

October 2019

Trust in water

Variation of South East Water Limited's appointment to include Aurum Green

1. About this document

Variation of South East Water Limited's appointment to include Aurum Green

On 23 July 2019, Ofwat began a [consultation](#) on a proposal to vary South East Water Limited's appointment to become the water services provider for a development in Severn Trent Services Limited's (Trading as Severn Trent Connect)'s water supply area called Aurum Green in Basingstoke ("**the Site**").

The consultation ended on 2 August 2019. During the consultation period, we received representations from one organisation, which we considered in making our decision. On 17 October 2019, we granted South East Water Limited a variation to its existing appointment to enable it to supply water 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
Appendix 1: Site Map	10

2. Introduction

The new appointment and variation 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, South East Water Limited applied to replace Severn Trent Services Limited to become the appointed water 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

South East Water Limited applied to be the water services appointee for the site under the consent criterion set out in section 7(4)(a) of the Water Industry Act 1991 (“**WIA91**”). South East Water Limited currently provide the bulk supply to the Site; it will continue to use its own infrastructure to serve the Site, and the same resources that it currently uses to supply the area under an existing bulk supply agreement.

3.1 Consent criterion

To qualify under the consent criterion, an applicant must provide a letter of consent from the existing appointee consenting to the application and consenting to the variation of its area of appointment corresponding to the applicant's application.

We have a letter from Severn Trent Services Limited confirming that it consents for South East Water Limited to take over the Site from it. We are therefore satisfied that the application meets the consent criterion.

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 South East Water 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’

As part of Severn Trent Services Limited's original application for a new appointment for this site, Severn Trent Services Limited agreed to match or exceed these commitments, where they were relevant to Severn Trent Services Limited supplying customers in the area.

As the site is already within South East Water Limited's supply area, and incentives are already in place for them to exceed their performance targets, it is not necessary to make a comparison for this variation. Ofwat monitors these as part of its regulatory work.

3.4 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer said that it wanted South East Water to be the water company for the Site.

4. Responses received to the consultation

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

4.1 CCWater

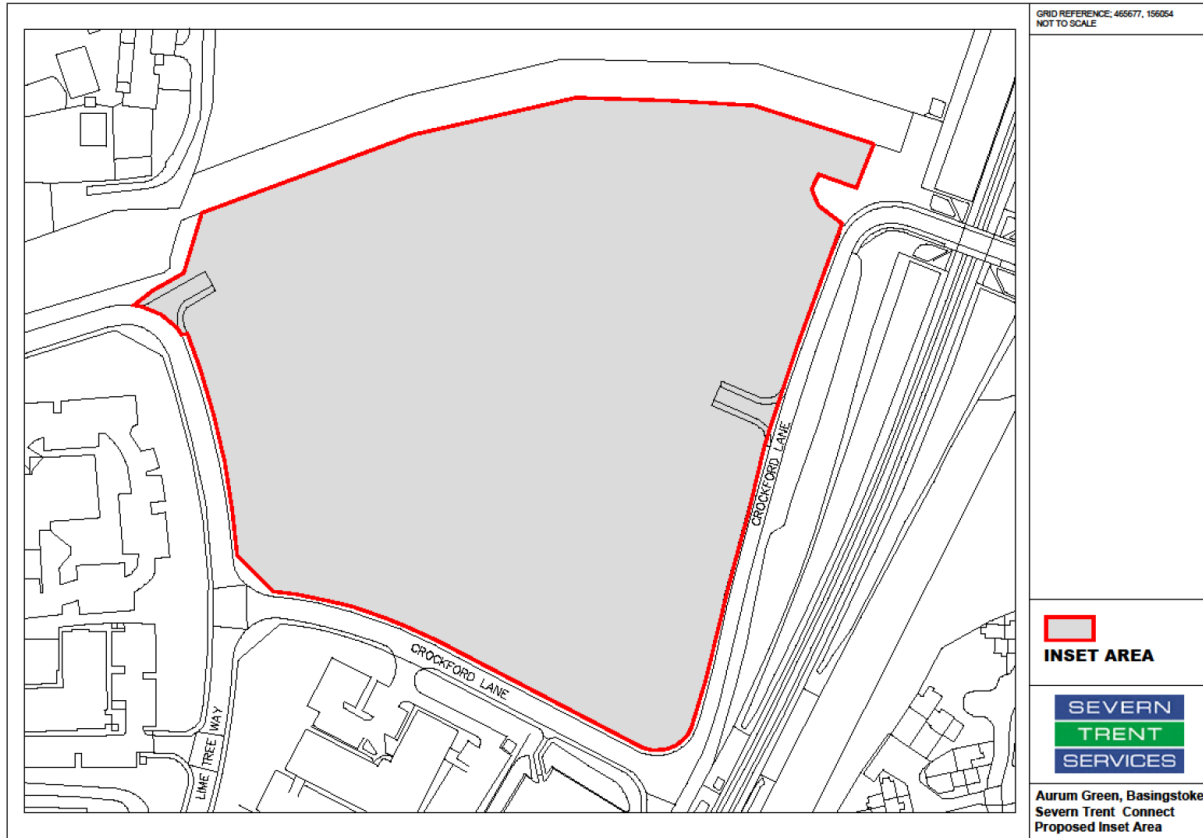
CCWater responded and advised it was satisfied that if South East Water Limited took back responsibility for the water supply, customers would be no worse off than they would have been with Severn Trent Services Limited as their water supplier.

In summary it supports the application, however raised concerns regarding a new NAV appointee deciding to withdraw from a site only a short time after Ofwat granted the appointment for it to provide services to that site. It therefore has requested that Ofwat review its process to ensure it is sufficiently robust.

5. Conclusion

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

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

October 2019

© Crown copyright 2019

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.

