

October 2020

# Variation of Icosa Water Services Limited's appointment to include Old Stowmarket Road, Woolpit, Suffolk

## 1. About this document

### Variation of Icosa Water Services Limited's appointment to include Old Stowmarket Road, Woolpit in Suffolk

On 7 September 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 Anglian Water Services Limited's ("**Anglian Water**") sewerage services area called Old Stowmarket Road, Woolpit in Suffolk ("**the Site**").

The consultation ended on 5 October 2020. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 14 October 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 Anglian 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 a greenfield development site. Aerial photographs and maps show that there are no existing properties on the Site.

Anglian Water has provided a letter, dated 4 May 2020, confirming its view that the Site is unserved.

Having considered the facts of the Site, and the letter from Anglian Water, we are satisfied that the 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 Anglian 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 Anglian 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 Anglian Water.

### **3.4 Effect of appointment on Anglian 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 Anglian 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 Anglian 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 Anglian 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, there would be no impact on the bills of Anglian 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, David Wilson Homes (part of Barratt Developments PLC), 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 Babergh and Mid Suffolk District Council (“**BMSDC**”). We considered their responses before making the decision to vary Icosa Water's appointment.

The EA, DWI and BMSDC all stated that they had no comments to make with regards to this consultation. The points raised in the response from CCW are set out below.

### 4.1 CCW

In its consultation response CCW stated that in general it expects new appointees to provide customers with prices, levels of service and service guarantees that match, or ideally better, those of the incumbent company.

CCW noted its disappointment that there will be no direct financial benefit to customers on the Site from having Icosa Water as their provider of sewerage services given it plans to match the charges of Anglian Water. However it noted that Icosa Water generally matches or exceeds Anglian Water's service standards. For this reason CCW supports the application.

CCW noted our conclusion that Anglian Water's existing customers would see no increase in their sewerage bills as a result of the variation. CCW appreciated that there will be no increase in bills, but it was unclear as to whether there will be any significant benefits arising from this arrangement for the incumbent's customers.

One of our key policies is that customers should be no worse off if a 'new appointment or variation' 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.

We also consider the impact on the incumbent's existing customers to ensure they are no worse off. Our calculation of the impact does not take into account the potential benefits arising from dynamic efficiencies achieved as a result of the competitive process to win new sites.

CCW noted that whilst Icosa Water generally matches or exceeds Anglian Water's service standards, in the event of external sewer flooding its proposed level of



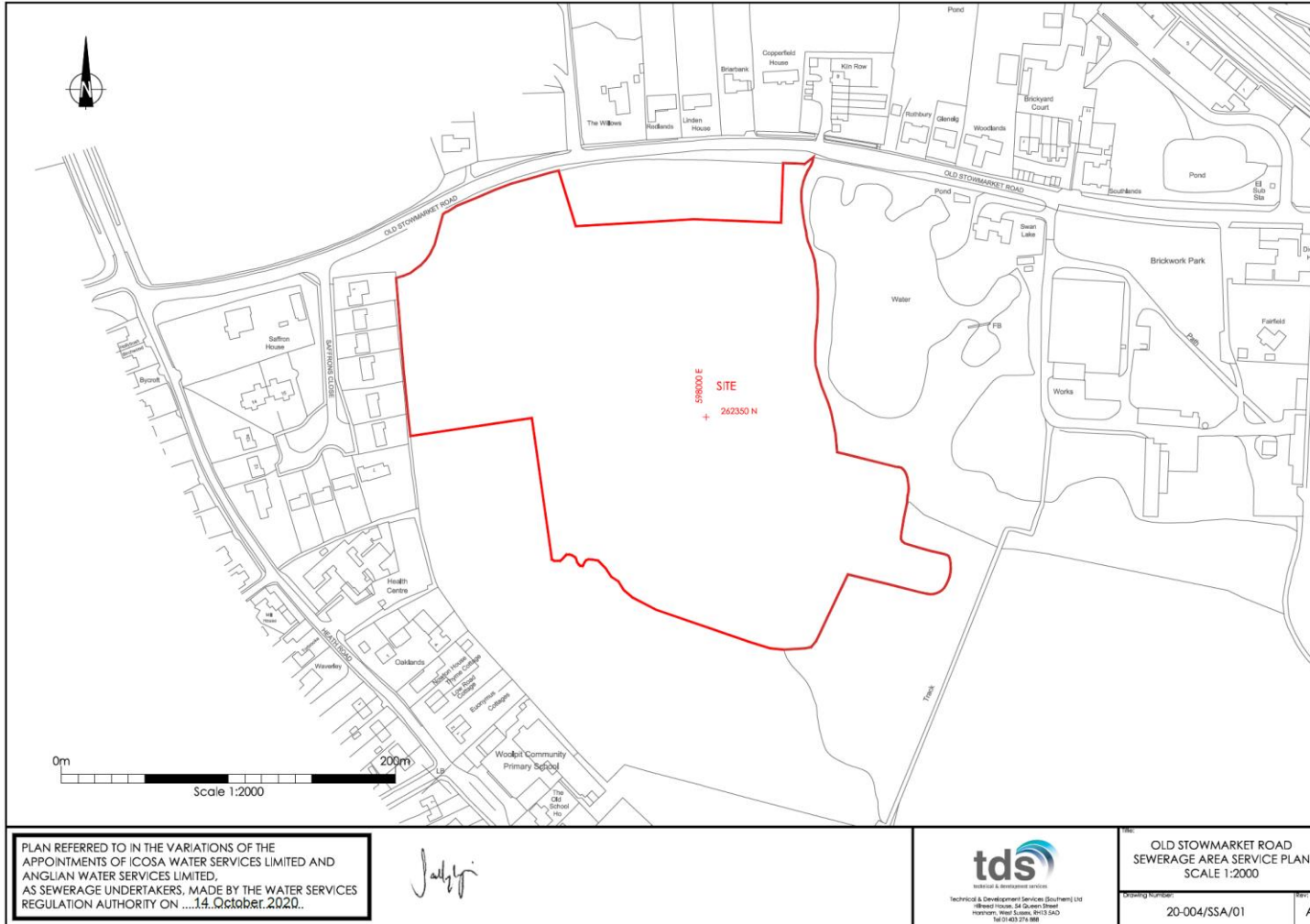
service did not commit to clean up as quickly as Anglian Water. Following CCW's response we challenged Icosa Water to match the commitment of Anglian Water for this service level and it provided a revised copy of its service level matching Anglian Water's service level in this area.

CCW noted that Icosa Water will not be able to offer a social tariff to financially vulnerable customers in the way Anglian 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.

## **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 15 October 2020.

## Appendix 1: Site Map



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