

June 2019

Trust in water

# Variation of Albion Water Limited's appointment to include Knowle Water Meadows

## 1. About this document

### Variation of Albion Water Limited's appointment to include Knowle Water Meadows

On 5 February 2019, Ofwat began a consultation on a proposal to vary Albion Water Limited's ("**ALB**") appointment to become the sewerage services provider for a development in Southern Water Services Limited's ("**SRN**") sewerage services area called Knowle Water Meadows in Knowle, near Fareham, Hampshire ("**the Site**").

The consultation ended on 5 March 2019. On 8 May 2019, we issued a corrigendum allowing for a further period of consultation. During the consultation period, we received representations and comments from four organisations, which we considered in making our decision. On 14 June 2019, we granted ALB a variation to its existing appointment to enable it to supply sewerage services to the Site.

This notice gives our reasons for making this variation.

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## 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 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, ALB applied to replace SRN to become the appointed 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 NAVs, 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 NAVs, 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 NAVs mechanism can offset any potential disbenefits for existing customers that might arise. We consider these potential disbenefits in more detail below.

### **3. The application**

ALB applied to be the sewerage services appointee for the site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). ALB will serve the site by connecting into the sewerage network already owned and operated by ALB and any new infrastructure will be adopted and maintained following water industry best practice.

#### **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.

The Site is a greenfield, undeveloped area of land. There are no buildings on the Site and there is no history of development on the Site. Aerial photographs indicate that the Site currently consists of open fields.

The landowner instructed consultants to undertake a “Preliminary Utilities Appraisal” on the Site. The appraisal concluded that the incumbent, SRN, does not have infrastructure in close proximity to the development, nor running under the development. Further, if SRN was to provide sewerage services to the Site, a new sewer over 2 kms in length would need to be constructed. SRN has confirmed that it does not have any assets within the proposed boundary of the Site, and that the Site is unserved. On the basis of this information, we have accepted that the Site is unserved.

#### **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 ALB 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'**

ALB will offer a 5% volumetric tariff reduction for metered sewerage customers on the Site compared to the charges to SRN customers. This is a discount that will benefit customers.

With regard to service levels, we have reviewed ALB's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of SRN. Based on this review, we are satisfied that customers will be offered an appropriate level of service by SRN and that overall customers will be 'no worse off' being served by ALB instead of by SRN.

### **3.4 Effect of appointment on SRN'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 SRN's existing customer base may face.

The particular circumstances of this variation is that the Site could only be served by the incumbent following the installation of lengthy pipework between the Site and its nearest infrastructure. When this is combined with the requirement to upgrade treatment works, it is considered that the cost of providing the necessary connection to the incumbent's infrastructure will be greater than the revenue that SRN might reasonably have expected as a result of serving the Site. As a consequence, we estimate that customers of SRN will be no worse off if we grant this variation to ALB.

### **3.5 Landowner's choice**

Where relevant, we take into consideration the choices of the landowner or site developer. In this case, the landowner, Homes England, said that it wanted ALB to be the sewerage company for the Site.

## **4. Responses received to the consultation**

We received four responses to our consultation; namely from the Drinking Water Inspectorate (“**DWI**”), the Environment Agency (“**EA**”), the Consumer Council for Water (“**CCWater**”) and SRN. The DWI and SRN had no objections. The details of both the EA's and CCWater's response are below. We considered these responses before making the decision to vary ALB's appointment. The points raised in the responses are set out below.

### **4.1 EA**

The EA had commented prior to the consultation that it had concerns related to the method and location of discharge from the Site. In its response to the consultation the EA indicated that, whilst it still had concerns about the discharge, it would seek to resolve those concerns through the permitting process. The EA did not object to the NAV application.

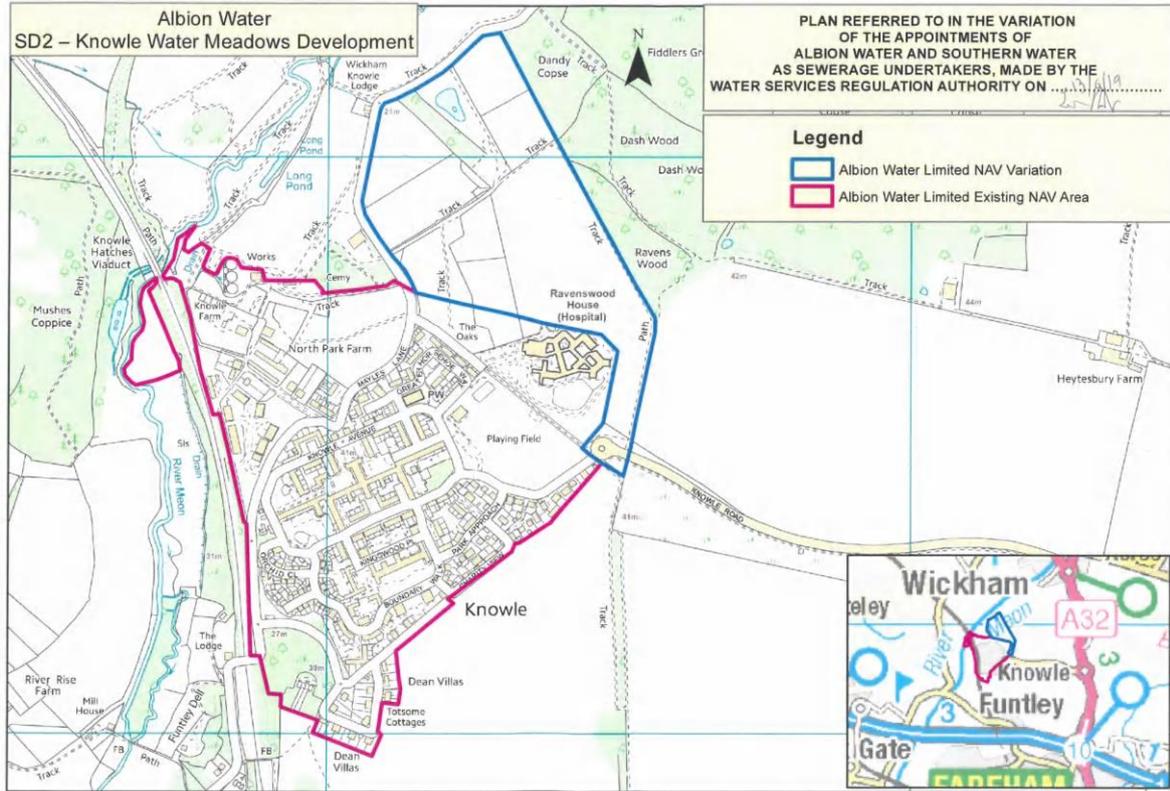
### **4.2 CCWater**

In its response to the corrigendum to our consultation, CCWater stated that it prefers to see tangible benefits arising from NAV appointments. The corrigendum sets out how the application will benefit both Albion Water and Southern Water customers. CCWater supports this application.

## **5. Conclusion**

Having assessed ALB's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to ALB's area of appointment to allow it to serve the Site for sewerage services, and to exclude the Site from SRN's area of appointment. This appointment became effective on 14 June 2019.

## Appendix 1: 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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