

Proposal to grant a variation of appointment to Dŵr Cymru Cyfyngedig (“ Welsh Water”) to enable it to provide water and sewerage services to a site called Parc Llanilid, Rhondda Cynon Taf

Contents

1. About this document	3
2. The Site	3
3. The applicant	5
4. The proposal	6
5. Our approach to the assessment of this application	7
6. The application	8
7. Conclusion and next steps	11
8. Site maps	12

1. About this document

We propose granting a variation of appointment to Dŵr Cymru Cyfyngedig as a water and sewerage company and varying the appointment of SSE Water Ltd (“**SSE Water**”) as a water and 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

On 10 March 2009, a variation was granted to SSE Water to provide water and sewerage services to a site called Parc Llanilid (“**the Site**”). The majority of the development did not go ahead following the variation, and no development has gone ahead on the Site as shown on the map as outlined in this application.

Dŵr Cymru Cyfyngedig (“**Welsh Water**”) has now applied for a variation to its appointment to be able to provide water and sewerage services to the Site. If granted, Welsh Water will provide water and sewerage services to a new development of 1850 residential properties and a planned ‘village center’ comprising leisure facilities, a medical centre, primary school, retail/services/food and drink retail units; and office and commercial floor space. A final total of non-household sites for this village center has not been confirmed.

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

The Site is within the water and sewerage services area of SSE Water. Welsh Water proposes to provide water and sewerage services to the Site using its existing infrastructure.

The first of six planned phases of building at the Site is likely to be fully built out by December 2018, comprising the first 217 homes.

3. The applicant

Welsh Water is an incumbent water and sewerage undertaker, serving over three million people across a large proportion of Wales. Since 2001, it has been owned, financed and managed by Glas Cymru. Glas Cymru is a company limited by guarantee and as such has no shareholders.

4. The proposal

Ofwat proposes to:

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

By means of the above, Welsh Water will become the water and 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 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 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.

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

Welsh Water has applied to be the water and 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.

SSE Water has provided a letter, dated 13 June 2018, confirming that, in its view, the Site is 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 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 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.

² Business Customers 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 had previously guaranteed to match Welsh Water's charges at this site. As the site would revert to Welsh Water it will charge its standard tariff to customers on the site.

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. Water companies must also publish a Code of Practice on leakage. We have assessed Welsh Water's 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 SSE Water were to be the customers' water and sewerage services supplier.

6.5 Site owner choice

Persimmon Homes, the developer of the Site, has provided a letter confirming that they wish for Welsh Water to be the appointee for the Site.

6.6 Natural Resources Wales (NRW) 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. Both NRW and DWI informed us that they are content for us to consult on this application³.

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 SSE Water's existing customer base may face.

³ Natural Resources Wales 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.

To assess the impact that granting the site may have on the incumbent's customers, we would normally compare the revenue the incumbent might have been expected to receive and the maintenance costs it would expect to incur if it were to serve the site directly, as opposed to the revenues it would receive and costs it would incur from the proposed NAV arrangement.

However, as this variation involves a regional water and sewerage company taking a site back into its supply area from an appointee, we have noted that SSE Water fixes its costs based on those of the regional water and sewerage services supplier at its sites. Therefore this variation will have no impact on customer bills.

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 Welsh Water would have no 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.

As Welsh Water is a large established appointed undertaker, we are satisfied that it is able to finance its functions. It has access to many sources of finance and this site would represent only a very small proportion of its total regulated activity. We have not required Welsh Water to propose additional financial security to protect customers on the site.

On this basis, our view is that the risk of this Site not being financially viable is very low and as a result we are currently satisfied that Welsh Water would be able to finance its functions if the variation is granted.

7. Conclusion and next steps

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

We are currently minded to grant the variation under the unserved criterion. We are consulting on our proposal to do so.

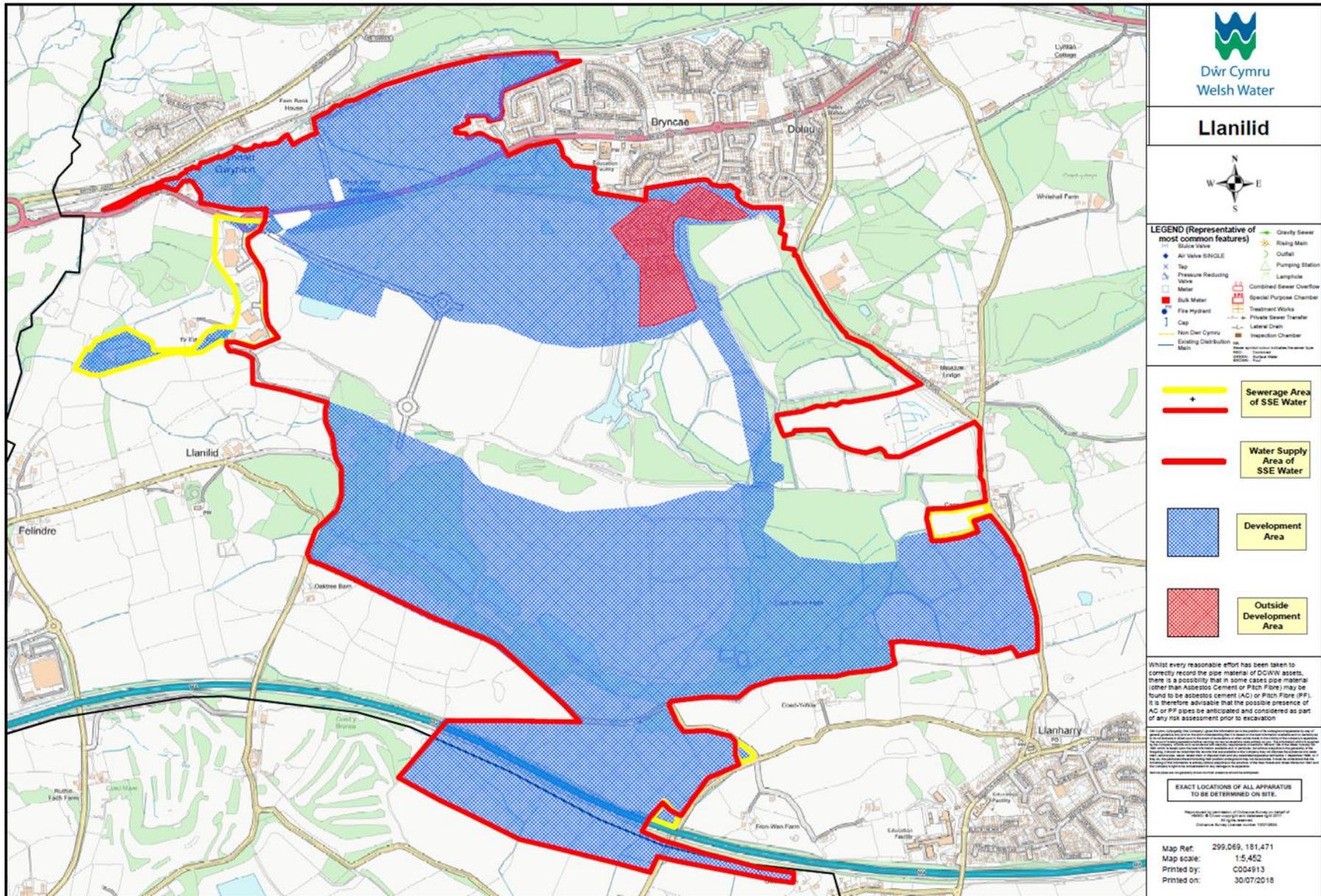
Where to send submissions

Any person who wishes to make representations or objections with respect to the application should do so in writing to Ben Groom at Centre City Tower, 7 Hill Street, Birmingham, B5 4UA or by email at Ben.Groom@ofwat.gsi.gov.uk

Representations must be received by Ofwat no later than 17.00 hours on 3 January 2019. 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.

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

December 2018

© 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.

