

June 2018

Trust in water

Variation of SSE Water Limited's appointment to include White City

1. About this document

Variation of SSE Water Limited's appointment to include White City

On 30 October 2017, Ofwat began a [consultation on a proposal to vary SSE Water Limited's appointment](#) to become the water and sewerage services provider for a development in Thames Water Utilities Limited's water supply and sewerage services area called White City in London ("**the Site**")

The consultation ended 27 November 2017. During the consultation period, we received a response from one organisation, which we considered in making our decision. On 15 June 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	8
5. Conclusion	9

2. Introduction

The new appointment and variation (“**NAV**”) 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 Limited applied to replace Thames Water Utilities Limited 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 business 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 Limited 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 Limited will serve the Site by using an agreement for the bulk supply of water and bulk discharge of waste water with Thames Water Utilities Limited.

3.1 Unserved status of the site

To qualify under the unserved criterion, an applicant must show that at the time the appointment or variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

SSE Water has submitted site status reports to us to verify the unserved nature of the Site. The Site has previously been used for commercial purposes, but all previously used infrastructure has been cleared. Thames Water Utilities Limited confirmed that the Site is unserved for both water and sewerage. On the basis of the site status report and confirmation from Thames Water Utilities Limited, we are satisfied that the Site is unserved.

3.2 Financial viability of the proposal

We will only make an appointment or variation 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 Limited 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 Limited will match its customer charges with the charges of customers at Thames Water Utilities Limited. It will not be offering a discount.

With regard to service levels, we have reviewed SSE Water Limited's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of Thames Water Utilities Limited. Based on this review, we are satisfied that customers will be offered an appropriate

level of service by Thames Water Utilities Limited and that overall customers will be 'no worse off' being served by SSE Water Limited instead of by Thames Water Utilities Limited.

3.4 Effect of appointment on Thames Water Utilities Limited'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 Utilities Limited'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 Utilities Limited. 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 Limited, there may be a potential impact on the bills of Thames Water Utilities Limited's existing customers of £0.03 per annum.

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 Limited to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received one response to our consultation; from the Consumer Council for Water (**CCWater**). We considered the response before making the decision to vary SSE Water Limited's appointment. The points raised in the response are set out below.

4.1 CCWater

CCWater responded to our consultation setting out that, overall, it supports the application from SSE Water Limited. CCWater welcomed SSE Water Limited's approach of offering guaranteed standards and voluntary service standards which generally match or improve on the standards offered by Thames Water Utilities Limited.

CCWater was disappointed that there is no direct financial benefit to customers from having SSE Water Limited as their provider of water instead of Thames Water Utilities Limited. However, CCWater notes that SSE Water Limited improves on many of the service standards provided by Thames Water Utilities Limited.

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 NAV 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 Limited in its proposal to improve the levels of service and match the pricing set by Thames Water Utilities Limited. We do not require applicants to better the service and price of the previous incumbents.

5. Conclusion

Having assessed SSE Water Limited's application, and having taken account of the response we received to our consultation, we decided to grant a variation to SSE Water Limited's area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 18 June 2018.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

June 2018

ISBN 978-1-911588-56-6

© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

