

October 2021

Variation of Leep Networks (Water) Limited's appointment to include Redhill Way, Telford

About this document

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On 22 July 2021, Ofwat began a consultation on a proposal to vary Leep Networks (Water) Limited's ("**Leep Networks**") appointment to become the' water and sewerage services provider for a development in Severn Trent Water Limited's ("**Severn Trent Water**") water supply area and sewerage services area called Redhill Way in Telford ("**the Site**").

The [consultation](#) ended on 20 August 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 21 October 2021, we granted Leep Networks a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

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1. 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/or 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, Leep Networks applied to replace Severn Trent 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.

2. The application

Leep Networks 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**”). Leep Networks will serve the Site by way of bulk supply and discharge agreement with Severn Trent Water.

2.1 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.

Severn Trent Water has provided a letter, dated 8 February 2021, confirming that, in its view, the Site is unserved. The letter also notes that a main runs through the Site, and that Leep Networks should take care when excavating the Site, which it has duly noted.

The Site is a greenfield site, and a desk survey shows no further properties within the Site boundary. Given the information provided by Leep Networks and Severn Trent Water, we are satisfied that the Site is unserved.

2.2 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 Leep Networks has satisfied us that it can finance its functions and that it is able to properly carry them out.

2.3 Assessment of ‘no worse off’

Leep Networks will match its charges to customers on the Site to those of Severn Trent Water.

With regard to service levels, we have reviewed Leep Networks' Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance

commitments of Severn Trent Water. Based on this review, we are satisfied that customers will be offered an appropriate level of service by Leep Networks and that overall customers will be 'no worse off' being served by Leep Networks instead of by Severn Trent Water.

2.4 Effect of appointment on Severn Trent Water'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 Severn Trent 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 Severn Trent 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 Severn Trent Water might have expected to receive in revenue from serving the Site directly, were it to serve the Site, with the revenues it might expect from the proposed arrangement with Leep Networks.

In this case, we have calculated that if we grant the site to Leep Networks, there may be a potential increase of £0.01 on the annual water bills of Severn Trent Water's existing customers, but no impact on the annual sewerage bills of these customers.

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.

2.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Vistry Homes Limited, said that it wanted Leep Networks to be the water and sewerage company for the Site.

3. Responses received to the consultation

We received three responses to our consultation; from the Consumer Council for Water ("**CCW**"), Environment Agency and Drinking Water Inspectorate ("**DWI**"). We considered these responses before making the decision to vary Leep Networks' appointment.

DWI had no comments to make with regard to this consultation and did not have any objections. The points raised in the responses from CCW and the Environment Agency are set out below.

3.1 CCW

CCW states that in general it expects applicants for a new appointment and/or variation ("**NAV**") to match or, ideally, better the incumbent's prices, service levels and service guarantees. This is particularly true for developments that include domestic housing, as household customers cannot choose or switch supplier.

CCW is disappointed that there is no direct financial benefit to customers from having Leep Networks as their provider of water and sewerage services, as Leep Networks intends to match Severn Trent's charges. CCW considers that Leep Network's service levels generally match or exceed those of Severn Trent Water, so overall CCW supports the application. For example, where Leep Networks exceeds Severn Trent Water's standards it does so by offering greater levels of compensation if it fails to meet the level of service it commits to.

CCW notes that Leep Networks will not be able to offer a social tariff to financially vulnerable customers in the way Severn Trent Water does, but will offer the standard WaterSure tariff for qualifying customers. CCW states that given its relatively small size and customer base, it may be appropriate for Leep Networks to tailor some of the services that it provides. CCW sets out its expectation that Leep Networks would offer appropriate, flexible support to any customer in financial difficulty who would otherwise have benefitted from a social tariff and that this should not be at the expense of its other customers. CCW expects Leep Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW notes our conclusion that, as a result of the variation, Severn Trent Water's existing customers would see a small increase in their annual water bills. It notes that while this is negligible, that it is unclear whether there will be any significant benefits from the arrangement for the existing customers of Severn Trent Water. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

Our response

One of our key policies when considering NAV applications, 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 charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service and price of previous incumbents.

3.2 Environment Agency

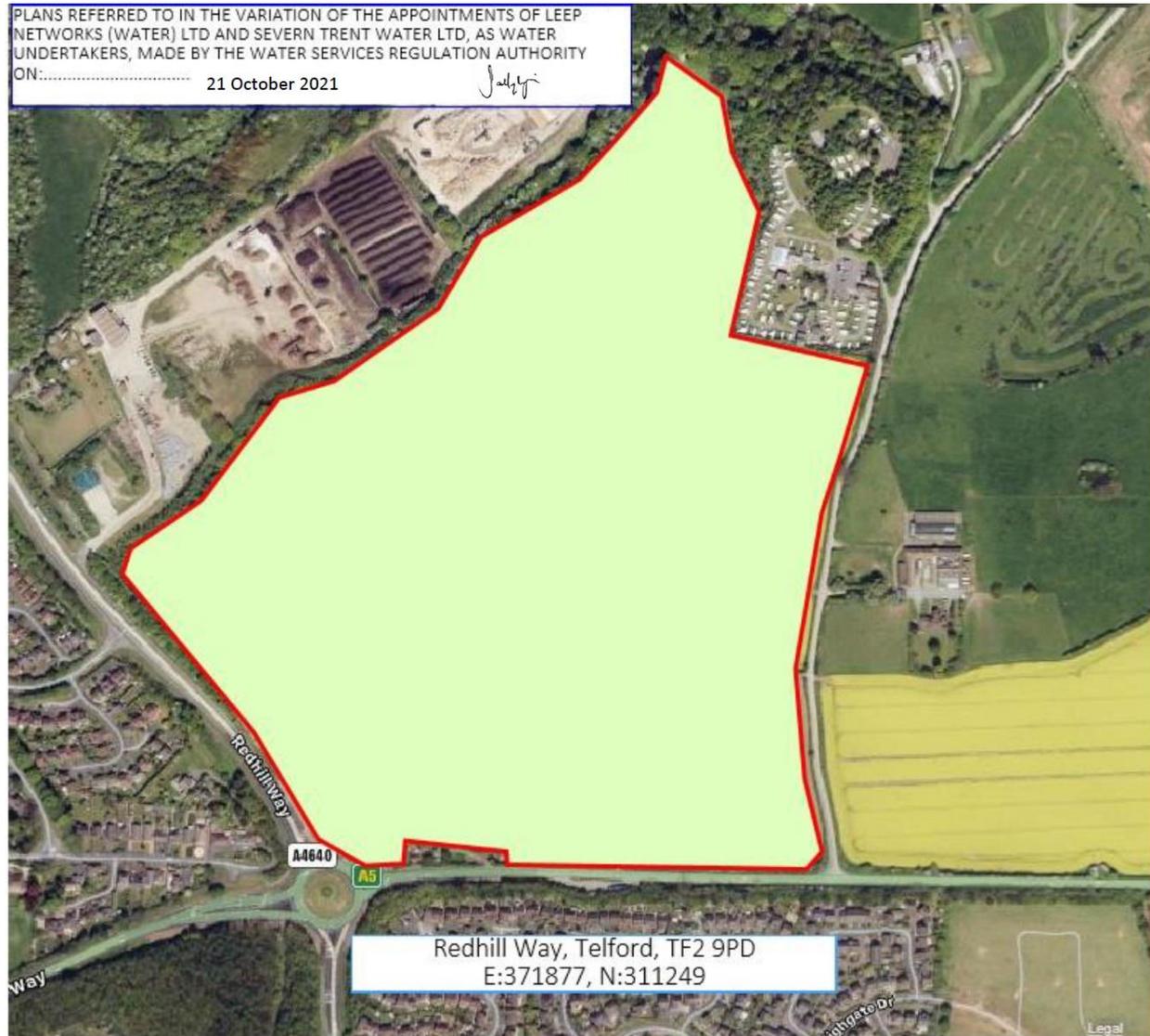
The Environment Agency responded, asking questions around Leep Networks' forecasted consumption and leakage commitments. We passed these questions on to Leep Networks, who responded to the Environment Agency. On 11 October 2021 the Environment Agency confirmed that it is satisfied with the information it has received and is content to for us to grant this variation.

4. Conclusion

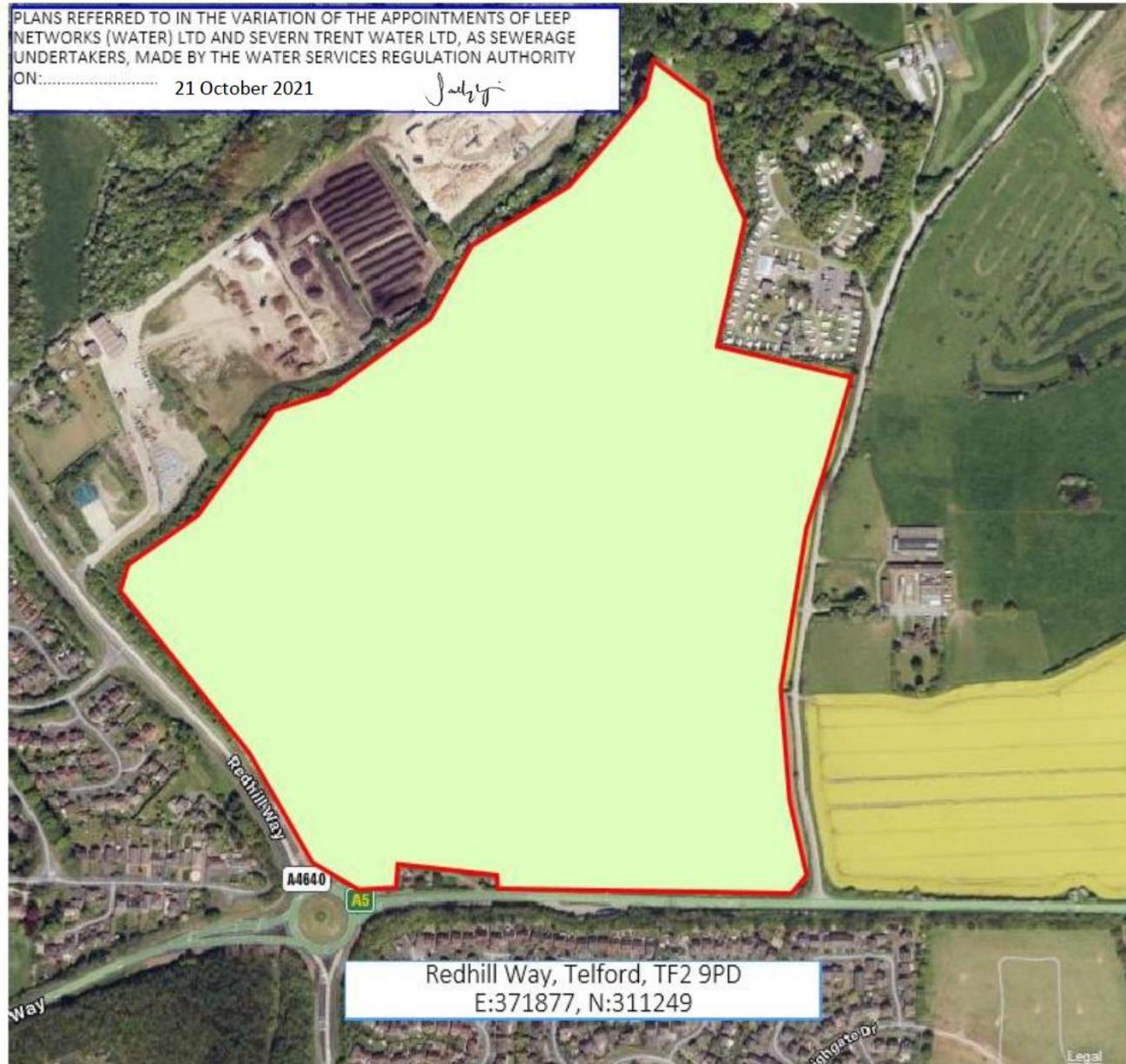
Having assessed Leep Networks' application and having taken account of the responses we received to our consultation, we decided to grant a variation to Leep Networks' area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 22 October 2021.

Appendix 1: Site Maps

Water:



Sewerage:



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We regulate the water sector in England and Wales.**

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