

May 2022

Variation of Icosa Water Services Limited's appointment to include Land at South Newsham, Blyth

About this document

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On 14 February 2022, Ofwat began a [consultation](#) on a proposal to vary Icosa Water Services Limited's ("**Icosa Water**") appointment to become the water services provider for a development in Northumbrian Water Limited's ("**Northumbrian Water**") water supply area called Land at South Newsham, Blyth in Northumberland ("**the Site**").

The consultation ended on 14 March 2022. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 27 April 2022, we granted Icosa Water a variation to its existing appointment to enable it to supply water 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 Northumbrian Water to become the appointed water 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 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 supply agreement with Northumbrian 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 is served by the existing appointee. Northumbrian Water has provided a letter, dated 17 November 2021, confirming that, in its view, the Site is unserved.

The Site is a greenfield site and a desk survey shows no properties within the Site boundary. Having reviewed the facts of this Site and taking into account the letter from Northumbrian Water we consider the Site to be 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’

Icosa Water will match its charges to customers on the Site to those of Northumbrian Water.

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 Icosa. 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 Northumbrian Water.

2.4 Effect of variation on Northumbrian 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 Northumbrian 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 Northumbrian 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 Northumbrian 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, will be no impact on the annual water bills of Northumbrian 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, Miller Homes Limited, said that it wanted Icosa Water to be the water company for the Site.

3. Responses received to the consultation

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

The DWI and 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.

CCW noted that Icosa Water proposes to charge customers on the same basis as Northumbrian Water. It is disappointed that there are no direct financial benefits to customers being served by Icosa Water instead of Northumbrian Water.

CCW recognises Icosa Water generally matches or exceeds Northumbrian Water's level of service and so overall CCW supports this application. It noted that Icosa Water offers greater compensation for service failure.

However, CCW noted that due to the small size of its customer base Icosa Water does not currently offer its financially vulnerable customers a social tariff in the way that Northumbrian Water does. It noted that Icosa Water will, however, offer the standard WaterSure tariff for qualifying customers. It stated that until Icosa Water can provide a formal social tariff, it is appropriate for Icosa Water to tailor some of its services. CCW stated that it expects Icosa Water to offer appropriate and flexible support to customers in financial difficulty who would otherwise benefit from a social tariff. CCW considered that such support should not be at the expense of its other customers. CCW recognised that by matching Northumbrian Water's charges Icosa Water already benefits from the cross-subsidy Northumbrian Water's customers pay to support its social tariff.

CCW noted our calculation that there will be no increase on the annual water bills of existing Northumbrian Water customers as a result of the variation. CCW stated that whilst it appreciates that this impact on bills is negligible, it considers that it is unclear if there will be any significant benefits arising from this arrangement for existing Northumbrian Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to all customers.

Our response

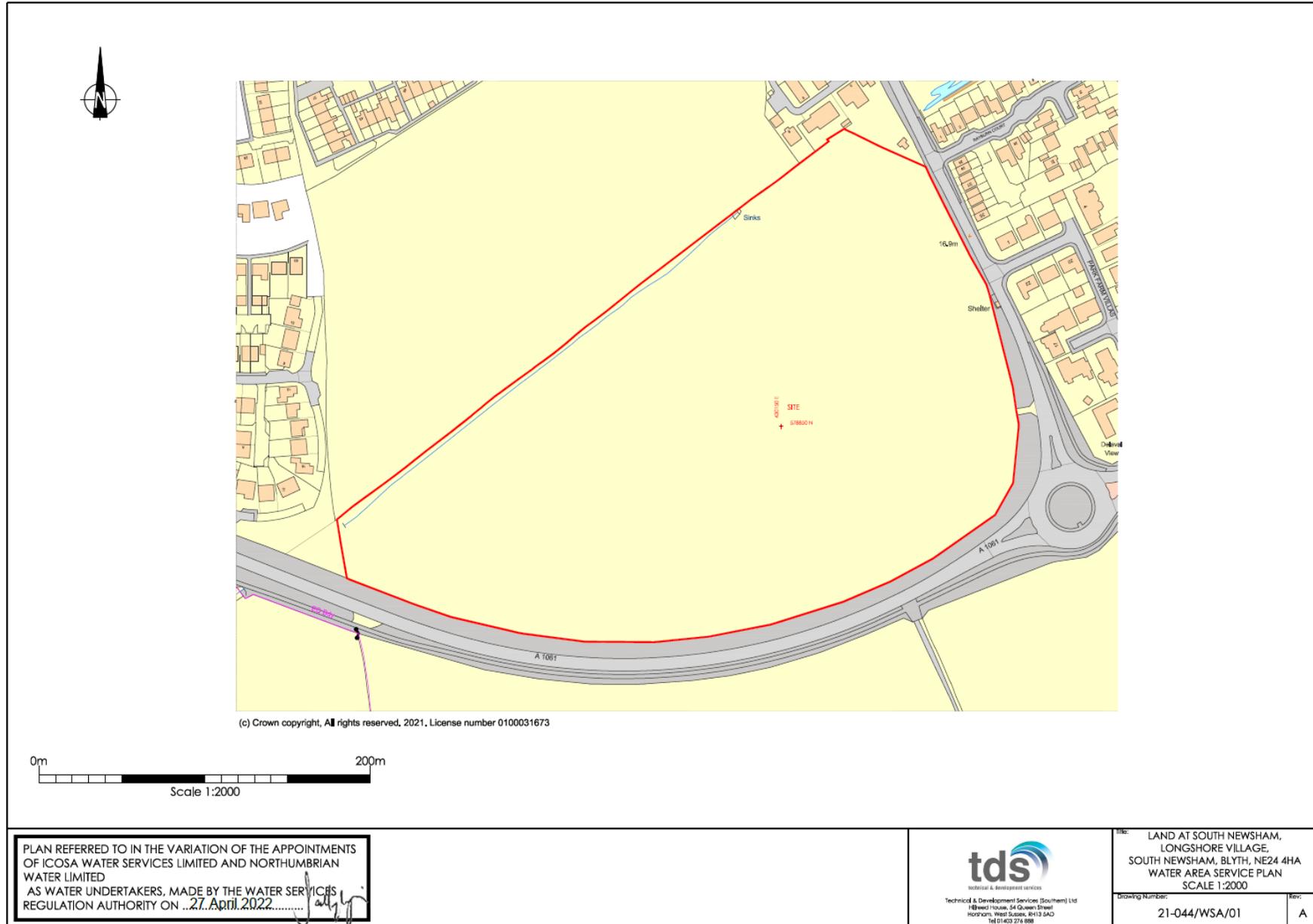
One of our key policies with respect to new appointments and variations is that customers should be no worse off if a variation is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service and price of previous incumbents.

Vulnerable customers may not be aware of the social tariff that would be available to them if they were served by the incumbent rather than by the applicant. It is the responsibility of the applicant to identify and protect vulnerable customers on the Site. Although the applicant does not offer a social tariff, it should ensure customers will be no worse off.

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 services. This variation became effective on 28 April 2022.

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.**

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