



Granting consent under Condition R to enable Severn Trent Water to provide Severn Trent Select access to aspects of its Target billing system

1. Introduction

On 4 March 2014, Severn Trent Water Limited (STW) asked the Water Services Regulation Authority (Ofwat) to grant it consent to provide Severn Trent Select Limited (STS), a related licensed water supplier, access to aspects of STW's Target billing system, for the purpose of carrying out retail charge calculations and billing activity associated with the retail sale of water and sewerage services by Severn Trent Select.

Paragraph 5(1) of Condition R of STW's appointment as a water and sewerage undertaker (licence) states that it cannot sell any of its assets, or grant access to these assets to a related licensed water supplier without our consent:

“If and for so long as the Appointee is related to any licensed water supplier -

(a) it shall not without the consent of the Authority sell (or otherwise make available) to that licensed water supplier any water, or any of its other assets [...]”

On 8 April 2014, Ofwat granted consent for STW to provide access to aspects of its Target billing system to STS.

This notice gives our reasons for granting consent.

2. Severn Trent Water's proposal

STS is a water supply licensee which has recently won a contract to provide a national retailer with water and sewerage services for their sites in Scotland. STS evaluated potential options to carry out retail charge calculations and billing activities and wishes to use the existing Target billing system operated by STW for this purpose.

STW sought consent to allow it to give access to its Target billing system to STS on the basis that:

- The system is used for a series of specified tasks in respect of STS customers comprising: recording of customer details, recording site and metering records, recording tariff information, recording meter reading information and calculating charges and charge breakdowns;
- STS will deal with all other retail activities;
- the system for STS will be hosted in a logically and physically separate area of STW's systems to those used by STW for billing its own customers;
- STS will not be able to view billing information relating to STW's customers, and
- the services provided by STW to STS will be charged for in accordance with cost based transfer pricing guidance.

3. Our duties

In assessing this request, we considered our relevant duties, including those under section 2 of the Water Industry Act 1991 (WIA91). In particular, we considered our duties to:

- further the consumer objective (section 2(2A)(a) of WIA91) to protect the interests of consumers, wherever appropriate by promoting effective competition;
- secure that companies holding appointments as water and sewerage undertakers are able to finance the proper carrying out of their functions (section 2(2A)(c) of WIA91), and
- (a secondary duty) ensure that consumers are protected with respect to any activities of any person appearing to Ofwat to be connected with such companies and that any transactions are carried out at arm's length (section 2(3)(d) of WIA91).

4. Further considerations

In considering the application from STW, Ofwat considered the risks to competition of consenting to this use, particularly bearing in mind planned market widening from 1 April 2017.

Any consent under Condition R for STW to give STS access to its Target billing system is without prejudice to the other legal requirements that apply to STS. In particular, STW will still be required to ensure that every transaction with an associated company "is at arm's length, so that neither gives to nor

receives from the other any cross-subsidy” (paragraph 6 of Condition F of STW’s licence). The customers of STW will therefore be protected in relation to the activities of STS and there should not be any effect on the ability of STW to finance its functions as a water and sewerage undertaker. Equally, STS will not benefit from a cross subsidy that distorts competition in the retail supply of water.

Further, STW is subject to the continuing application of the Competition Act 1998 (CA98). STW provided Ofwat with assurances that it has evaluated its proposed arrangements and taken precautions to avoid an infringement of the provisions of CA98 and we have asked that they continue to monitor the impact of the agreement on an ongoing basis and inform us if their evaluation changes.

As per STW’s letter of 4 March 2014, we also expect to issue further guidance on ‘Level Playing Field’ requirements later this year which may be relevant to these arrangements.

5. Conclusion

Having assessed STW’s request, we granted consent on 8 April 2014.