

01 May 2018

Trust in water

Variation of SSE Water Limited's appointment to include Barking Riverside stages 2-4

www.ofwat.gov.uk

ofwat

1. About this document

Variation of SSE Water Limited's appointment to include Barking Riverside Stages 2-4

On 6 November 2017, Ofwat [began a consultation](#) on a proposal to vary SSE Water Limited's ("**SSE Water**") appointment to become the water and sewerage services provider for a development in Northumbrian Water Limited's ("**Northumbrian Water**") water supply area and Thames Water Utilities Limited's ("**Thames Water**") sewerage services area called Barking Riverside Stages 2-4 in Barking ("**the Site**").

The consultation ended on 4 December 2017. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 28 March 2018, we granted SSE Water Limited 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	9
5. Conclusion	10

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 Water applied to replace Northumbrian Water and 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.

3. The application

SSE Water 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 Water will serve the Site by providing water via a bulk supply from Northumbrian Water and waste services through a bulk discharge agreement with Thames Water. A surface water drainage system for surface water runoff, will be owned by the developer rather than SSE Water.

The Site is an extension of an existing site served by SSE. We have previously granted two variations to SSE's appointment in connection with the existing site. The first variation (phase 1) was granted to SSE on 27 June 2011.

The second variation (phase 2) was granted on 15 June 2015. However at the time of the application, we understood that phase 2 would enable SSE to supply water and sewerage services to an additional 661 household properties and we granted the variation on this basis. However, the site map provided by SSE and attached to its application, and to the variation notice, covered the remainder of the development site which potentially covers 10,000 residential properties. When we became aware of this error, we decided to [re-issue the variation](#) with a corrected map, which only covered the 661 household properties that were included in the phase 2 application.

This Site application is for the remainder of the Site that was originally included in the map for the phase 2 application but was later excluded from the area served by the phase 2 variation.

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 Water provided letters from both Northumbrian Water and Thames Water which confirm that neither company is aware of any water or sewerage assets on or serving the Site. SSE water also provided maps of the assets owned by these companies in the nearby area to demonstrate that these assets were located away from the Site.

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 Water 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 Water will offer the same charges as it offers to other customers on the previously granted Barking Riverside sites serviced by SSE Water.

With regard to service levels, we did not undertake a detailed assessment of SSE Water's Codes of Practice and its proposed service levels. This is because SSE Water was proposing to provide the same service levels to the customers on the Site as the service levels that it already provides to its other customers on the adjacent Barking Riverside sites. These service levels have been assessed previously by Ofwat. We are therefore satisfied that customers will be offered an appropriate level of service by SSE Water and that overall customers will be 'no worse off' being served by SSE Water instead of by Northumbrian Water and Thames Water.

3.4 Effect of appointment on Northumbrian Water's and 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 Northumbrian Water's and 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 Northumbrian Water and Thames Water. 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.

In this case, we have calculated that if we grant the Site to SSE Water, there may be a potential impact on the water bills of Northumbrian Water's existing customers of £0.07 and a potential impact on the water bills of Thames Water's existing customers of £0.04.

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 said that it wanted SSE Water to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received two responses to our consultation; from the Consumer Council for Water (“**CCWater**”) and the Environment Agency (“**EA**”). We considered these responses before making the decision to vary SSE Water's appointment. The points raised in the responses are set out below.

4.1 CCWater

CCWater was disappointed that there is no direct financial benefit to customers from having SSE Water as their provider of water and sewerage services instead of Northumbrian Water and Thames Water. However, CCWater notes that SSE Water meets or improves on many of the service standards provided by the two incumbent companies, and for this reason it supported the proposed variation.

We have noted CCWater's concern that there is no direct financial benefit to customers. One of our key policies is that customers should be 'no worse off' if a new appointment is granted. That is, an applicant must ensure its new customers are made no worse off in terms of price and service than if they had been supplied by the previous incumbent. This requirement has been met by SSE Water in its proposal to improve the levels of service and match the pricing set by Northumbrian Water and Thames Water. We do not require applicants to better the service and price of the previous incumbents.

4.2 Environment Agency

The Environment Agency did not have any objection to the proposed variation, but provided SSE Water with some advice regarding the proposed surface water drainage system to avoid any potential contamination.

5. Conclusion

Having assessed SSE Water's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to SSE Water's area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 29 March 2018.