.uk](mailto:Fenella.Brown@ofwat.gov.uk)

Representations must be received by Ofwat no later than 17.00 hours on 15 June 2020. Further information about how to make representations or objections, including information on the treatment of confidential information, can be obtained from Ofwat at the above address or at <http://www.ofwat.gov.uk/foi/>

Ofwat will only use the information you have provided for the purpose of this consultation. We will retain your information in accordance with Ofwat's retention schedule and will not share with third parties unless we have a legal obligation to do so. For further information please see Ofwat's Privacy Policy in our [Publication Scheme](#).

# 8. Site map



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF ICOSA WATER SERVICES LIMITED AND SOUTHERN WATER SERVICES LIMITED, AS SEWERAGE UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON .....

Technical & Development Services (Southern) Ltd  
 118 Beacon House, 24 Gower Street  
 Hove, East Sussex, BN1 3AD  
 Tel: 01323 276 888

THE HARBOUR PLACE, FORTY ACRE FARM HAVANT SEWERAGE AREA SERVICE PLAN SCALE 1:2500	
Drawing Number 19-011/SSA/01	Rev B

I:\19011 Forty Acres\_Sadthampton\TDS Drawings\DWG\19011SSA01.dwg David Harrington 05/03/2020 15:19:17

Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk)

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