

Proposal to grant a variation of appointment to ESP Water Limited to include Harvino (Bromsgrove Road), Hunnington

	Details
Applicant	ESP Water Limited (“ ESP Water ”)
Site Details	Harvino (Bromsgrove Road), Hunnington (“ the Site ”)
Services	Water and Sewerage
Current water and sewerage appointee	Water Appointee: South Staffordshire Water Plc (“ South Staffs Water ”) Sewerage Appointee: Severn Trent Water Limited (“ Severn Trent Water ”)
Proposed supply arrangements	Bulk supply agreement with South Staffs Water and bulk discharge agreement with Severn Trent Water
Criterion	Unserved
Household Customer	108
Business Customers	0
Developer	Bellway Homes limited
Estimated Site completion date	December 2027
Summary of consultation	A statutory consultation made under section 8(3) of the Water Industry Act 1991 (“ WIA91 ”) to grant ESP Water a variation to its appointment as a water and sewerage company. To also vary the appointments of South Staffs Water as a water company and Severn Trent Water as a sewerage company. Consequently, ESP Water will become the water and sewerage company for the Site.
Deadline for submissions	Representations or objections to this consultation should be sent by email to Licensing@ofwat.gov.uk or in writing and sent to the NAV licensing team, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA. Reponses must be received by Ofwat no later than 17.00 hours on 31 May 2023.
<p>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/.</p> <p>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.</p>	

1. Our assessment of this application

Our approach

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.

You can find further details of our approach to assessing applications for New Appointments and Variations ("NAVs") [here](#).

Unserved status of the Site

To qualify under the unserved criterion, an applicant must show that at the time the variation is made, none of the premises in the proposed area of variation is served by the existing appointee.

ESP Water is applying for a variation based on the unserved criterion. South Staffs Water and Severn Trent have provided letters, confirming that, in their view, the Site is unserved with no water or wastewater connections. Satellite images show the Site is brownfield with an existing building present within the boundary. ESP Water has confirmed that the Site was previously used for industrial use and will be converted to residential use. The developer has confirmed that the existing buildings will be demolished before the application is granted.

Given the information provided by ESP Water and the letters from South Staffs Water and Severn Trent Water, we are satisfied that the Site may be considered unserved.

Price

ESP Water proposes to match the charges to customers on the Site to those of South Staffs Water and Severn Trent Water. ESP Water will not offer a discount.

Levels of service

¹ The legal framework for new appointments and variations 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.

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Every appointee is required under its licence conditions to publish and make available the Core Customer Information for its household customers. We have assessed ESP Water's proposed Customer Code of Practice, and our view is that it is of an appropriate standard. Our view is that customers on the Site would be no worse off in relation to the scope of ESP Water's proposed Customer Code of Practice than they would be if South Staffs Water was to be the customers' water company and Severn Trent Water was to be the customers' sewerage company.

Stakeholder engagement

We take the view of the Environment Agency² ("**EA**"), the Drinking Water Inspectorate ("**DWI**"), and the Consumer Council for Water ("**CCW**") into account before progressing to formal consultation on an application.

The Environment Agency informed us that it is content for us to consult on this application.

The DWI is satisfied that ESP Water understands the obligations under the Water Industry Act 1991 (as amended), the Water Supply (Water Quality) Regulations 2016 (as amended) and the Water Industry (Suppliers' Information) Direction 2021. The DWI therefore raises no comments or objections to Ofwat proceeding to consultation and decision for applications submitted by ESP Water.

As part of the application process Ofwat has engaged with CCW. CCW's position is that new appointments and variations (NAVs) should bring benefits to customers on the proposed NAV site. CCW expects NAV Appointees to provide consumers with prices, levels of service or service guarantees that match or, ideally, better those of incumbent water and/or sewerage companies. CCW has looked at the proposed levels of service, service guarantees and prices of ESP Water. CCW is satisfied that ESP Water offers prices and levels of service which will match or better those offered by the incumbent water and/or sewerage companies which would otherwise serve the site. CCW agrees with Ofwat's assessment that customers on the sites will be no worse off if served by ESP Water and so, overall, supports the proposed variation of appointment.

CCW recognises that due to the small size of ESP Water's customer base, it does not currently offer its financially vulnerable customers a social tariff in the way that the incumbent companies do but does offer the standard WaterSure tariff for qualifying customers. CCW considers that it is appropriate for ESP Water to tailor the services it provides, until it can

² The Environment Agency, Drinking Water Inspectorate and CCW 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.

offer a formal social tariff, ensuring customers are provided with appropriate flexible support where needed.

CCW has also considered the impact on an incumbent's existing customers when a NAV site is approved. It notes that in many cases there is a potential cost on the annual water and/or sewerage bills of these customers. While this cost is negligible on an individual site basis, CCW is unclear of the wider benefits of the NAV regime for incumbents' customers, particularly as the number of sites in each incumbent area increases and the cumulative cost rises.

Impact on existing customers

In considering whether customers will be no worse off, we also considered the potential effects of this variation on the prices that South Staffs Water and 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. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try to quantify the possible effect in an easily understandable way.

We have assessed the potential magnitude of this impact by comparing how much South Staffs Water and 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 ESP Water.

We estimate no increase to the bills of South Staffs Water and Severn Trent Water customers if we grant this variation to ESP Water. This is once the Site is fully built out.

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 ESP Water would have no financial impact on customers' bills and could have potential benefits for customers.

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. We specifically look at the operational and financial viability of the company.

Our assessment of operational viability requires the company to demonstrate to us that it is technically and operationally able to fulfil the duties of an undertaker. The key considerations we look at are listed in our published guidance [here](#), in section 5.7 (page 40).

In carrying out our assessment of this application we have noted that ESP Water intends to use subcontracted arrangements to operate its sites; Ofwat has considered whether this could impact on ESP Water's ability to perform its functions. ESP Water has provided sufficient evidence to demonstrate that it has the necessary processes and expertise in place to be able to comply with its obligations as a water and sewerage undertaker. ESP Water has entered into a subcontracted arrangement with Castle Water Limited ("**Castle Water**"), whereby Castle Water will serve its business customers until ESP Water exits the market. We have reviewed ESP Water's intended arrangement with Castle Water and found that this interim arrangement will not impact ESP's business customers. If this appointment is granted, ESP Water's business customers will be added to Castle Water's billing system as new customers and all customer and billing services will be handled by Castle Water. In addition to its arrangement with Castle Water for business customers, ESP Water has several other subcontracted arrangements in place with other water and sewerage companies and third-party providers. ESP Water intends to rely on these arrangements and support from incumbent companies to be able to perform its statutory and regulatory duties. These arrangements cover provisions such as emergency mains repairs and the supply of bottled water. ESP Water has provided information on its assessment process of appointing subcontractors, how the arrangement will work in practice and the contingency plans in place should arrangements not work as intended. Further, ESP Water has provided details of the assurance processes it has in place to ensure any infrastructure or assets it adopts meets the industry standard required.

Having reviewed the above, we are satisfied that ESP Water has the necessary operational viability to perform the duties of an undertaker.

We also have considered the financial position of ESP Water in relation to providing water and sewerage services to the Site, and we are satisfied the company demonstrates sufficient financial viability.

ESP Water has an unlimited Keepwell Agreement with its parent company, ESP Utilities Group Limited ("**ESP Utilities**"). ESP Water have confirmed that this agreement will be finalised and will cover this proposed new Site. ESP Utilities holds an investment grade credit rating with Moody's.

On this basis, we are currently satisfied that ESP Water would be able to finance its functions if this variation is granted.

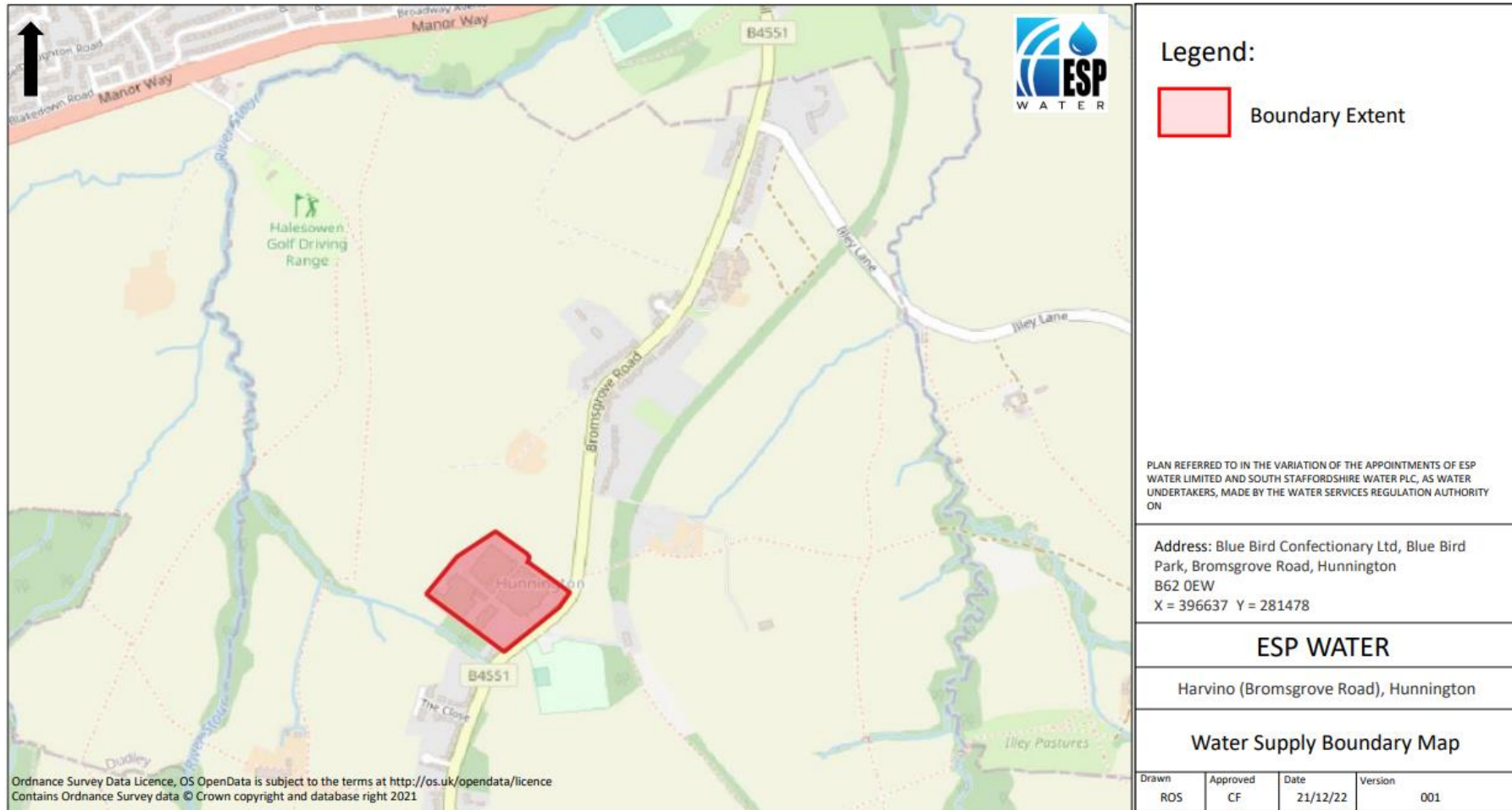
2. Conclusion and next steps

In assessing ESP Water' application, we have considered the general benefits of new appointments and variations. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and ESP Water would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed variation on the existing customers of South Staffs Water and Severn Trent Water.

We are currently minded to grant the variation under the unserved criterion. Subject to considering 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.

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3. Site maps Water



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Sewerage

