

February 2021

Variation of Icosa Water Services Limited's appointment to include North End, Yatton

About this document

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On 29 October 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 Wessex Water Services Limited's ("**Wessex Water**") sewerage services area called North End, Yatton in North Somerset ("**the Site**").

The consultation would have ended on 30 November 2020 but, on 17 November 2020, Icosa Water informed us that the boundary of the Site had been extended to include an additional property. We revised the consultation notice and extended the deadline by 14 days to 14 December 2020. We notified the Consumer Council for Water ("**CCW**"), the Drinking Water Inspectorate ("**DWI**"), the Environment Agency, Natural England and Wessex Water of this change.

During the consultation period, we received representations from three organisations, which we considered in making our decision. On 1 February 2021 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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1. 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 Wessex 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.

2. The application

Icosa Water applied to be the 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 a bulk discharge agreement with Wessex Water.

2.1 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 informed Ofwat that the Site is greenfield. Aerial photographs and maps show that there are buildings in the south east corner of the Site. Icosa Water stated that the Site includes a farm house and an adjoining barn, Weeping Ash Farm and Weeping Ash Barn, which will be connected to Icosa Water's sewerage network. These two properties are currently connected to septic tanks and are not served by Wessex Water for sewerage services. Wessex Water provided a letter, dated 15 July 2020, confirming that, in its view, the Site is unserved.

On 17 November 2020 Icosa Water informed us that the boundary of the Site had been extended to include an additional business property that wished to connect to its network. Icosa Water provided a letter of support from the business, dated 25 November 2020. The property is currently served by a septic tank and Wessex Water confirmed in a letter, dated 18 November 2020, that it does not serve this property.

Having considered the facts of the Site, and the letters from Wessex Water, we are satisfied that the Site may be considered as unserved for wastewater services.

2.2 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 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'

Icosa Water will match the charges of Wessex 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 Wessex 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 Wessex Water.

2.4 Effect of appointment on Wessex 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 Wessex 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 Wessex 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 Wessex 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 may be a small increase in the sewerage bills of Wessex 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.

2.5 Developer choice

Where relevant, we take into consideration the choices of the Site developer. In this case, the developer, Curo Group, said that it wants Icosa Water to be the sewerage company for the Site.

3. Responses received to the consultation

We received three responses to our consultation; from CCW, the DWI and the Environment Agency. We considered these responses before making the decision to vary Icosa Water's appointment.

The Environment Agency and DWI 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.

3.1 CCW

CCW states that when considering applications for new appointments and variations it expects 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 Wessex Water. However it noted that Icosa Water generally matches or exceeds Wessex Water's service standards and for this reason CCW supports the application. CCW noted that an example of where Icosa Water's levels of service exceed Wessex Water's is that it will provide a disturbance allowance and discretionary alternative accommodation for customers with health conditions, whereas, Wessex Water does not make such a commitment.

CCW noted that Icosa Water will not be able to offer a social tariff to financially vulnerable customers in the way Wessex 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 Wessex Water's existing customers would see a negligible increase of £0.01 in their sewerage bills as a result of the variation, but questions the value of the NAV regime if it cannot deliver benefits to customers. It notes that there is no evidence of significant benefits to the existing customers of Wessex Water.

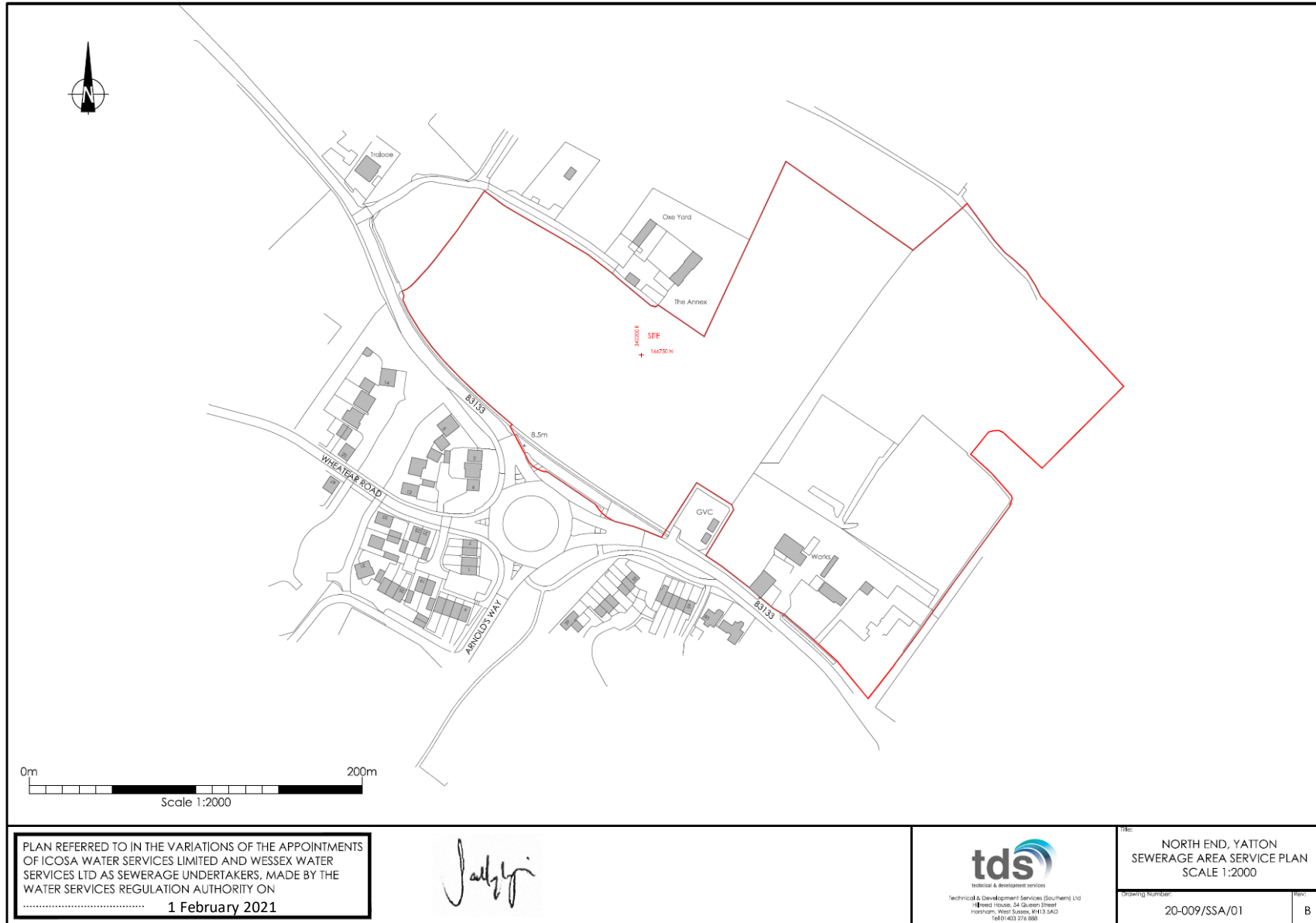
Our Response

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. We also consider the impact on the incumbent's existing customers to ensure they are no worse off. Our estimate 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.

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 sewerage services. This appointment became effective on 2 February 2021.

Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF ICOSA WATER SERVICES LIMITED AND WESSEX WATER SERVICES LTD AS SEWERAGE UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON
1 February 2021

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