

25 August 2017

Trust in water

Proposal to grant an appointment to Severn Trent Services as a water sewerage company to enable it to provide water and sewerage services to a site called Aurum Green

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1. About this document

This notice is a consultation on our proposal to appoint Severn Trent Services (Water and Sewerage) Ltd¹ (“**STS**”) as a water company and to vary its appointment as a sewerage company. This will require consequential variations to the appointment of South East Water (“**SEW**”) as a water company and Thames Water Utilities Services (“**TMS**”) as a sewerage company.

This notice is a consultation on this proposal and is being conducted under section 8(3) of the Water Industry Act 1991. 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 the above variations of appointment.

¹ Trading as Severn Trent Connect

2. The Site

STS has applied for a new appointment as a water company and for a variation to its appointment as a sewerage company to enable it to provide water and sewerage services to a site called Aurum Green which is in SEW's water supply area and TMS' sewerage services area.

When fully built, the Aurum Green site will consist of 130 household dwellings². There are no non-household properties expected on the development.

² The applicant does not yet have a detailed plan indicating when the development will be fully built out, but has confirmed that this information will be communicated to Ofwat when it is available.

3. The applicant

STS is part of the Severn Trent group of companies. This is the second NAV application made by STS. It currently has an appointment as a sewerage company and provides sewerage only services to a site called Wellesley, in Aldershot. That site will consist of 3,850 household properties, and the appointment was granted on 21 December 2015.

4. The proposal

Ofwat proposes to:

- appoint STS as a water company;
- vary the appointment of STS as a sewerage company;
- vary the appointment of SEW as a water company to exclude the Site from its water supply area; and
- vary the appointment of TMS to exclude the Site from its sewerage services area.

By means of the above, STS will become the water and sewerage services supplier for the Site.

5. Our approach to the assessment of this application

The new appointment and variation mechanism, set out in primary legislation³, 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 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 – [policy](#) and [process](#) documents. In November 2012, we published our '[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.

³ The legal framework for new appointments is set out in the Water Industry Act 1991 (WIA). Section 7 of the WIA 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.

6. The application

STS has applied to be the water and sewerage company for the Site under the unserved criterion, set out in section 7(4)(b) Water Industry Act 1991 (“WIA”).

6.1 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.

Both SEW and TMS have provided letters confirming that, in their view, the Site is unserved. A photograph that provides an aerial view of the Site indicates that there are no buildings on the Site.

On the basis of the confirmations provided by both incumbents and the information provided by the aerial photography, we consider the Site to be unserved without the need for an independent report to be provided.

6.2 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 and variations – only business, charity and public sector customers in England and Wales are able to choose their supplier⁴.

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

⁴ A large user (who uses over 50MI per year if supplied by an appointed company whose area is wholly or mainly in England and over 250MI per year if supplied by an appointed company whose area is wholly or mainly in Wales) can choose to change its appointed water or sewerage company. Since 1 April 2017, the majority of business, charity and public sector customers (“Business Customers”) where the area of the relevant appointed company is wholly or mainly in England, have been able to switch retail providers of water and sewerage services. Business Customers where the area of the relevant appointed company is wholly or mainly in Wales, and whose premises are, or are likely to be, supplied with at least 50 MI per year, can switch their retail supplier of water but cannot switch retailers for sewerage services.

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.

6.3 Price

STS proposes to charge customers on the Site charges that are equivalent to the charges of SEW and TMS. STS proposes to match the tariffs of TMS and SEW for customers whose circumstances make them vulnerable.

6.4 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. We have assessed STS' 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 SEW were to be the customers' water provider and TMS were to be the sewerage supplier.

6.5 Site owner or developer choice

STS has the consent of the site developer (Pal Properties Limited) to become the water and sewerage services provider.

6.6 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 application⁵.

⁵ 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 the Water Industry Act 1991.

6.7 Incumbents' 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 SEW and TMS' 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.

We have assessed the potential magnitude of this impact by comparing how much SEW and TMS 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 STS.

We recently updated the approach we take to estimating the impact of granting a new appointment or variation on the annual bills of the incumbent's customers. We updated the approach to reflect the current price-setting regime and the latest financial data we hold. Using our updated approach, we estimate a potential £0.002 (less than a penny) increase on the water bills of existing SEW customers, and a potential £0.000 increase on the sewerage bills of existing TMS customers if we grant this variation to STS. This is once the Site is fully built out.

This estimate 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.

Therefore we consider that granting this variation to STS would have a negligible impact (if any) on customers' bills and could have potential benefits for customers.

6.8 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 water and sewerage company.

Having considered the revenues and costs in relation to supplying water to this Site, we are satisfied the Site demonstrates sufficient financial viability.

STS has an internal loan facility which provides sufficient funding to cover project set up costs, initial operating costs and will address our financial security 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 the applicant would be able to finance its functions if the variation is granted.

7. Conclusion and next steps

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

We are currently minded to appoint STS as a water company and vary its appointment as a sewerage company under the unserved criterion. We are consulting on our proposal to do so.

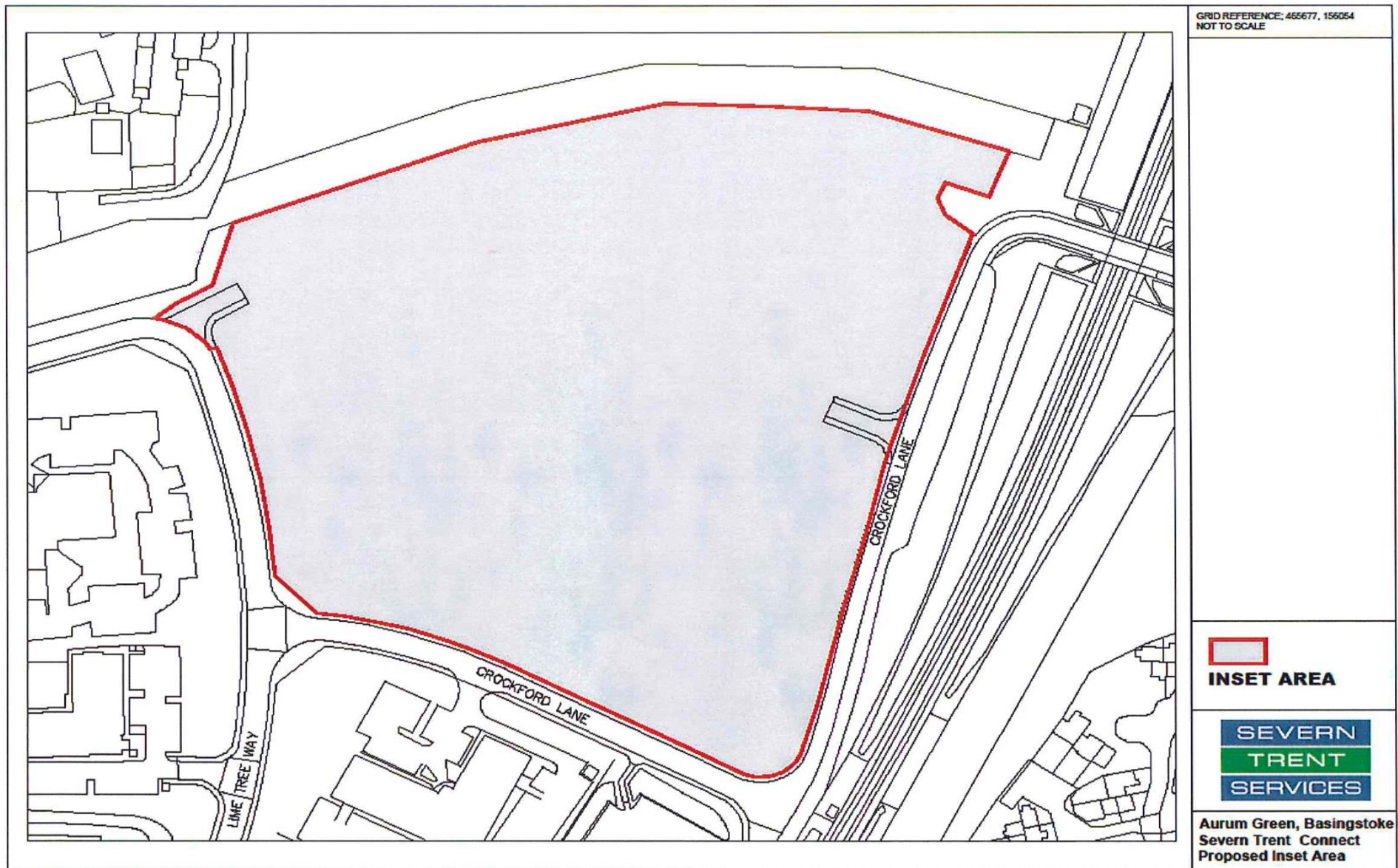
Where to send submissions

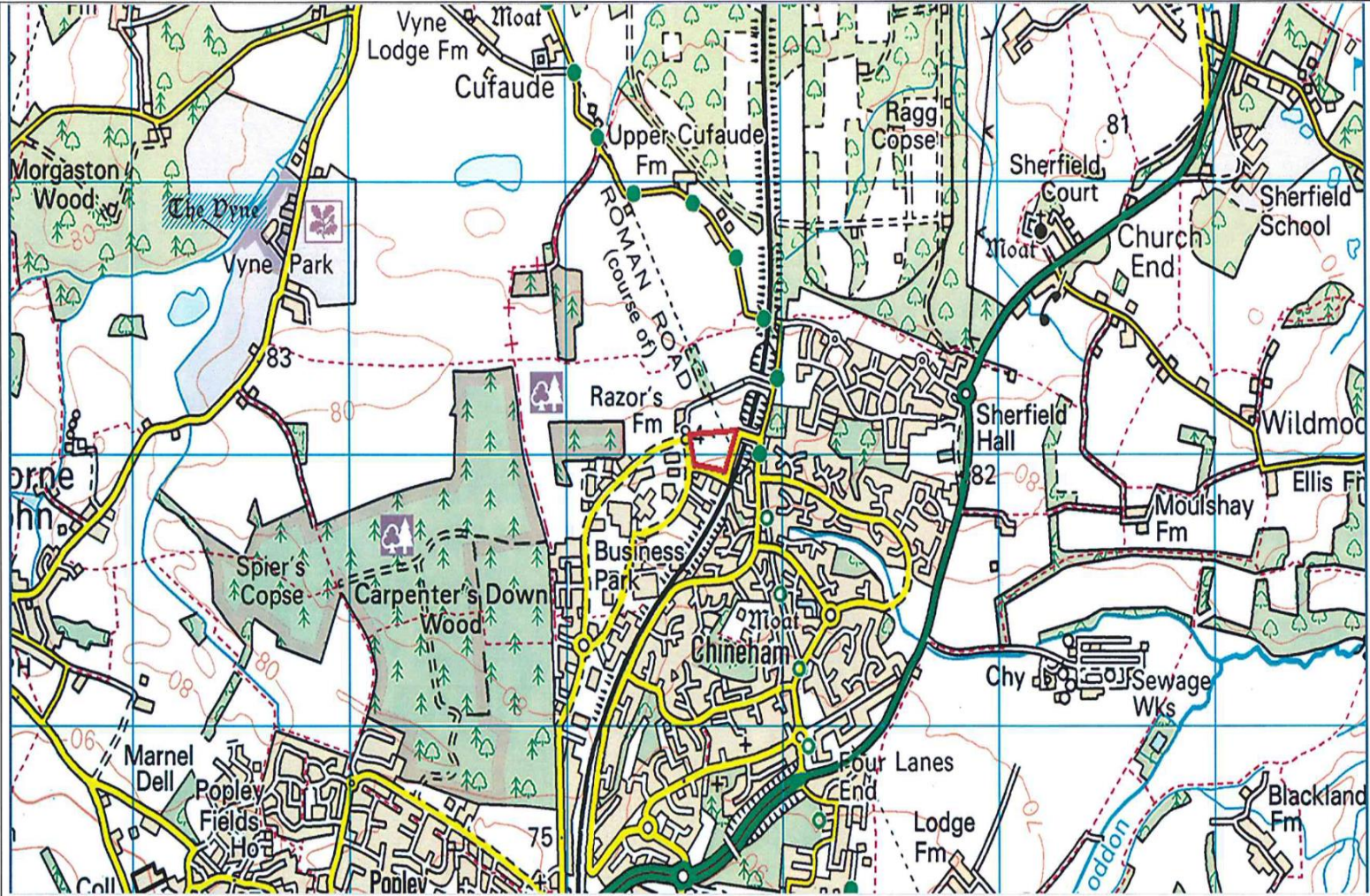
Any person who wishes to make representations or objections with respect to the application should do so in writing (which includes by email) to Chris Daly at Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA or by email at Chris.Daly@ofwat.gsi.gov.uk

Representations must be received by Ofwat no later than 17.00 hours on 22 September 2017. Further information about how to make representations or objections, including information on the treatment of confidential information, can be obtained from Ofwat at the above address or at <http://www.ofwat.gov.uk/foi/>

Ofwat will only use the information you have provided for the purpose of this consultation. We will retain your information in accordance with Ofwat's retention schedule and will not share with third parties unless we have a legal obligation to do so. For further information please see Ofwat's Privacy Policy in our [Publication Scheme](#).

8. Site maps





Aurum Green, Chineham, Basingstoke.