

20 April 2018

Trust in water

Proposal to grant a variation of appointment to Severn Trent Services (Water and Sewerage) Limited to enable it to provide sewerage services to a site called Brodsworth Colliery, Doncaster

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1. About this document

We propose granting a variation of appointment to Severn Trent Services (Water and Sewerage) Limited (“**STS**”) (trading as Severn Trent Connect) as a sewerage company and varying the appointment of Yorkshire Water Limited (“**YKY**”) as a sewerage company. This notice is a consultation on this proposal under section 8(3) of the Water Industry Act 1991 (“**WIA91**”).

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 this consultation notice, Ofwat will decide whether or not to grant the variation of appointment set out above.

2. The Site

STS has applied for a variation to its appointment to be able to provide sewerage services to a site called Brodsworth Colliery, Doncaster (**“the Site”**). The Site is in YKY’s sewerage services area.

The Site will consist of 343 household dwellings, there will be no non-household properties on the development. It is expected that the Site will be fully built out by 2024.

A site map can be viewed in section 8 of this document.

3. The applicant

STS is part of the Severn Trent group of companies. This is the third new appointment and variation (“**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. This site will consist of 3,850 household properties, and the appointment was granted on 21 December 2015.

STS has made a further application to provide water supply and sewerage services to a site called, Aurum Green. Aurum Green is in South East Water Limited’s water supply area and Thames Water Utilities Limited’s sewerage services area. This application is currently under consideration.

4. The proposal

Ofwat proposes to:

- grant a variation of appointment to STS as a sewerage company; and
- vary the appointment of YKY as a sewerage company by excluding the Site from its sewerage services area.

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

5. Our approach to the assessment of this application

The NAV 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 NAVs, 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 NAV mechanism.

¹ The legal framework for new appointments is set out in the 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.

6. The application

STS has applied to be the sewerage company for the Site under the unserved criterion, set out in section 7(4)(b) of the WIA91.

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.

The Site was formally used for coal mining, this ceased in 1990 and clearance of the Site followed. The developer, Keepmoat Homes, reclaimed the land and levelled this, ready for building houses.

YKY have provided a letter, dated 24 August 2017, within which it highlights that the Site is considered to be unserved for sewerage services. It is stated that the Site is not currently served by a public sewer network and there are also no recorded public sewers within the Site.

Given the information provided by the applicant and the incumbent company, we are satisfied that the Site may be considered 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 NAVs – only eligible business, charity and public sector customers (“Business 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

² The majority of 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.

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 link its charges to customers to YKY's household metered tariffs with a minimum 1% discount. This discount will be reviewed once the bulk discharge tariff has been negotiated.

6.4 Levels of service

Every appointee is required under its conditions of appointment to publish a Code of Practice on debt 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 YKY were to be the customers' water and sewerage services supplier.

6.5 Developer consent

STS has the consent of the Site developer, Keepmoat Homes, to become the 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 or variation. 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.

6.7 Incumbent's existing customers

In considering whether customers will be no worse off, we also considered the potential effects of this variation on the prices that YKY'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 YKY 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 estimate a potential £0.004 annual increase on the sewerage bills of existing YKY 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 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 NAV, it must satisfy us that it is able to carry out all of the duties and obligations associated with being an appointed sewerage company.

Having considered the revenues and costs in relation to supplying sewerage services 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 STS 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 NAVs. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and the NAV would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed variation of appointment and consequential variation on the existing customers of YKY.

We are currently minded to grant the variation 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 [complete the web form](#).

Representations must be received by Ofwat no later than 17.00 hours on 21 May 2018. 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 map

