

July 2018

Trust in water

**Proposal to grant a variation of appointment to
SSE Water Limited to enable it to provide sewerage
services to a site called Chestnut Avenue, Eastleigh,
Hants**

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1. About this document

We propose granting a variation of appointment to SSE Water as a sewerage company and varying the appointment of Southern Water Services Limited ("**Southern Water**") 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

SSE Water Limited (“**SSE Water**”) has applied for a variation to its appointment to be able to provide sewerage services to a site called Chestnut Avenue, Eastleigh, Hants (“**the Site**”).

The proposed Site will comprise of 1162 residential properties. The planning permission also grants permission to build non-household buildings e.g. community centre, a primary school, light commercial buildings.

The Site boundary map can be viewed in section 8 of this document.

The Site is within the water and sewerage services area of Southern Water. The proposal is for SSE Water to replace Southern Water for sewerage services. Southern Water will continue to supply the Site with water.

It is proposed that the Site will be fully developed no later than 2020.

3. The applicant

In October 2007, SSE Water obtained its first appointment as a water and sewerage undertaker for a housing development at the 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 29¹ sites for water and/or sewerage services. The register of new appointments and variations can be viewed [here](#).

¹ This excludes 3 sites that were granted as a variation at a later phase of the development having already granted an earlier phase. Namely, Kennet Island phase 7 (granted 03/10/11), Barking Riverside Phase 2 (granted 15/06/15, reissued 20/12/16), Embassy Gardens phase 2 (granted 13/11/17)

4. The proposal

Ofwat proposes to:

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

By means of the above, SSE Water will become the 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 legislation², 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 – i.e. customers of the existing provider and customers more generally across England and Wales, who in our view benefit from the effective operation of the new appointment and variation mechanism.

² 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

SSE Water 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 or variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

SSE Water has submitted a report to us confirming that the Site is unserved and Southern Water has confirmed in an email, dated 23 May 2018, that it agrees with this report.

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 new appointments and variations – only business, charity and public sector customers (“Business Customers”) in England and Wales are able to choose their supplier³.

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 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.

³ 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.

6.3 Price

SSE Water proposes to match Southern Water's charges to customers i.e. it will not offer a discount.

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 (together referred to as the "**Codes**"). We have assessed SSE Water's proposed Codes 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 than they would be if Southern Water were to be the customers' sewerage services supplier.

6.5 Site owner choice

SSE Water has the consent of the site developer, Highwood Construction, 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 application⁴.

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 Southern 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. It is therefore necessary to use a

⁴ 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.

simplified set of figures. We have expressed the effect in 'per bill' terms to try to quantify the possible effect in an easily understandable way.

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

We estimate a potential £0.006 annual increase on the sewerage bills of existing Southern Water customers if we grant this variation to SSE Water. 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 Water 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 or sewerage company.

In November 2012, we published the '[Statement on our approach for assessing financial viability of applications for new appointments and variations](#)' which revised our policy with regards to financial viability to facilitate a more flexible approach. This policy says 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;
- allow applicants greater flexibility when satisfying us that they can finance their functions; and

- give applicants more responsibility and accountability for their business and business risks.

We have assessed the revenues and costs submitted to us to supply sewerage services to the Site should the relevant variation be granted. We are satisfied that SSE Water has demonstrated financial viability.

SSE Water 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 SSE Water would be able to finance its functions if the variation is granted.

7. Conclusion and next steps

In assessing SSE Water's application, we have considered the general benefits of new appointments and variations. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and SSE Water would be able to finance, and carry out, its functions. We have also considered the effects of granting the variation on the existing customers of Southern Water.

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 do so in writing to Laura Clougher at Centre City Tower, 7 Hill Street, Birmingham, B5 4UA or through our [web form](#).

Representations must be received by Ofwat no later than 17.00 hours on 14 August 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



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.

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July 2018

ISBN 978-1-911588-68-9

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