

August 2021

# **Variation of Icosa Water Services Limited's appointment to include Donnington Wood, Telford**

## About this document

# Variation of Icosa Water Services Limited's appointment to include Donnington Wood, Telford

On 24 June 2021, 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 area and sewerage services area called Donnington Wood in Telford ("**the Site**").

The consultation ended on 22 July 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 18 August 2021, 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 mechanism ("**NAV**"), 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 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 bulk discharge agreements with Severn Trent Water.

### 2.1 Unserved status of the Site 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.

Severn Trent Water provided a letter, dated 22 March 2021, confirming that, in its view, the Site is unserved. The Site is a greenfield site, with no properties within its boundary. There is an area highlighted and carved out in the middle of boundary that does not form part of the Site. It is a wooded area of trees remaining separate from the Site.

Having reviewed the facts of the Site, and taking into account the letter from Severn Trent Water, 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.

To complete our financial assessment we have considered Donnington Wood on a cumulative basis as a package with a number of other applications including Harlands Farm, Uckfield; Land at Kergilliack Road, Falmouth; Bishops Rise, Hatfield; and Dappers Lane, Littlehampton. As a package, their combined, cumulative financial position demonstrates sufficient viability using our standard assessment.

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 proposes to match its charges to customers on the Site to the charges of Severn Trent Water, that is, it 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 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.

In this case, we have calculated that if we grant the Site to Icosa Water, there will be no impact on the water and sewerage bills of Severn Trent 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.

## **2.5 Developer choice**

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Lovell Partnerships Limited, said that it wanted Icosa Water to be the water and sewerage company for the Site.

### 3. Responses received to the consultation

We received three responses to our consultation: from the Consumer Council for Water (“**CCW**”), the Environment Agency and the Drinking Water Inspectorate (“**DWI**”). We considered their responses before making our decision.

The DWI and Environment Agency confirmed that it has no comments or objections in relation to this application. The points raised in the responses from CCW are set out below.

#### 3.1 CCW

CCW’s response stated that in general it expects new appointees to provide consumers with prices, levels of services and service guarantees that match or ideally better those of the incumbent company. CCW supported Ofwat’s proposal to make this variation but conveyed its disappointment that there would be no direct financial benefit to customers from having Icosa Water as their provider of water and sewerage services rather than Severn Trent Water as Icosa Water proposes to charge customers for water and sewerage services on the same basis as Severn Trent Water.

CCW agreed with our overall assessment was that customers on the Site will be no worse off in terms of the levels of service if served by Icosa Water rather than Severn Trent Water. It said that Icosa Water’s levels of service generally match or exceed those offered by Severn Trent Water. For example, Icosa Water will offer greater compensation for many instances of service failures; for example failing to respond to written complaints within 10 working days.

CCW noted that Icosa Water will not be able to offer a social tariff to its financially vulnerable customers in the way Severn Trent Water does, although it will offer the standard WaterSure tariff. CCW stated that it may be appropriate for Icosa Water to tailor some of its services and that it expects it to offer appropriate support to individuals in financial difficulty, especially if they would otherwise have benefited from a social tariff. It states 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 noted that we had estimated that Severn Trent Water's existing customers will not see an increase on their water or sewerage bills as a result of the variation. CCW appreciated this but stated that it is unclear whether there will be any significant benefits from the arrangement for Severn Trent Water's customers. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

## **Our response**

One of the key policy principles Ofwat considers when assessing NAV applications is that customers should overall be no worse off (in terms of the price and service they receive) than if they had been supplied by the existing appointee. This requirement has been met by Icosa Water in its proposed service levels and pricing. Our assessment does not require applicants to better the service and price of the existing appointee.

## 4. Conclusion

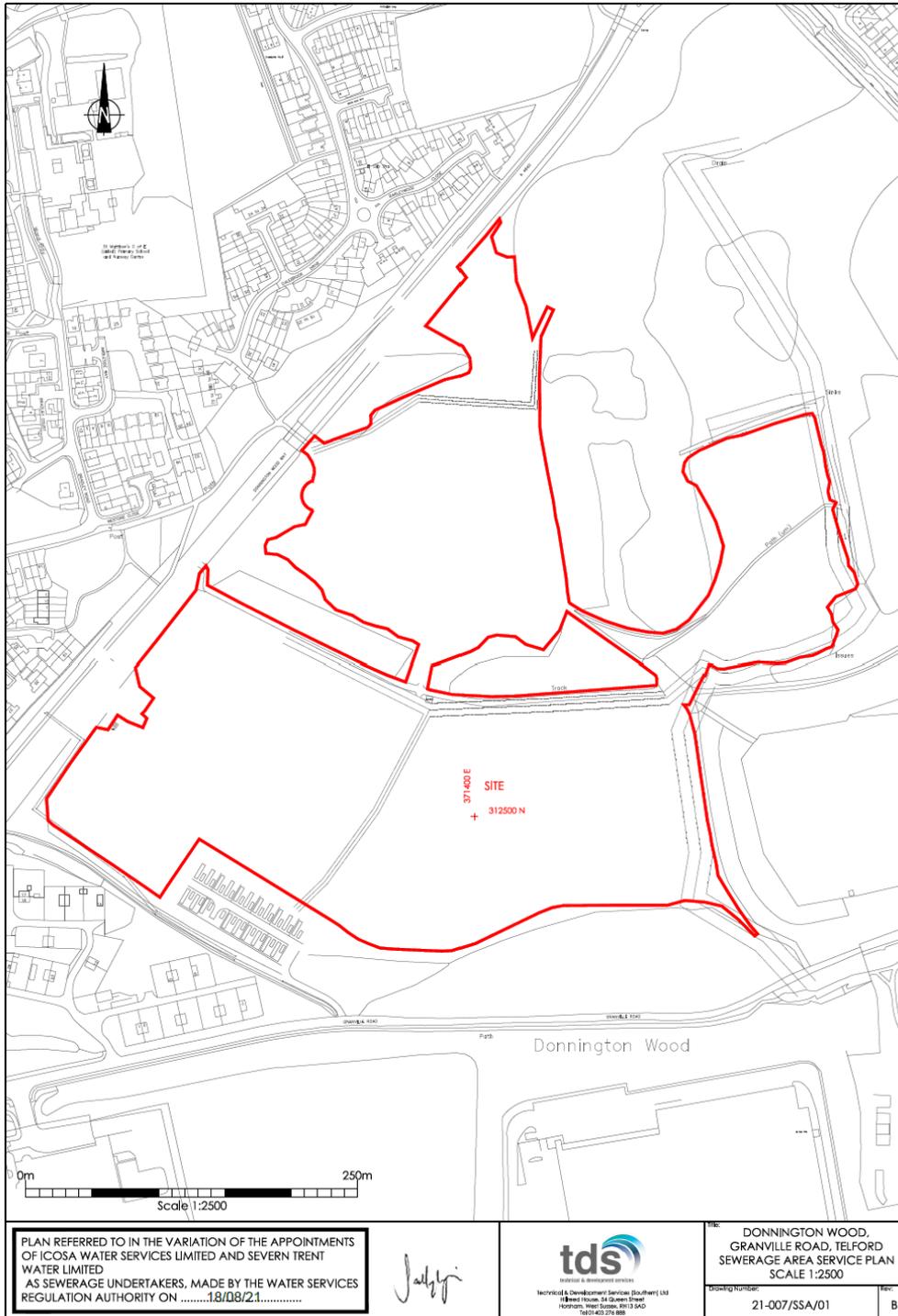
Having assessed Icosa Water's application and having taken account of the responses we received to our consultation, we decided to grant a variation to Icosa Water's area of appointment to allow it to serve the Site for water and sewerage services. This variation became effective on 19 August 2021.

## Appendix 1: Site Maps

### Water boundary



## Sewerage boundary



**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.**

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