
Proposal to grant a new appointment to County Water as a sewerage company and vary the appointment of Thames Water as a sewerage company

About this document

This notice is a consultation on our proposal to grant a new appointment to County Water as a sewerage company and vary the appointment of Thames Water as a sewerage company under the Water Industry Act 1991 Section 8(3).

The consultation period will last for 28 days from the date of publication of this notice. Having considered any representations submitted during the consultation period in response to the consultation, Ofwat will decide whether or not to grant a new appointment to County Water as a sewerage company and make the consequential variation to the appointment of Thames Water as a sewerage company.

The Site

County Water Limited (“**County Water**”) has applied to be the sewerage company to 299 existing household customers and 16 existing non-household customers that are currently served by a private supplier at a site at a former RAF and USAF air base called Heyford Park (“**the Site**”). It also proposes to serve a further 879 new residential properties due to be completed by 2018, resulting in a total of 1178 residential properties served.

The Site is within the sewerage services area of Thames Water. County Water will provide sewerage services to the Site itself, and will have its own sewage treatment works. County Water proposes to use, maintain and upgrade existing sewerage infrastructure.

The water supply will initially remain on a bulk supply, billed under the Water Resale Order 2008 as part of property management charges, County Water proposes that as the new properties are developed, new mains will be put in to an adoptable standard, allowing Thames Water to adopt these mains and to bill directly for water services.

The applicant

County Water has not previously operated as a water or sewerage company. It is a registered limited company in England, and is on the Companies House website. It is a subsidiary of the Dorchester Group.

The Dorchester Group was founded in 1996 to focus on residential investment property by taking existing properties and refurbishing them into high quality living spaces.

It has diversified with residential and commercial real estate assets owned through a variety of private companies and is focused on large mixed use residential led schemes across the UK and Central Europe.

The proposal

Ofwat proposes to:

- grant a new appointment to County Water as a sewerage company; and
- vary the appointment of Thames Water as a sewerage company by excluding the Site from its sewerage services area.

By means of the above, County Water will become the sewerage services supplier for the Site.

Policy for new appointments and variations

The new appointment and variation mechanism, set out in primary legislation¹, provides an opportunity for entry and expansion into the water and sewerage sectors by allowing one company to replace the existing appointee as the provider of water and / or sewerage services for a specific area. This mechanism can be used by new

¹ The legal framework for new appointments is set out in the Water Industry Act 1991 (WIA91). Section 7 of the WIA91 sets out the criteria by which an appointment or variation may be made. Section 8 sets out the procedure for making that appointment or variation.

companies to enter the market and by existing appointees to expand their businesses.

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our statutory duty to protect consumers, wherever appropriate by promoting effective competition. In particular, in relation to unserved sites, we consider that we must ensure that the future customers on a 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 that:

- customers, or future customers, should be no worse off than if the site had been supplied by the existing appointee; and
- Ofwat 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.

We clarified these two policy principles in February 2011 when we published our 'New appointments and variations – a statement on our [policy](#) and [process](#) for new appointments and variations'. In November 2012, we published '[Statement on our approach for assessing financial viability of applications for new appointments and variations](#)'. This states that we will adopt a company-based assessment of financial viability, rather than a detailed site-based assessment, where it is appropriate to do so.

When we assess whether customers will be no worse off as a result of the appointment, we not only consider the customers on the site but also the generality of customers. These include not only the customers of the existing provider but also customers more generally across England and Wales, who in our view benefit from the effective operation of the new appointment and variation mechanism.

If Ofwat grants this new appointment, we would agree a set of standard conditions of appointment with County Water.

The application

County Water has applied to be the sewerage company for the Site under the unserved criterion, set out in section 7(4)(b) Water Industry Act 1991 ("**WIA**").

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. The Site is currently served by a private supplier and County Water has provided us with confirmation from the owner of the Site that it is not currently being served by Thames Water. Additionally, Thames Water has confirmed that it believes it is not serving the Site. Having reviewed the facts, our view is that the Site is unserved.

Protecting customers

Ofwat acts to protect consumers, especially those who are unable to choose their supplier. In assessing applications to supply new development sites, Ofwat acts on behalf of both existing customers as well as potential new customers who are not yet on site, to protect their interests. The fact that future customers on a site have not directly chosen their supplier is not a position unique to new appointments – very few customers in England and Wales are able to choose their supplier².

Recognising this, our assessment of an applicant's proposals includes analysis of its plans to ensure customers will be at least no worse off in terms of their annual bills and levels of service than if they had been supplied by the existing appointee in whose geographical area the relevant site sits. We will continue to protect customers on a site by regulating the new appointee's prices and service levels.

² At the moment, non-household customers whose premises are, or are likely to be, supplied with at least 50 MI of water where the area of the relevant appointed company is not wholly or mainly in Wales (and at least 250 MI where the relevant area is wholly or mainly in Wales) can effectively switch suppliers of water and/or sewerage. In addition, non-household customers can effectively choose their retailer for water (but not sewerage) where the total quantity of water estimated to be supplied to the relevant premises is at least 5MI per year where the premises are supplied with water using the supply system of an existing water company whose area is wholly or mainly in England (and at least 50MI where the relevant area is wholly or mainly in Wales). This will change in April 2017 with the opening of the non-household retail market. From that date most non-household customers in England will be able to choose to be supplied by an alternative retailer for water and sewerage. These changes will not become effective in Wales.

Price

County Water proposes to charge customers at the Site based on Thames Water's charges scheme for sewerage services.

Levels of service

Every appointee is required under conditions G, H and I of its conditions of appointment to publish Codes of Practice on debt and leakage and a Customer Code for its household customers which has been approved by Ofwat. We have assessed County Water's proposed Codes of Practice and Customer Code, and our view is that these are of an appropriate standard. Our view is that customers on the Site would be no worse off in relation to the points covered by the above Codes of Practice and the Customer Code than they would be if Thames Water were to be the customers' water and sewerage supplier.

Site owner choice

County Water is a subsidiary of Dorchester Group Limited, which is the owner of the Site. We are satisfied, therefore, that there is consent to County Water becoming the supplier for this Site.

Environment Agency (EA) and Drinking Water Inspectorate (DWI)

We take the views of these organisations into account before progressing to formal consultation on an application for a new appointment. Both the EA and DWI informed us that they are content for us to consult on this application³.

³ The Environment Agency and the Drinking Water Inspectorate will also be formally consulted on the proposals, as they are on the list of organisations which must be formally consulted as set out in section 8(4)(b) of WIA91.

Thames Water's existing customers

In considering whether customers will be no worse off, we also considered the potential effects of this new appointment on the prices that Thames 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. 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 Thames Water might have expected to receive in revenue from serving the Site directly, were they to serve the site, with the revenues they might expect from the proposed arrangement with County Water. The lower bound of the range takes into account the benefit to Thames Water as a result of County Water serving the Site, by estimating the costs that Thames Water would be likely to avoid, such as retail costs and capital and operating costs associated with the local network used to serve the Site. The upper bound of the range does not take these avoided costs into account. We look at these differences in revenue and costs over a hundred year timeframe to reflect the long life of the assets that will be used to supply customers at the Site.

In this case, we have calculated that if we grant the Site to County Water, there may be a potential impact on the bills of Thames Water's existing customers of £0.01 to £0.02. We are comfortable that this range accounts for the uncertainty in the costs that may be avoided by Thames Water.

Further, this impact does not take into account the potential spill-over benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win sites. We set out the wider benefits we believe stem from the new appointments and variations regime below.

Ability to finance and properly carry out its functions

We have a statutory duty to ensure that efficient appointees can finance the proper carrying out of their functions. When a company applies for a new appointment or variation, it must satisfy us that it is able to carry out all of the duties and obligations associated with being an appointed sewerage company.

We have considered the revenues and costs of the entire Site relating to sewerage services should the relevant appointment and variation be granted. Unlike many

applications for new appointments and variations, the Site consists of existing sewerage customers that County Water will be required to serve if it is appointed as sewerage undertaker for the Site. This means it will have a revenue stream from day one.

County Water's parent company, Dorchester Residential Management Ltd has provided a guarantee of financial security which meets our requirements, in that it covers one year's annual operating costs required to supply the number of connections the business is projected to have in two years' time.

On this basis, our view is that the risk of this Site not being financially viable is small and as a result we are currently satisfied that County Water would be able to finance its functions if the new appointment is granted.

Sewerage only company

County Water has applied to become a sewerage only company. The Dorchester Group felt that it was more technically and financially viable to use Thames Water as the potable water supplier at Heyford Park.

All new residential customers and will be supplied with potable water via new mains that have been laid as part of infrastructure works at Heyford Park, and are privately owned by Heyford Park Management Ltd, a subsidiary of the Dorchester Group.

The water supply will initially remain on a bulk supply, billed under the Water Resale Order 2008 as part of property management charges, County Water proposes that as the new properties are developed, allowing Thames Water to adopt these mains and to bill directly for water services. These mains are due to be adopted by Thames Water in 2017.

On this basis, we believe that there is no reason that this arrangement would present any further risk to customers.

Conclusion and next steps

In assessing County Water's application, we have considered the general benefits of new appointments. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and County Water would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed new appointment and consequential variation on the existing customers of Thames Water.

We are currently minded to grant the new appointment under the unserved criterion. We are consulting on our proposal to do so.

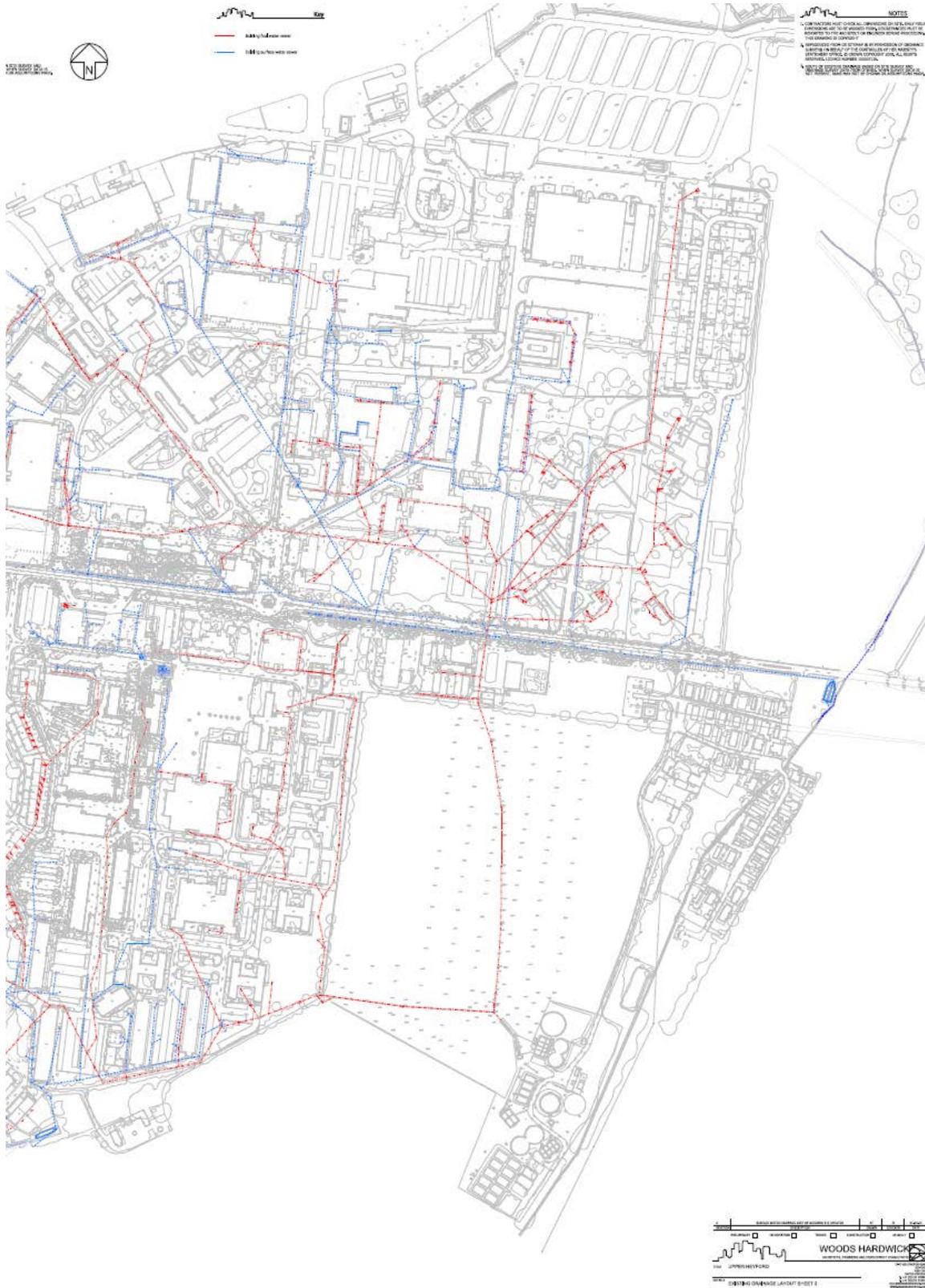
Where to send submissions

Any representations about, including objections to, this proposal should be sent in writing to:

Ben Groom, Senior Associate, Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA so as to be received no later than 8 February 2017.

Submissions can also be emailed to ben.groom@ofwat.gov.uk.

Site maps



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WOODS HARDWICK
LUTTERINGTONE
EXISTING SEWERAGE LAYOUT SHEET 1
DATE: 10/10/18
SCALE: 1:1000
HEYSBARGE