
29 November 2017

Trust in water

Proposal to grant a variation of appointment to SSE Water Limited to enable it to provide water and sewerage services to a site called Prince of Wales Drive, Wandsworth

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1. About this document

We propose granting a variation of appointment to SSE Water Limited (“**SSE**”) as a water and sewerage company and varying the appointment of Thames Water Utilities Limited (“**TMS**”) as a water and sewerage company. This notice is a consultation on this proposal 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 a variation of the appointment set out above.

2. The Site

SSE Water Limited (“**SSE**”) has applied for a variation to its appointment to be able to provide water and sewerage to a site called Prince of Wales Drive, Wandsworth, London. The site is in Thames Water’s (“**TMS**”) water supply and sewerage services area (maps can be viewed in section 8, page 13 of this document).

The site consists of 955 household properties. There is also 10,500m² of commercial floor space. As there is currently uncertainty surrounding the use of the commercial space, it has not been included within the assessment for this site.

3. The applicant

In October 2007, SSE Water obtained its first appointment as a water and sewerage undertaker for a housing development called the Portway, Old Sarum site in Wessex Water's ("**WSX**") area. Since then Ofwat has agreed to vary SSE Water's area of appointment so that it serves a further 27 sites for water and/or sewerage services.

In addition to this application, we are considering applications by SSE to provide services on a further five sites.

4. The proposal

Ofwat proposes to:

- grant a variation of appointment to SSE as a water and sewerage company; and
- vary the appointment of TMS as a water and sewerage company by excluding the Site from its water supply area and its sewerage services area.

By means of the above, SSE 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 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 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.

¹ 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

SSE has applied to be the water and sewerage company for the Site under the unserved criterion, set out in section 7(4)(a) 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.

SSE have prepared and provided a site report which indicates that the site is unserved. The site has previously been used for commercial activities, but has been cleared of all permanent connections. All existing buildings have been demolished. The site is currently occupied by the developer.

In addition, we have been provided with a letter from TMS confirming that they consider the site to be unserved for both water supply and sewerage services.

Given the information provided by the applicant and TMS, we are satisfied that the site is considered to be unserved.

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 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

² The majority of business, charity and public sector customers (“Business Customers”) where the area of the relevant appointed company is not wholly or mainly in Wales (and whose premises are, or are likely to be, supplied with at least 50 MI where the relevant area is wholly or mainly in Wales) can effectively switch suppliers of water and/or sewerage from 1 April 2017.

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

SSE proposes to match the charges to customers on the site of TMS – i.e. – it will not offer a discount.

6.4 Levels of service

Every appointee is required under its conditions of appointment to publish Codes of Practice on debt and a Customer Code for its household customers which has been approved by Ofwat. We have assessed SSE'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 TMS were to be the customers' water and sewerage supplier.

6.5 Site owner choice

SSE has consent from the site developer St Williams Homes LLP to become the water and sewerage services provider for Prince of Wales Drive.

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 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 WIA.

6.7 Incumbent'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 TMS'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.

We have assessed the potential magnitude of this impact by comparing how much 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 SSE.

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 this approach, we estimate that there will be no increase in the water bills and a £0.004 annual increase in the sewerage services bills of existing TMS customers, if we grant this variation to SSE. 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 SSE would have a very small financial impact 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/or sewerage company.

We have considered the revenues and costs of the entire Site relating to water and sewerage services should the relevant appointment and variation be granted. We are satisfied that the Site demonstrates financial viability.

SSE is supported by a Parent Company Guarantee (PCG) 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 applicant would be able to finance its functions if the variation is granted.

7. Conclusion and next steps

In assessing SSE'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 NAV 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 TMS.

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

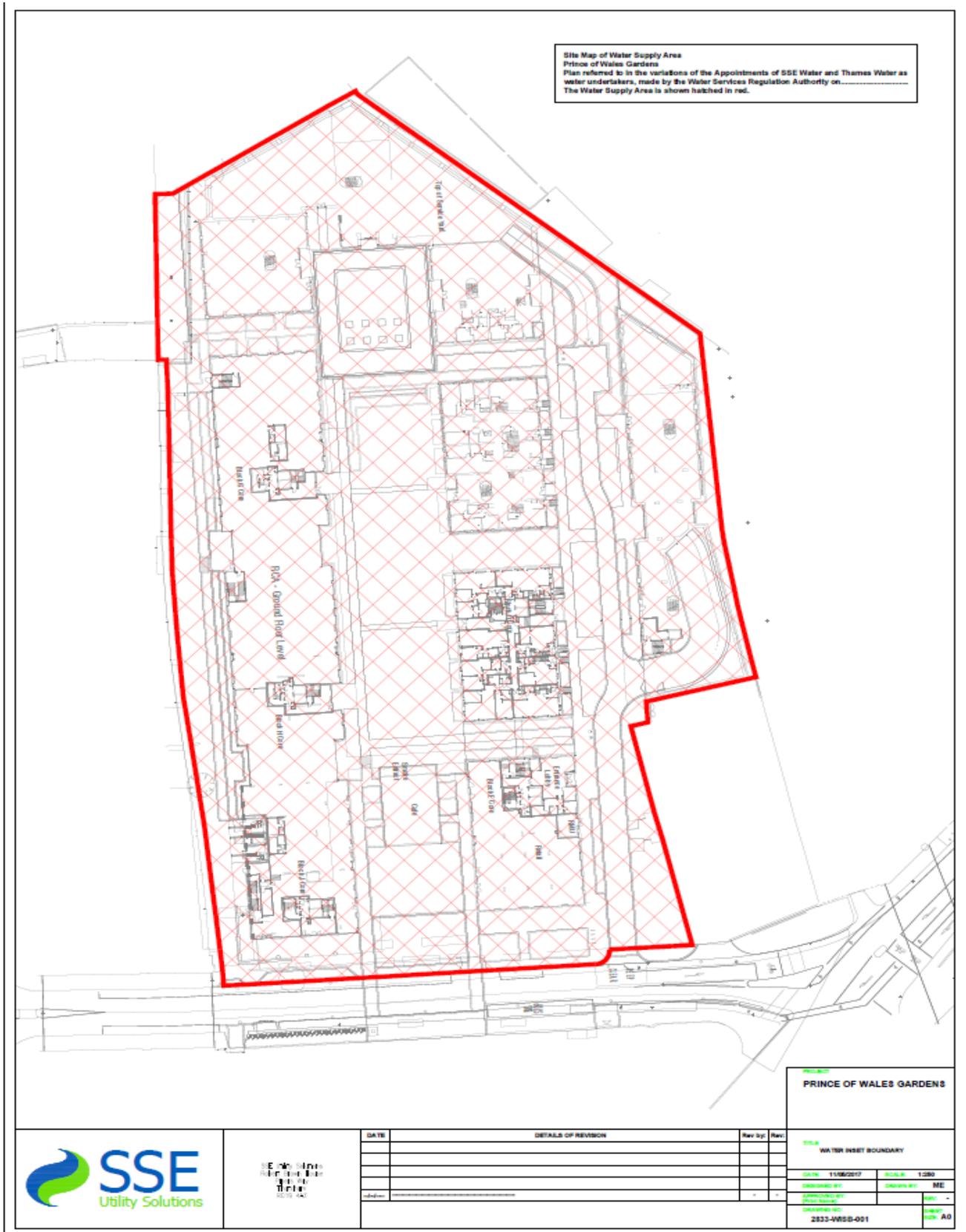
Where to send submissions

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

Representations must be received by Ofwat no later than 17.00 hours on 27 December 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

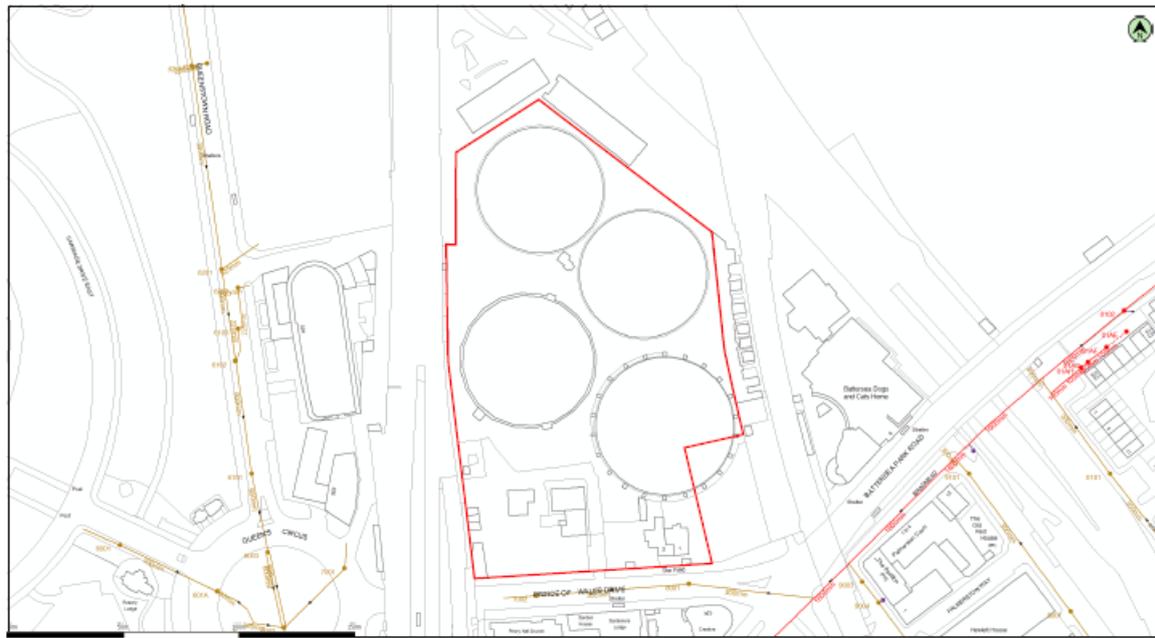




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Water Main		Motor	
Private Water		Valve	
Proposed Water		Hydrant	
Abandoned Asset		End Item	



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Fault Sewer		Fault Manhole	
Surface Sewer		Surface Manhole	
Combined Sewer		Combined Manhole	
Abandoned Sewer		Abandoned Manhole	
Pressure Main		Other Manhole	
Private Asset		End Item	
Other Asset (all other)			
Proposed Asset		3/34 Boundary	
Other Asset (all other)			

