

June 2020

Variation of Icosa Water Services Limited's appointment to include Thanington in Canterbury, Kent

1. About this document

Variation of Icosa Water Services Limited's appointment to include Thanington in Canterbury, Kent

On 30 April 2020, Ofwat began a [consultation on a proposal](#) to vary Icosa Water Services Limited's ("**Icosa Water**") appointment to become the sewerage services provider for a development in Southern Water Services Limited's ("**Southern Water**") sewerage services area called Thanington in Canterbury, Kent ("**the Site**").

The consultation ended on 1 June 2020. During the consultation period, we received one response from the Consumer Council for Water ("**CCW**"), which we have considered in making our decision.

On 10 June 2020, we granted Icosa Water a variation to its existing appointment to enable it to supply sewerage services to the Site.

This notice gives our reasons for making this variation.

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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 sewerage services appointee for the site under the consent criterion set out in section 7(4)(a) of the Water Industry Act 1991 (“WIA91”). Icosa Water will serve the Site by way of a bulk discharge agreement with Southern Water.

3.1 Consent status of the Site

Icosa Water is applying for this variation based on the consent criterion. To qualify under the consent 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 an email from Southern Water confirming that it consents for Icosa to take over the Site from it. We are therefore satisfied that the application meets the consent 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.

For this application we approached our financial viability assessment on a portfolio basis, considering this application in a package with three other sites for which variations have already been granted (Rownhams, West Durrington, and Lindfield).

Based on the information available to us, we concluded that when considered as part of a package, 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.

In this case, we estimate that if we grant the Site to Icosa Water, there will be no impact on the bills of Southern Water's existing customers.

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 Pentland Homes Ltd said that it wanted Icosa Water to be the sewerage company for the Site.

4. Responses received to the consultation

We received one response to our consultation; from CCW. We considered this response 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 CCW stated 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 Icosa Water's intention to match the charges of Southern Water on the Site (with no discount) and that Icosa Water's service standards generally exceed those of Southern Water.

CCW recognised that customers of Southern Water will not see an increase in their charges as a result of the variation. It expressed its view that ideally the incumbent company's customers should receive some benefit from the new arrangement.

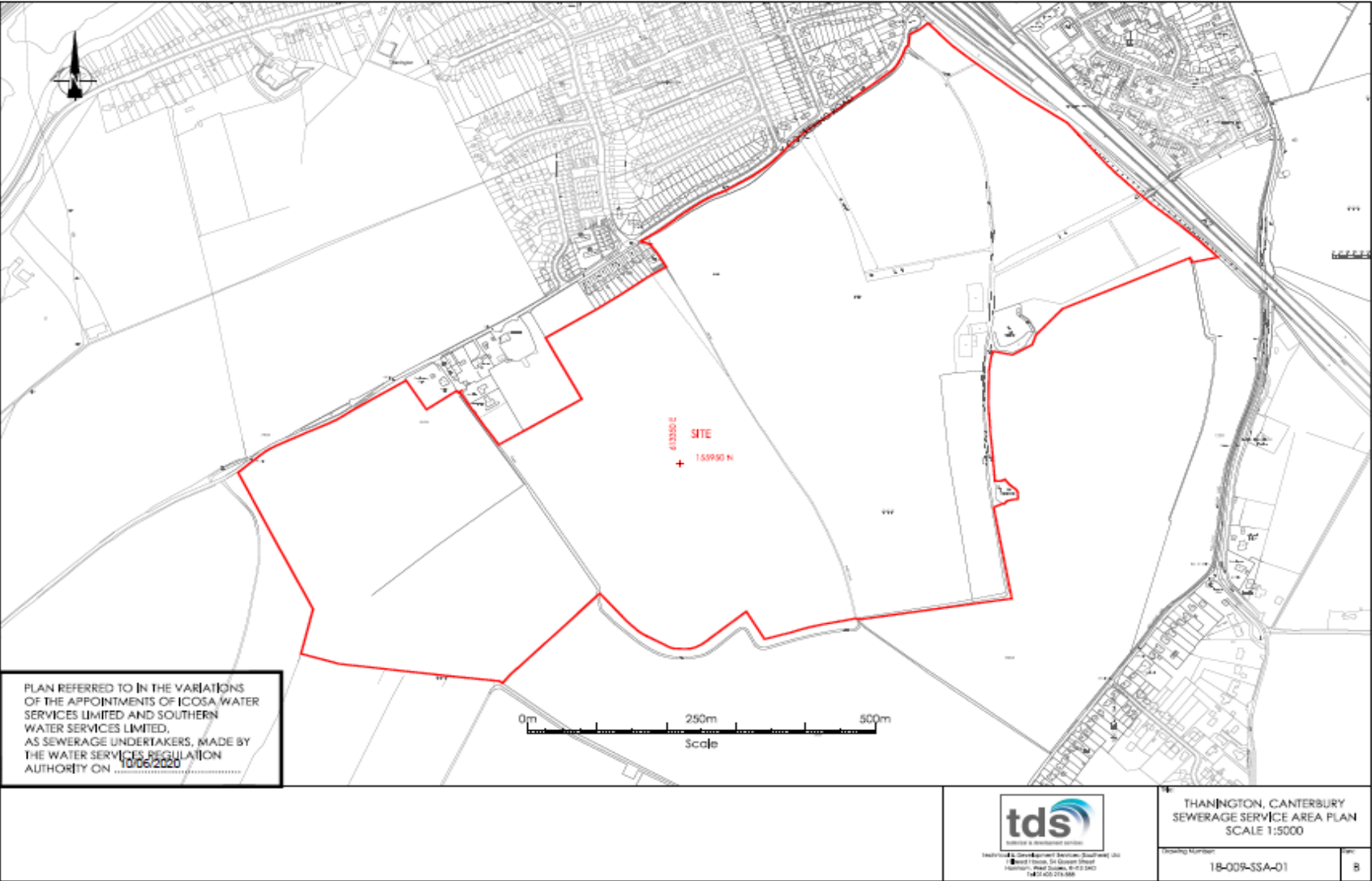
In relation to service levels, CCW noted that Icosa Water will offer greater compensation if it fails to respond to written complaints within 10 working days and provides an automatic disturbance allowance, up to £100, to customers suffering sewer flooding.

CCW noted that whilst, due to its relatively small size and customer base, Icosa Water will not be able to offer a social tariff for its financially vulnerable customers, it will offer the standard WaterSure tariff for qualifying customers who find themselves in financial difficulty. CCW expects Icosa Water to offer appropriate flexible support to any customer in financial difficulty who would otherwise benefit from a social tariff and that this should not be at the expense of its other customers. CCW would expect Icosa to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

5. Conclusion

Having assessed Icosa Water's application, and having taken account of the response 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 sewerage services. This appointment became effective on 11 June 2020.

Appendix 1: Site Map



Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
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