

August 2020

**Variation of Icosa Water Services Limited's
appointment to include Toddington Lane
910, Littlehampton, West Sussex**

1. About this document

Variation of Icosa Water Services Limited's appointment to include Toddington Lane 910, Littlehampton.

On 10 June 2020, Ofwat began a [consultation on a proposal](#) to vary Icosa Water Services Limited's ("**Icosa Water**") appointment to become the water and sewerage services provider for a development in Southern Water Services Limited's ("**Southern Water**") water supply and sewerage services areas called Toddington Lane 910 in Littlehampton, West Sussex ("**the Site**").

The consultation ended on 8 July 2020. During the consultation period, we received responses from the Consumer Council for Water ("**CCW**"), the Environmental Agency ("**EA**") and the Drinking Water Inspectorate ("**DWI**") which we have considered in making our decision.

On 18 August 2020, we granted Icosa Water a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

Contents

1. About this document	02
2. Introduction	04
3. The application	06
4. Responses received to the consultation	08
5. Conclusion	10
Appendix 1: Site Maps	11

2. Introduction

The new appointment and variation mechanism, specified by Parliament and set out in primary legislation, allows one company to replace the current company 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 companies to expand into areas where they are not the appointed company.

A company may apply for a new appointment (or a variation of its existing appointment to serve an additional site) if any of the following three criteria are met:

- None of the premises in the proposed area of appointment is served by the existing appointed company at the time the appointment is made (the “**unserved criterion**”);
- Each premises is likely to be supplied with at least 50 mega litres per year (in England) or at least 250 mega litres per year (in Wales) and the customer in relation to each premises consents (“**the large user criterion**”);
- The existing water and sewerage supplier in the area consents to the appointment (“**the consent criterion**”).

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our duty to protect consumers, wherever appropriate by promoting effective competition. In particular, in relation to unserved sites, we seek to ensure that the future customers on the 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:

1. Customers, or future customers, should be no worse off than if they had been supplied by the existing appointee; and
2. We 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.

Entry and expansion (and even the threat of such by potential competitors) can lead to benefits for different customers (such as household and business customers and developers of new housing sites). Benefits can include price discounts, better services, environmental improvements and innovation in the way services are delivered.

Benefits can also accrue to customers who remain with the existing appointee, because when the existing appointee faces a challenge to its business, that challenge can act as a spur for it to improve its services. We believe the wider benefits of competition through the new appointments and variations mechanism can offset any potential disbenefits for existing customers that might arise. We consider these potential disbenefits in more detail below.

3. The application

Icosa Water applied to be the water and sewerage services appointee for the site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). Icosa Water will serve the Site by way of bulk supply and bulk discharge agreements with Southern Water.

3.1 Unserved status of the Site

Icosa Water is applying for this variation based on the unserved criterion. To qualify under the unserved criterion, an applicant must show that at the time the appointment is made, the existing water and/or sewerage supplier to the site consents to the appointment.

We have received an Independent Adviser's Site Status Report from 'Creoda Consulting Limited' confirming that the site is unserved. We are therefore satisfied that the application meets the unserved criterion.

3.2 Financial viability of the proposal

We will only make an appointment if we are satisfied that the proposal poses a low risk of being financially non-viable.

Based on the information available to us, we concluded that the Site demonstrates sufficient financial viability. Icosa Water has also satisfied us that it can finance its functions and that it is able to properly carry them out.

3.3 Assessment of 'no worse off'

In its application Icosa Water proposes to charge customers for services on the same basis as Southern Water and will not offer a discount.

With regard to service levels, we have reviewed Icosa Water's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of Southern Water. Based on this review, we are satisfied that customers will be offered an appropriate level of service by Icosa Water and that overall customers will be 'no worse off' being served by Icosa Water instead of by Southern Water.

3.4 Effect of appointment on Southern Water's customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the charges 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 on customers of Southern Water. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try and quantify the possible effect in an easily understandable way. Broadly, we have assessed the potential impact by comparing how much Southern Water might have expected to receive in revenue from serving the Site directly, were it to serve the Site, with the revenues it might expect from the proposed arrangement with Icosa Water.

In this case, we estimate that if we grant the Site to Icosa Water we estimate that both water and sewerage bills would go up £0.01 per year.

This impact does not take into account the potential spillover benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win new sites.

3.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer Persimmon Homes Limited said that it wanted Icosa Water to be the water supply and sewerage services' company for the Site.

4. Responses received to the consultation

We received three responses to our consultation from the EA, the DWI and the CCW. We considered these responses before making the decision to vary Icosa Water's appointment. The points raised in the response are set out below.

4.1 CCW

In its consultation response of 8 July 2020 CCW stated that it generally expects NAV appointments to provide customers with prices, levels of service and service guarantees that match or, ideally, better those of the incumbent company. This is particularly for developments that include domestic housing, as household customers do not currently have the ability to choose or switch supplier.

Overall CCW agrees with our assessment that customers will be no worse off from this variation and supports the application. It noted its disappointment that there is no direct financial benefit to customers from having Icosa Water as their provider as it intends to match the charges of Southern Water on the Site with no discount. But it noted that Icosa Water's service standards generally exceed of exceed Southern Water's service standards.

Regarding level of service, CCW mentioned that Icosa Water is offering guaranteed and voluntary standards of service that generally match or exceed the standards offered by Southern Water to its customers. For example, Icosa Water will offer greater compensation if it fails to respond to written complaints within 10 working days and will provide an automatic disturbance allowance, up to £100, to customers suffering sewer flooding. However, Icosa Water will not be able to offer its financially vulnerable customers a social tariff in the way that Southern Water can, although it will offer the standard WaterSure tariff for qualifying customers who find themselves in financial difficulty.

CCW agreed that, given its relatively small size and customer base, it may be appropriate for Icosa Water to tailor some of the services that it provides. Until it can provide a formal social tariff, however, CCW would expect Icosa Water to offer appropriate flexible support to any individual in financial difficulty who would otherwise benefit from a social tariff. This should not be at the expense of its other customers, also, Icosa Water are required to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW commented that there will be a cost to the incumbent's existing customers, although this is very low (£0.01 per annum for the water bills and £0.01 per annum for the sewerage bills). CCW noted that whilst this would have a negligible effect it is unclear as to whether there will be any significant benefits from the arrangements for Southern Water's customers.

4.2 DWI

On 30 June 2020 the DWI emailed us to confirm that it had no comments regarding this application.

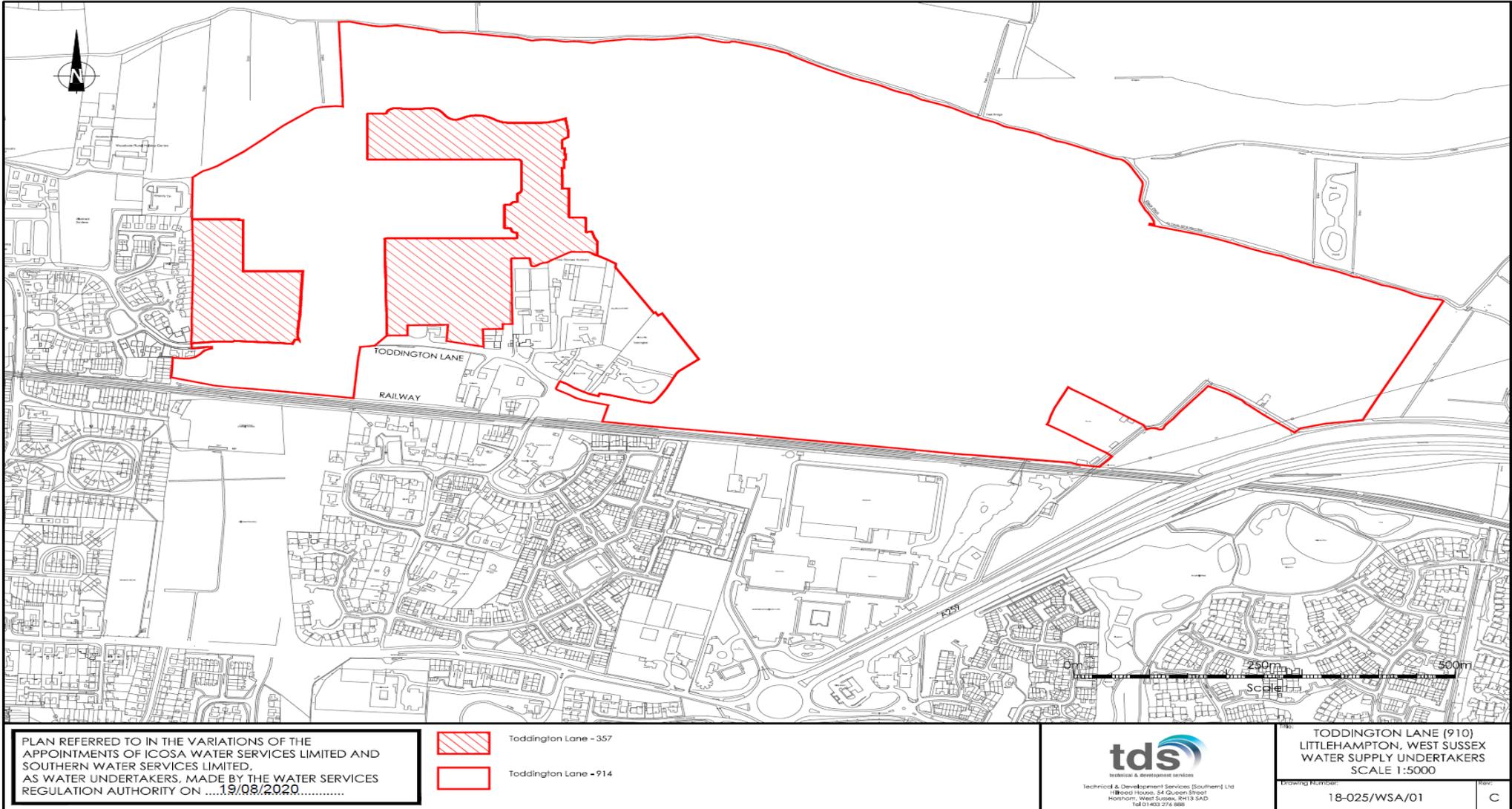
4.3 EA

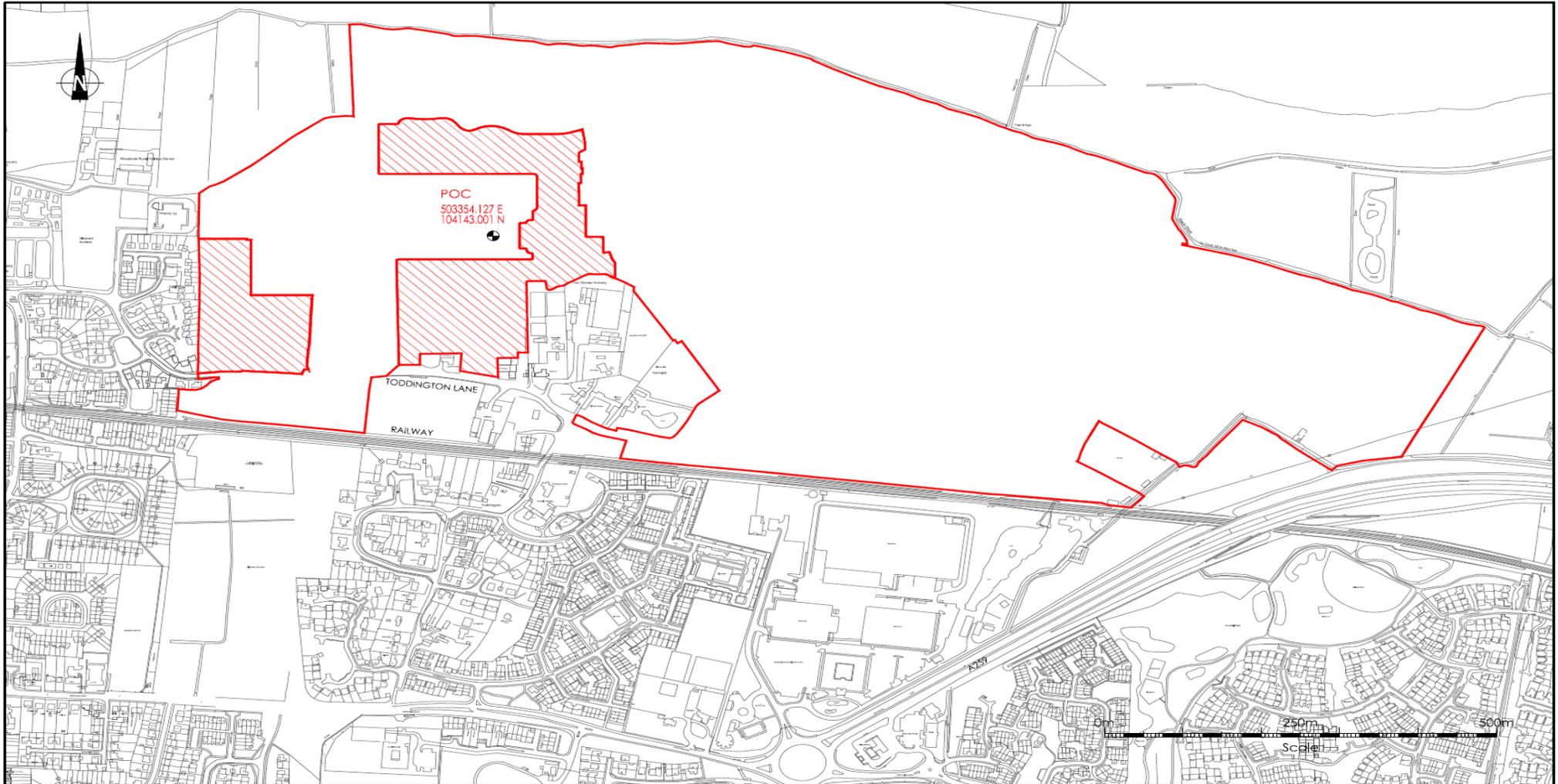
On 3 August 2020 the EA emailed us to confirm that it had no comments regarding this application.

5. Conclusion

Having assessed Icosa Water's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to Icosa Water's areas of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 19 August 2020.

Appendix 1: Site Maps





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 ON19/08/2020.....

-  Toddington Lane - 357
-  Toddington Lane - 914



Technical & Development Services (Southern) Ltd
 11 Board House, 54 Queen Street
 Hove, West Sussex, BN1 3AD
 Tel: 01403 276 988

TODDINGTON LANE (910)
 LITTLEHAMPTON, WEST SUSSEX
 SEWERAGE SERVICES UNDERTAKERS
 SCALE 1:5000

Drawing Number:
 18-025/SSA/01

Rev:
 D

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
Email: mailbox@ofwat.gov.uk

August 2020

© Crown copyright 2020

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gov.uk.

