

August 2021

Variation of Icosa Water Services Limited's appointment to include Harlands Farm, Uckfield

About this document

Variation of Icosa Water Services Limited's appointment to include Harlands Farm, Uckfield

On 21 June 2021, Ofwat began a [consultation](#) on a proposal to vary the appointment of Icosa Water Services Limited's ("**Icosa Water**") appointment to become the sewerage services provider for a development in Southern Water Services Limited's ("**Southern Water**") sewerage services area, called Harlands Farm, Uckfield, East Sussex ("**the Site**").

The consultation ended on 19 July 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 2 August 2021, we granted Icosa Water a variation to its existing appointment to enable it to provide sewerage services to the Site.

This notice gives our reasons for making this variation.

Contents

About this document	1
1. Introduction	3
2. The application	5
3. Responses received to the consultation	7
4. Conclusion	9
Appendix 1: Site Map	10

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 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.

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 Southern Water.

2.1 Unserved status of the site

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 or variation is served by the existing appointee.

Southern Water has provided a letter, dated 3 March 2021, confirming that, in its view, the Site is unserved. Aerial maps show that there are no buildings on the Site.

Given the information provided by Icosa Water and Southern Water, we are satisfied that the Site is 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 being served by Icosa Water rather than Southern Water as Icosa Water proposes to match its customer charges on the Site to Southern 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 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.

2.4 Effect of variation 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 price 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 increase of £0.01 on the sewerage bills of Southern 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's developer. In this case, Icosa Water has the consent of Persimmon South East to become the 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**”), Drinking Water Inspectorate (“**DWI**”) and the Environment Agency. We considered these responses before making the decision to vary Icosa Water's appointment. The DWI and the Environment Agency had no comments to make with regard to this consultation and did not have any objections. The points raised in CCW's response are set out below.

3.1 CCW

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

Icosa Water's intention is to match Southern Water's charges, so customers will be no worse off being served by Icosa Water. CCW stated that it was disappointed that there will be no direct financial benefit to customers by having Icosa Water as their provider instead of Southern Water, as no discount is being offered.

However, in this case, CCW note that Icosa Water generally matches or exceeds Southern Water's service standards and for this reason, it supports this application. For example, Icosa Water will offer greater compensation in many instances of service failure, such as failing to respond to written complaints within 10 working days.

CCW notes that Icosa Water will not be able to offer its financially vulnerable customers a social tariff in the way that Southern Water can. However, CCW recognises that Icosa Water 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 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. CCW noted that this should not be at the expense of Icosa Water's 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 estimate that there will be a potential increase of £0.01 on the sewerage bills for existing Southern Water customers as a result of this variation. CCW recognises that this increase will have a negligible impact on bills but stated that it is unclear if there will be any significant benefits arising from this arrangement for existing Southern Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

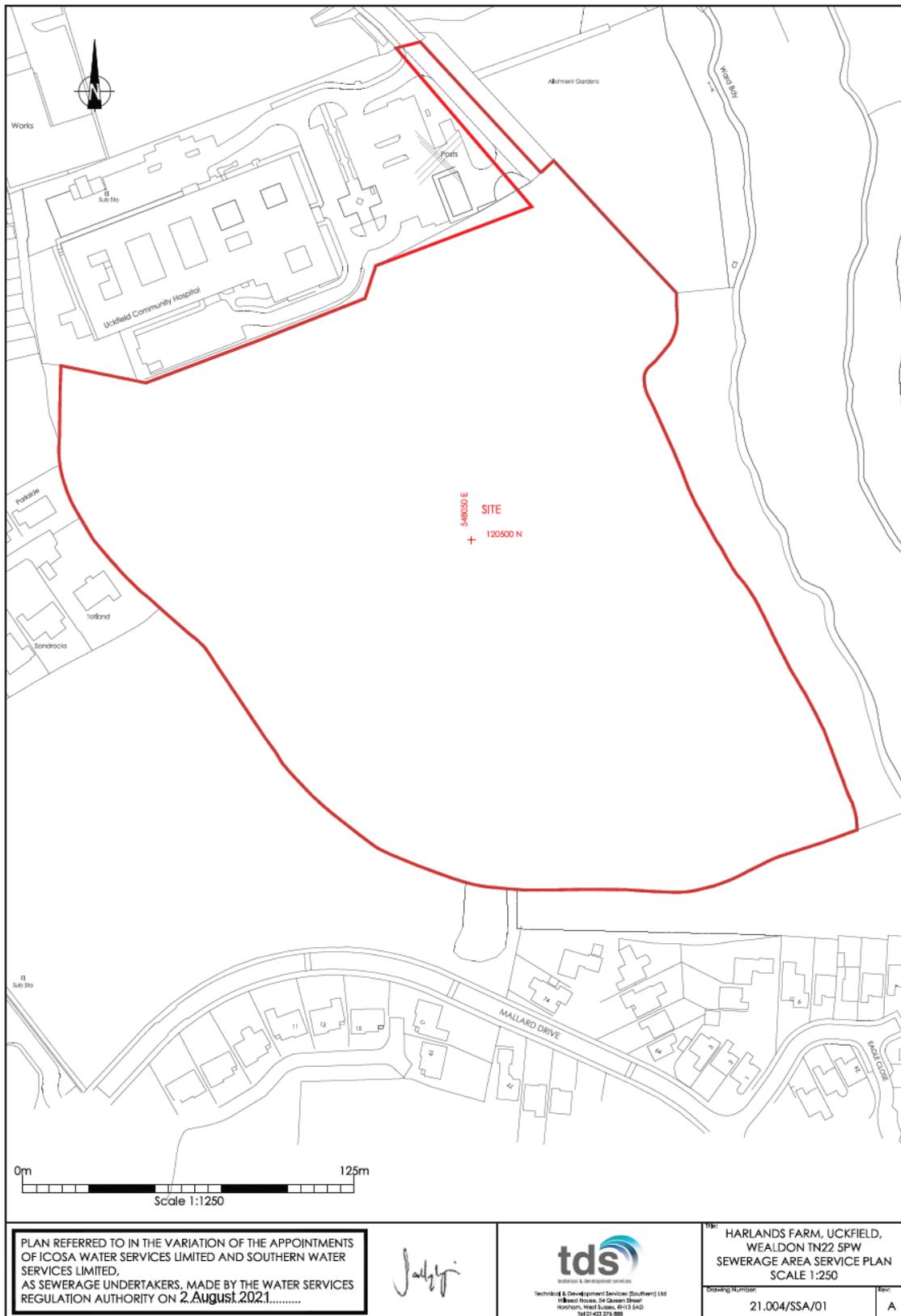
Our response to CCW's comments

One of our key policies when considering NAV applications 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 incumbent.

4. Conclusion

Having assessed Icosa Water's application and having taken into account 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 variation became effective on 3 August 2021.

Appendix 1: Site Map



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

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

© Crown copyright 2021

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

OGL