

**New Appointment as a water undertaker for Severn Trent Services (Water and Sewerage) Limited to serve Aurum Green and Variation of Severn Trent Services (Water and Sewerage) Limited's appointment as a sewerage undertaker to include Aurum Green**

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## 1. About this document

### **New Appointment as a water undertaker for Severn Trent Services (Water and Sewerage) Limited to serve Aurum Green**

### **Variation of Severn Trent Services (Water and Sewerage) Limited's appointment as a sewerage undertaker to include Aurum Green**

In 25 August 2017, Ofwat began a consultation on a proposal to appoint Severn Trent Services (Water and Sewerage) Limited as a water services provider for a development in South East Water Limited's ("**South East Water**") water supply area and also to vary Severn Trent Services (Water and Sewerage) Limited's appointment to become the sewerage services provider in Thames Water Utilities Limited's ("**Thames Water**") sewerage services area called Aurum Green in Basingstoke ("**the Site**").

The consultation ended on 22 September 2017. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 20 July 2018, we granted Severn Trent Services (Water and Sewerage) Limited an appointment as a water undertaker to enable it to supply water services, and a variation to its existing appointment to enable it to supply sewerage services to the Site.

This notice gives our reasons for making this new appointment and variation.

## 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, Severn Trent Services (Water and Sewerage) Limited applied to replace South East 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 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**

Severn Trent Services (Water and Sewerage) 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**”). Prior to the application, Severn Trent Services (Water and Sewerage) Limited was a sewerage only undertaker. Severn Trent Services (Water and Sewerage) Limited will serve the Site by using an agreement for the bulk supply of water with South East Water and a bulk discharge agreement 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 or variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

Both South East Water and Thames Water have provided letters confirming that, in their view, the Site is unserved. A photograph that provides an aerial view of the Site indicates that there are no buildings on the Site. On the basis of the confirmations provided by both incumbents and the information provided by the aerial photography, 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 Severn Trent Services (Water and Sewerage) 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’**

Severn Trent Services (Water and Sewerage) Limited will match the charges to customers on the Site of South East Water and Thames Water– i.e. – it will not offer a discount. Severn Trent Services (Water and Sewerage) Limited proposes to match the tariffs of Thames Water and South East Water for customers whose

circumstances make them vulnerable. Severn Trent Services (Water and Sewerage) Limited proposes to provide a service that is equal to that provided by South East Water and Thames Water.

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

### **3.4 Effect of appointment and variation on South East 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 appointment and variation on the price that South East Water 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 South East 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. Broadly, we have assessed the potential magnitude of this impact by comparing how much South East Water and Thames 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 Severn Trent Services (Water and Sewerage) Limited.

In this case, we have calculated that if we grant the site to Severn Trent Services (Water and Sewerage) Limited, there may be a potential minimal impact on the bills of South East Water and Thames Water's existing customers of less than one penny 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, Pal Properties Limited, said that it wanted Severn Trent Services (Water and Sewerage) Limited 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 MOSL, the market operator of England's non-household water retail market (**MOSL**). We considered these responses before making the decision to vary Severn Trent Services (Water and Sewerage) Limited's appointment as a sewerage undertaker and make a new appointment for Severn Trent Services (Water and Sewerage) Limited as a water undertaker. The points raised in the responses are set out below.

### 4.1 CCWater

CCWater's response confirmed that it agreed with our assessment that in relation to levels of service for water and sewerage services, customers would be no worse off under Severn Trent Services (Water and Sewerage) Limited than if served by South East Water and Thames Water. It indicated that it expected new appointees to review its services as its customer base grows, especially in relation to any provisions for customers in debt or financial hardship.

CCWater was disappointed that there is no direct financial benefit to customers from having Severn Trent Services (Water and Sewerage) Limited as their provider of water instead of South East Water and Thames Water. However, CCWater notes that Severn Trent Services (Water and Sewerage) Limited improves on many of the service standards provided by South East Water and Thames Water.

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 Severn Trent Services (Water and Sewerage) Limited in its proposal to improve the levels of service and match the pricing set by South East Water and Thames Water. We do not require applicants to better the service and price of the previous incumbents.

### 4.2 MOSL

Prior to the application, Severn Trent Services (Water and Sewerage) Limited was a sewerage only undertaker. It had one site, for which it provides sewerage only services. Prior to market opening it elected to exit the non-household retail market for sewerage.

In its response, MOSL expressed a concern that, as Severn Trent Services (Water and Sewerage) Limited had exited the retail market for non-household customers at the point the market opened, it would not be able to provide water and sewerage services to non-household customers on the Site, as it would be required to do as the point of first supply. Although there are intended to be no non-household customers on the Site, MOSL was concerned that, if a household customer at any point changed the use of the premises (for instance, the customer may start running a car repair garage business from the premises) then Severn Trent Services (Water and Sewerage) Limited would not be eligible to provide services.

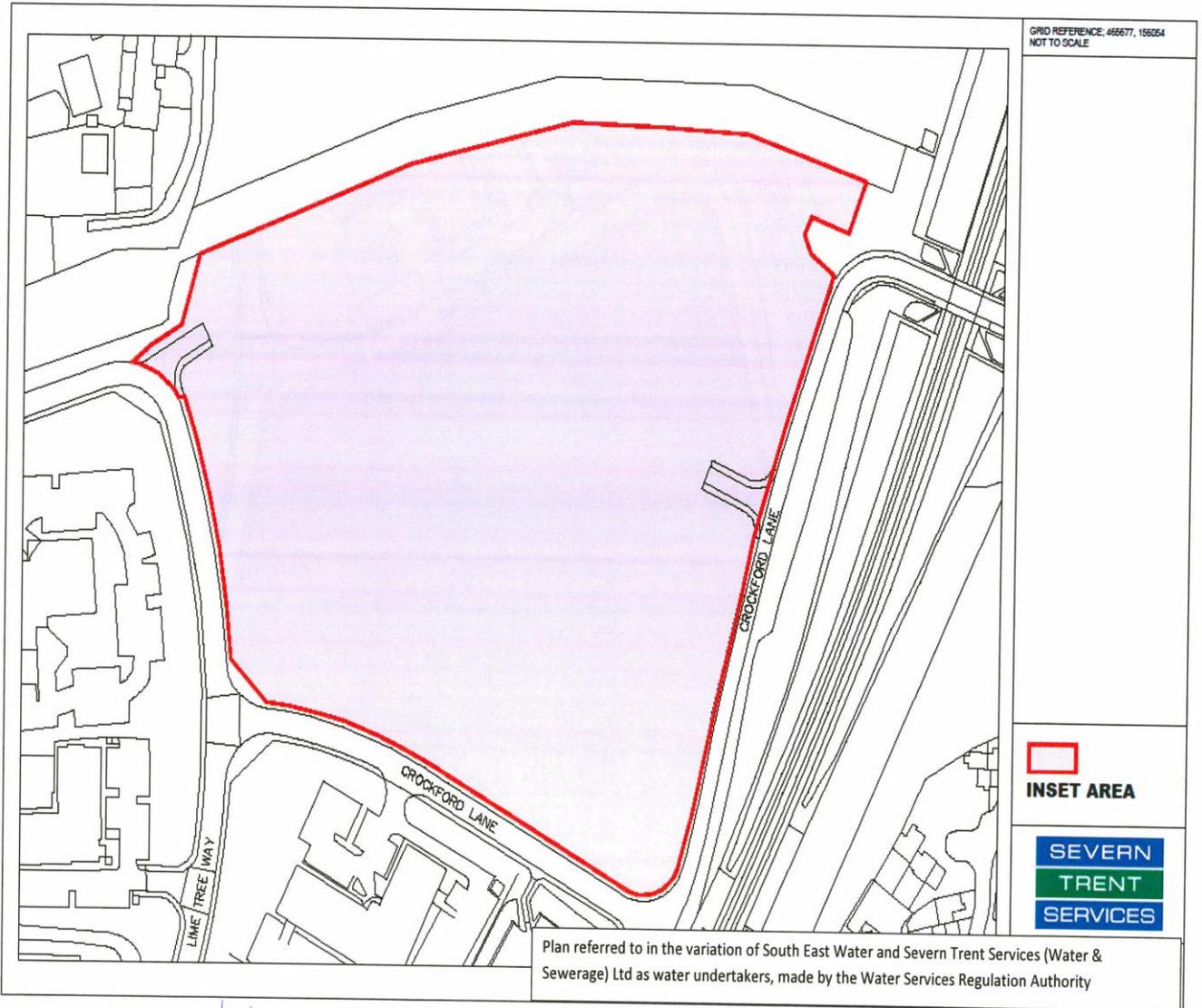
Severn Trent Services (Water and Sewerage) Limited was concerned about the potential delay and resources it would need to allocate to undertaking a process to obtain certification it was unlikely to use, as the development was residential only, and as construction had not yet commenced, there was no need currently to consider the possibility of change of use.

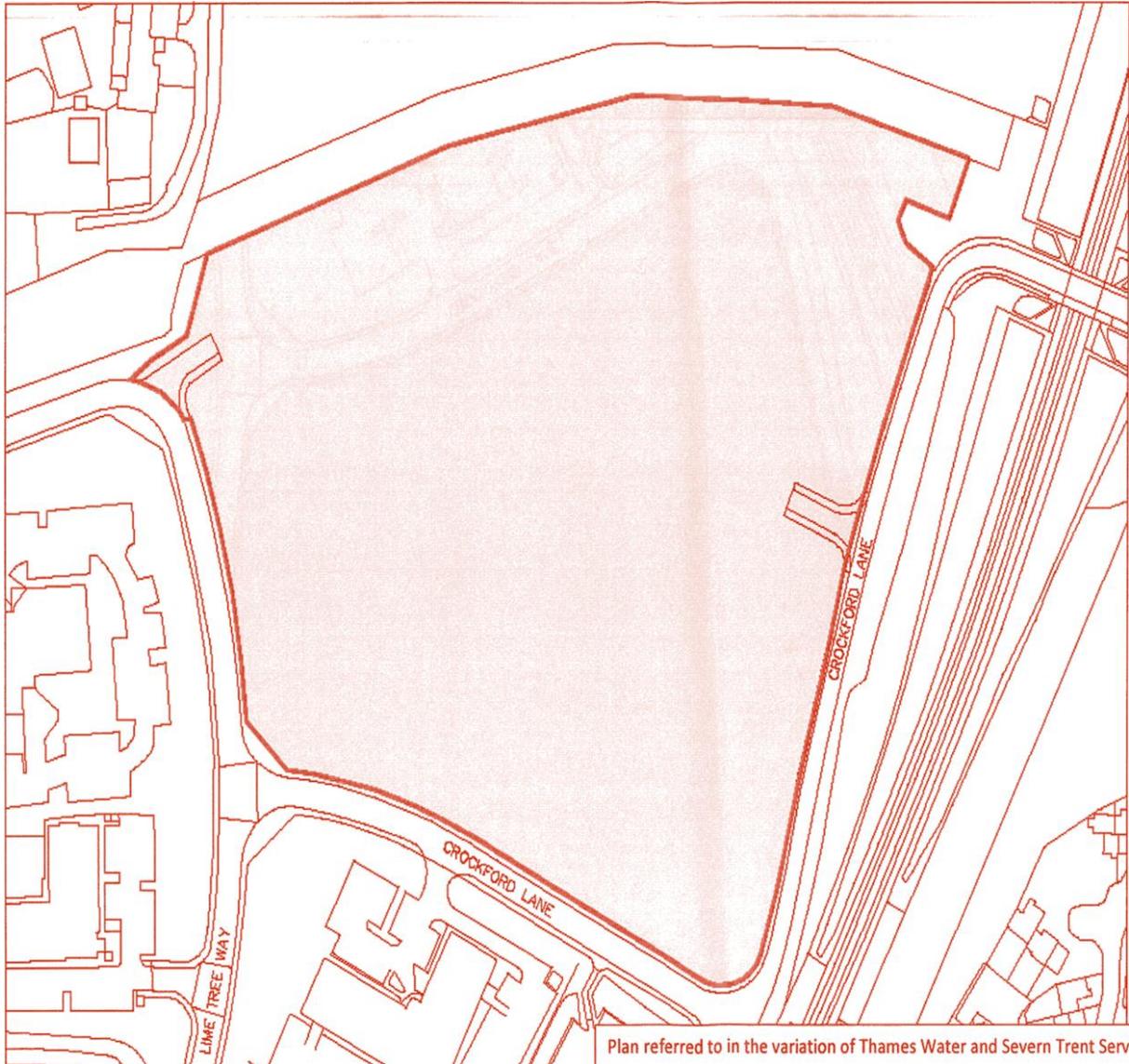
We held discussions with Severn Trent Services (Water and Sewerage) Limited and MOSL in order to ensure that the application progressed in a timely manner, without unnecessary activity being engaged in, or unnecessary risk taken. The outcome of the discussions was that MOSL agreed to the progress of the application if Severn Trent Services (Water and Sewerage) Limited took appropriate steps to exit the non-household retail market for water services as soon as practicable. We are satisfied with the outcome of discussions.

## **5. Conclusion**

Having assessed Severn Trent Services (Water and Sewerage) Limited's application, and having taken account of the responses we received to our consultation, we decided to grant a new appointment and a variation to Severn Trent Services (Water and Sewerage) Limited's area of appointment to allow it to serve the Site for water and sewerage services. This appointment and variation became effective on 23 July 2018.

## Appendix 1: Site Maps





Plan referred to in the variation of Thames Water and Severn Trent Serv



Plan referred to in the variation of Thames Water and Severn Trent Serv

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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