

July 2020

Variation of Icosa Water Services Limited's appointment to include Harbour Place, Havant, Hampshire

1. About this document

Variation of Icosa Water Services Limited's appointment to include Harbour Place, Havant

On 14 May 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 Limited's ("**Southern Water**") sewerage services area called Harbour Place, Havant in Hampshire ("**the Site**").

The consultation ended on 15 June 2020. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 10 July 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. In this case, Icosa Water applied to replace Southern Water to become the appointed sewerage company for the Site.

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 provider 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 discharge agreement.

3.1 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.

Icosa Water has informed Ofwat that the Site is brownfield. Aerial photographs and maps show that it is farmland with a single existing property called Forty Acre Farm.

Southern Water provided a letter identifying Forty Acre Farm as being a potential Southern Water served property for wastewater services. Southern Water stated that Icosa Water provided confirmation that the property will be demolished. Icosa Water informed Ofwat that the existing farm buildings have all been disconnected and will be demolished as part of the development. During construction, the existing shed on site will be served by a Temporary Building Supply being provided to the developer.

Independent Water Networks Limited (“**Independent Water Networks**”) has applied to supply water services to the same site. Independent Water Networks provided a letter from Portsmouth Water Limited (“**Portsmouth Water**”), which is the water company serving the site, dated 4 March 2020, in which Portsmouth Water stated that the developer has requested to take over the water supply to Forty Acre Farm as a Temporary Building Supply during construction and to request a permanent disconnection upon completion of construction.

Having considered the facts of the Site, the Temporary Building Supply to Forty Acre Farm and the letters from Southern Water and Portsmouth Water, we are satisfied that this Site may be considered as unserved for wastewater services.

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. We assess the risk of financial viability on a site-by-site basis and also consider the financial position of the company as a whole.

Based on the information available to us, we concluded that the Site demonstrates sufficient financial viability, and Icosa Water has 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'

Icosa Water will match the charges of Southern Water at the Site.

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 magnitude of this 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 have calculated that if we grant the Site to Icosa Water, there may be a potential impact on the bills of Southern Water's existing customers of £0.01.

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, BDW Trading Limited (Southampton) said that it wanted Icosa Water to be the sewerage services provider for the Site.

4. Responses received to the consultation

We received four responses to our consultation, from the Consumer Council for Water (“**CCW**”), the Drinking Water Inspectorate (“**DWI**”), Environment Agency (“**EA**”), and Havant Borough Council (“**HBC**”). The EA, DWI and HBC all stated that they had no comments to make with regards to this consultation. We considered their responses before making the decision to vary Icosa Water's appointment.

The points raised in the response from CCW are set out below.

4.1 CCW

CCW noted its disappointment that there will be no direct financial benefit to customers from having Icosa Water as their provider of sewerage services given it plans to match the charges of Southern Water. However it noted Icosa Water's proposals to exceed some of Southern Water's service standards. For this reason CCW supports the application and agrees with our assessment that overall customers will be no worse off.

One of our key policies is that customers should be no worse off if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service and price of previous incumbents.

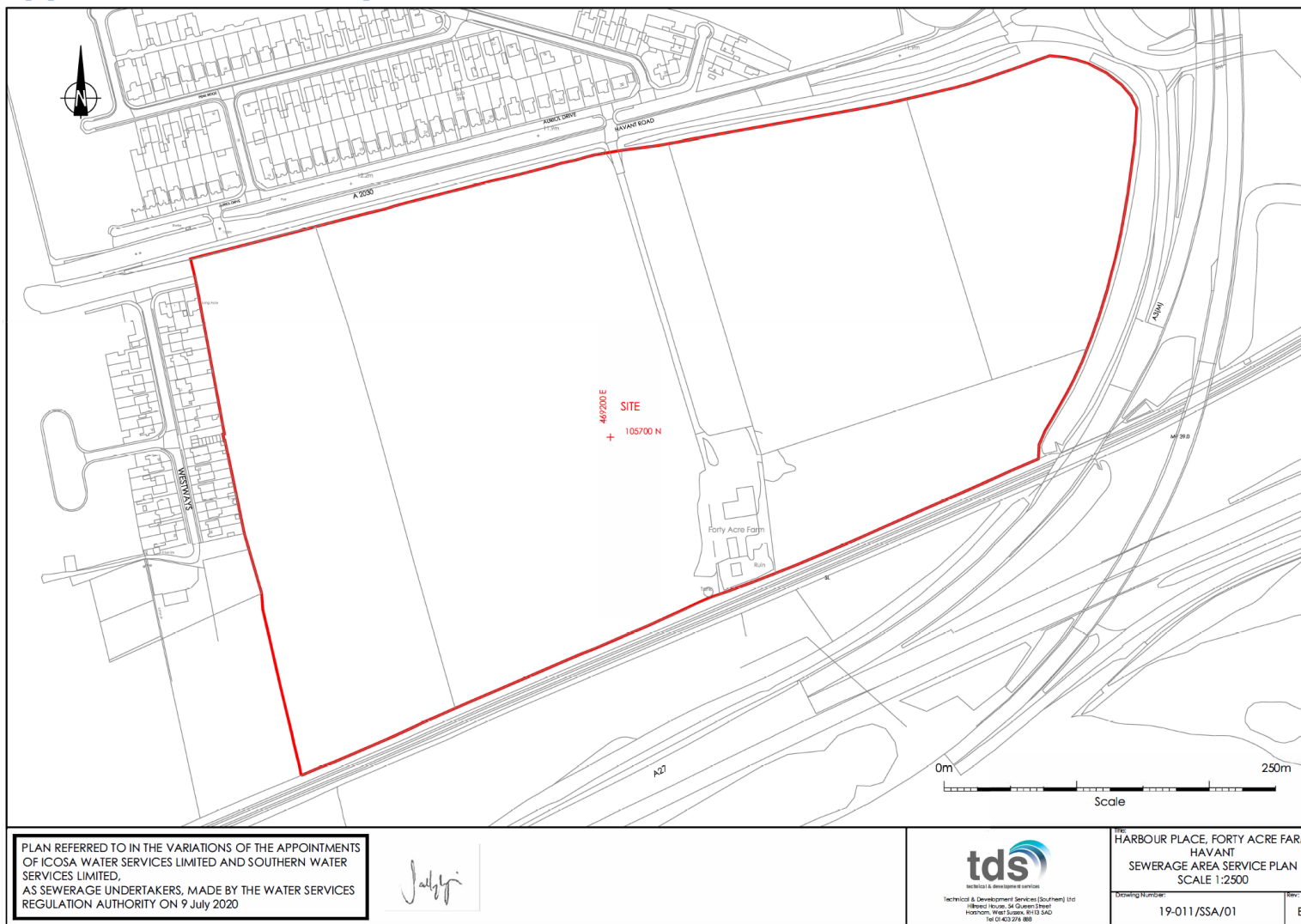
CCW noted that Icosa Water will not be able to offer a social tariff to financially vulnerable customers in the way Southern Water does, but will offer the standard WaterSure tariff for qualifying customers. CCW states that given its relatively small size and customer base it may be appropriate for Icosa Water to tailor some of the services that it provides. CCW set out its expectation that Icosa Water would offer appropriate, flexible support to any customer in financial difficulty who would otherwise have benefitted from a social tariff and CCW does not expect this to be at the expense of its other customers. CCW expects Icosa Water to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW noted our conclusion that Southern Water's existing customers would see a potential increase of £0.01 in their water bills as a result of the variation. It notes that whilst this is a very low increase, there is no evidence of significant benefits to the existing customers of Southern Water.

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 area of appointment to allow it to serve the Site for sewerage services. This appointment became effective on 10 July 2020.

Appendix 1: Site Map



I:\19-011 Forty Acres, Bedhampton\TDS Drawings\Dwgs\19-01-SSA-01.dwg David Harrington 05/03/2020 15:19:17

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