

December 2020

Variation of Icosa Water Services Limited's appointment to include Whittle Gardens, Innsworth

About this document

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On 26 October 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 Severn Trent Water Limited's ("**Severn Trent Water**") water supply and sewerage services area called Whittle Gardens in Innsworth ("**the Site**").

The consultation ended on 23 November 2020. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 7 December 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.

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1. Introduction

The new appointment and variation (“**NAV**”) mechanism, specified by Parliament and set out in primary legislation, allows one company to replace the current company as the provider of water and 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 Severn Trent Water to become the appointed water and 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.

2. 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 discharge agreements with Severn Trent Water.

2.1 Unserved status of the site

Icosa Water applied for a variation based on the unserved criterion. To qualify under the unserved criterion, an applicant must show that at the time the appointment or variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

Aerial photographs showed that there was a building located on the western edge of the Site, Drymeadow Farm. Icosa Water stated in its application that the farm would be demolished as part of the development. Icosa Water provided a letter from Severn Trent Water dated 19 June 2020, stating that the Site was currently served for water, but it understood that Drymeadow would be demolished and disconnected as part of the development, as such the served status would change once a connection no longer exists.

Icosa Water has now confirmed that the Drymeadow Farm has been demolished. Taylor Wimpey UK Limited, the Site's developer has also confirmed that the farm has been demolished and it no longer has a water connection. Given the information provided by the applicant and the developer, we are satisfied that the Site may be considered unserved.

2.2 Financial viability of the proposal

We will only make an appointment or variation 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 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.

2.3 Assessment of 'no worse off'

Customers on the Site will be no worse off as Icosa Water proposes to match the charges to customers on the Site to Severn Trent Water's charges.

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 Severn Trent 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 Severn Trent Water.

2.4 Effect of variation on Severn Trent Water's customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the price that Severn Trent 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 Severn Trent 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 Severn Trent 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.

There is no potential increase on the water bills of existing Severn Trent Water customers, but a potential £0.012 increase on their sewerage bills if we grant this variation to Icosa Water. This is once the Site is fully built out.

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.

2.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case Icosa Water has the consent of Taylor Wimpey UK Limited, to become the water and sewerage services provider for the Site.

3. Responses received to the consultation

We received responses from three organisations: the Consumer Council for Water (“**CCW**”), the Environment Agency and the Drinking Water Inspectorate (“**DWI**”). The points raised in the response are set out below. The DWI confirmed that it has no comments or objections in relation to this application.

3.1 Environment Agency

The Environment Agency confirmed that it had no concerns with the application. However, it has indicated that it requires reassurance to be provided with regards to Severn Trent Water's sewer capacity, combined sewer overflows and storm pumping station performance to be provided prior to any discharge from the new properties is made to the Severn Trent Water sewer network. This request has been shared with Icosa Water to address.

3.2 CCW

In CCW's response it stated that in general it expects NAV appointees to match or ideally better the incumbent's prices, service levels and service guarantees.

CCW are disappointed that there is no direct financial benefit to customers from having Icosa Water as their provider of sewerage services, as Icosa Water's intention is to match Severn Trent Water's charges. CCW notes that Icosa Water's proposal exceeds some of Severn Trent Water's service standards and, for this reason, CCW supports this application.

CCW considers that Icosa Water is offering guaranteed and voluntary standards of service that generally match or exceed those offered by Severn Trent Water. For example, Icosa Water will contact customers within two hours to arrange for a test if they make a water quality complaint that may be causing an illness. Severn Trent Water on the other hand does not commit to making such a response on receiving a similar complaint from its customers.

CCW notes that Icosa Water will not be able to offer its financially vulnerable customers a social tariff in the way that Severn Trent Water can, although it will offer the standard WaterSure tariff for qualifying customers who find themselves in financial difficulty. CCW considers 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 expects Icosa Water to offer appropriate flexible support to any individual in financial difficulty, especially those who would otherwise benefit from a social tariff. This should not 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's overall assessment is that customers will be no worse off in terms of the levels of service they receive if served by Icosa Water rather than Severn Trent Water.

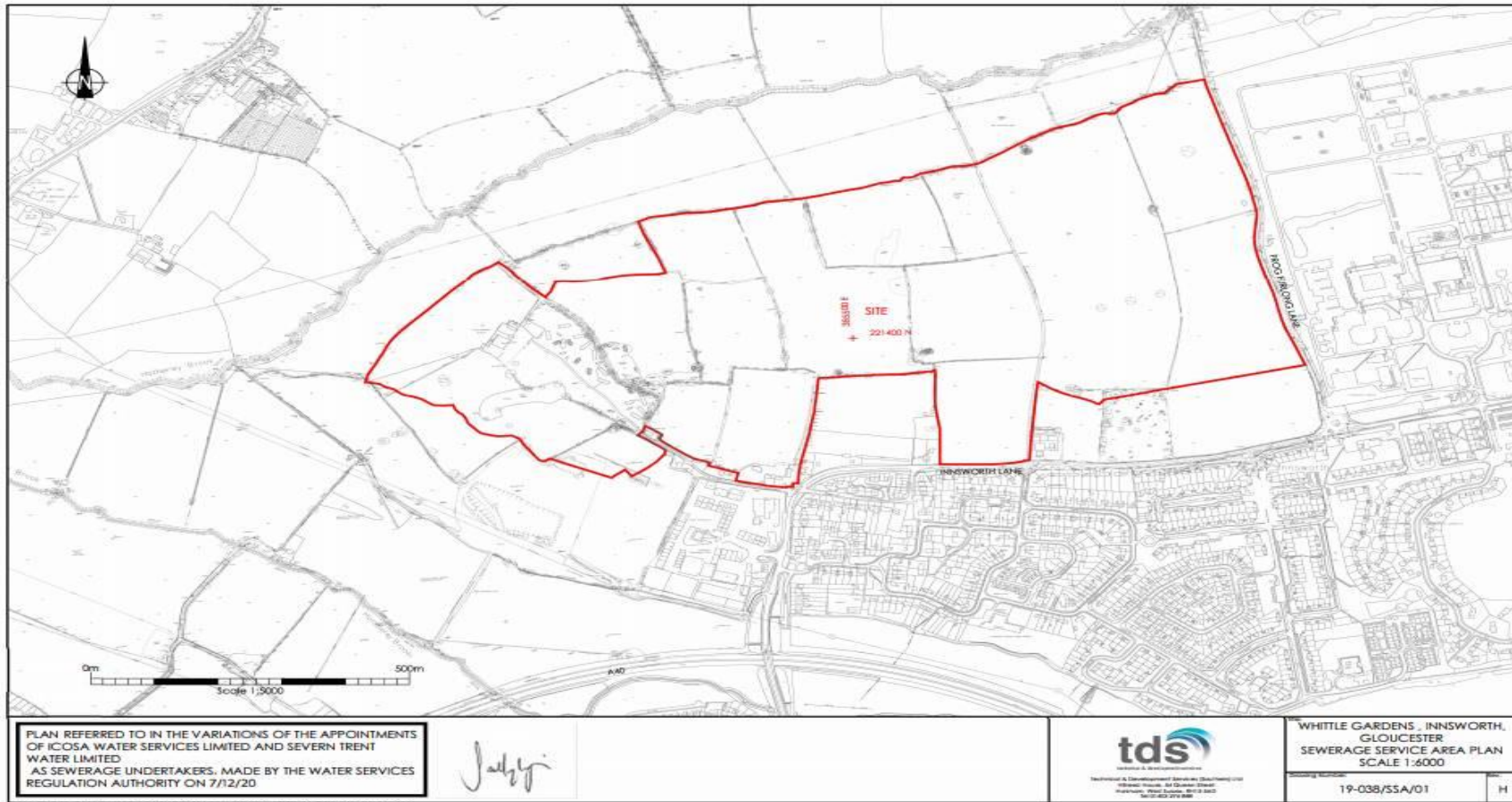
CCW noted that Ofwat calculated that the cost to Severn Trent Water's existing customers is likely to be around £0.012 per annual sewerage bill once the Site is fully built out. CCW considered that that while this will have a negligible effect on bills, CCW is unclear as to whether there will be any significant benefits arising from this arrangement for the incumbent's customers. CCW question the value of the NAV regime if it cannot deliver benefits to customers.

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.

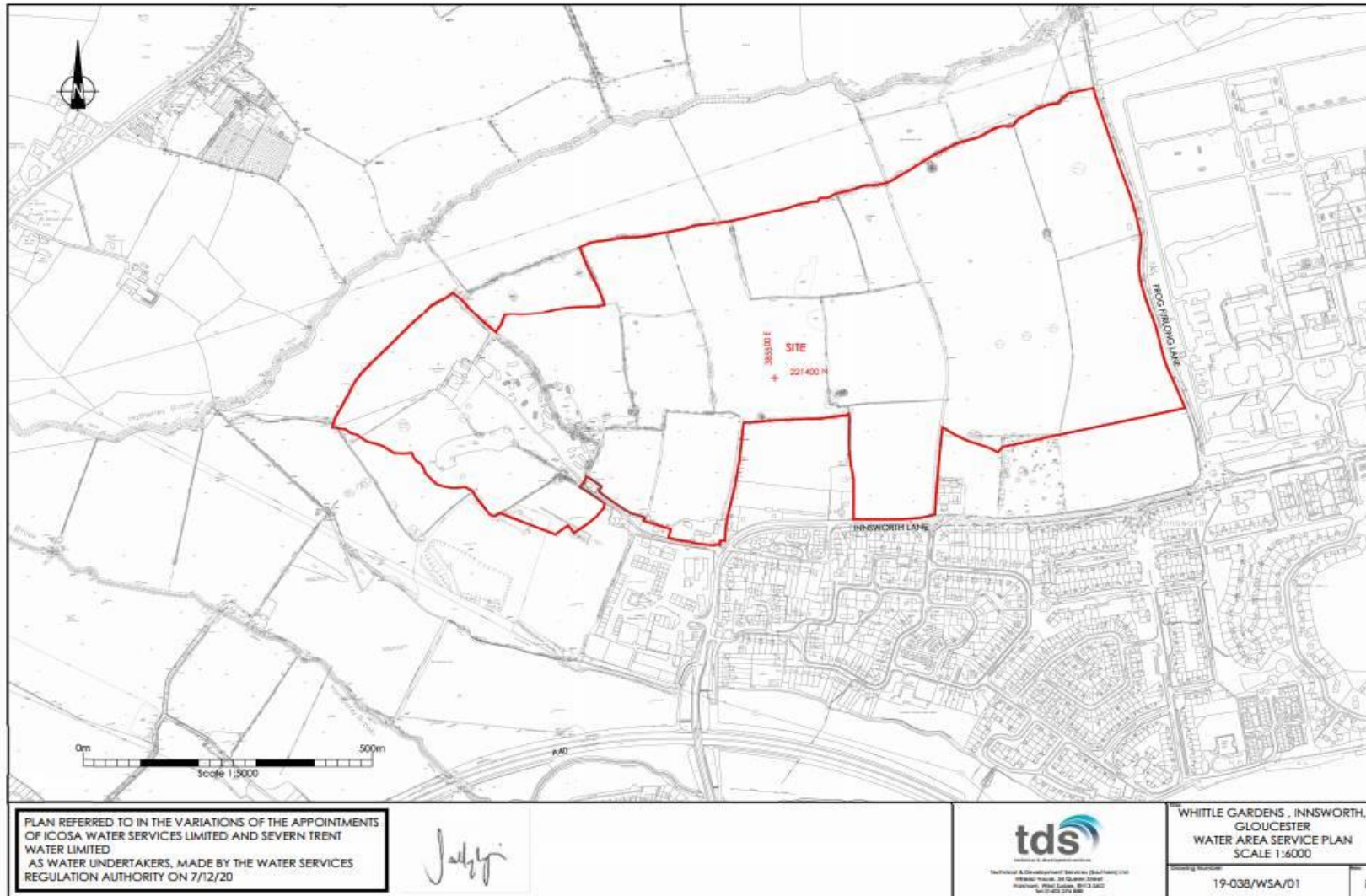
4. Conclusion

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 water and sewerage services. This variation became effective on 8 December 2020.

Appendix 1: Site Maps



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is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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