

19 December 2017

Trust in water

Variation of SSE Water Limited's appointment to enable it to serve Embassy Gardens Phase 2

www.ofwat.gov.uk

ofwat

1. About this document

Variation of SSE Water Limited's appointment to enable it to serve Embassy Gardens Phase 2

On 8 June 2016, Ofwat began a [consultation](#) on a proposal to vary SSE Water Limited's ("**SSE**") appointment to become the water and sewerage services provider for a development in Thames Water Utilities Limited's ("**Thames Water**") water supply and sewerage services area called Embassy Gardens Phase 2 in Nine Elms, London ("**the Site**"). The consultation ended on 6 July 2016. During the consultation period, we received one response from the Consumer Council for Water ("**CCWater**").

We received the bulk supply and bulk discharge agreements on 26 October 2017 and continued with our assessment. On 13 November 2017, we granted SSE a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

Contents

1. About this document	2
2. Introduction	4
3. The application	6
4. Responses received to the consultation	8
5. Conclusion	9

2. 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 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, SSE applied to replace Thames Water to become the appointed water and sewerage 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 non-household 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 (see paragraph 3.4).

3. The application

SSE applied to be the water and sewerage services appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). SSE will serve the Site via bulk water and discharge agreements with Thames Water.

3.1 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 has applied under the unserved criterion which is set out in section 7(4)(b) of WIA91. The Site is a brown-field site in Nine Elms, London. SSE has provided maps showing the water and sewerage boundaries for the Site overlaid on the Thames Water asset maps. On application there was one connected customer who was being billed by Thames Water for water and sewerage services, but this property was demolished in July 2016. Thames Water agreed that the Site has become unserved following this demolition.

3.2 Financial viability of the proposal

We will only make an appointment 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 SSE has satisfied us that it can finance its functions and that it is able to properly carry them out.

3.3 Assessment of ‘no worse off’

SSE will charge customers based on Thames Water's existing metered water and wastewater household tariffs. SSE is not offering a discount on these tariffs.

SSE will offer the WaterSure¹ tariff to qualifying customers, ensuring such customers will be no worse off from being supplied by SSE rather than Thames Water.

¹The WaterSure scheme allows households on meters who receive certain means tested benefits or tax credits, and who are either responsible for three or more children under the age of 19, or have a

With regard to service levels, we have reviewed SSE's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of Thames Water. Based on this review, we are satisfied that customers will be offered an appropriate level of service by SSE and that overall customers will be 'no worse off' being served by SSE instead of by Thames Water.

3.4 Effect of appointment on Thames 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 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 on customers of Thames Water. It is therefore necessary to use a simplified set of figures. We usually expressed the effect in 'per bill' terms to try and quantify the possible effect in an easily understandable way.

In this case, we have calculated that if we grant the Site to SSE, the potential impact on the bills of Thames Water's existing customers is below 0.01p per year.

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.

3.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Ballymore, said that it wanted SSE to be the water and sewerage company for the Site.

medical condition which requires significant additional use of water, to pay no more than the average household bill for its region.

4. Responses received to the consultation

We received one response to our consultation from CCWater. We considered this response before making the decision to vary SSE's appointment.

CCWater welcomed SSE's approach to offering guaranteed standards and voluntary service standards which generally match or improve on the standards offered by Thames Water.

CCWater was pleased that SSE proposes to offer £30 if it fails to read a customer's meter once per year. However, it also noted that SSE does not currently have a customer assistance fund, as Thames Water does. CCWater reiterated its concern about the impact that the growth of new appointments could have on water and sewerage companies' existing customers. Ideally, in its view, existing customers should receive some benefit from the new arrangements.

5. Conclusion

Having assessed SSE's application, and having taken account of the response we received to our consultation, we decided to grant a variation to SSE's area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 14 November 2017.