

July 2018

Trust in water

Variation of Independent Water Networks Limited's appointment to enable it to serve Parklands

1. About this document

Variation of Independent Water Networks Limited's appointment to include Parklands

On 9 August 2017, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's ("IWN") appointment to become the water services provider for a development in Bristol Water PLC's ("BRL") water services area called Parklands in Weston-Super-Mare ("the Site"). The consultation ended on 6 September 2017. During the consultation period, we received representations from one organisation, the Consumer Council for Water ("CCWater").

We received the Bulk Supply Agreement on 17 July 2018 and finalised our assessment. On 20 July 2018, we granted IWN 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

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 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, IWN applied to replace BRL 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 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 non-household 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 NAV mechanism can offset any potential disbenefits for existing customers that might arise. We consider these potential disbenefits in more detail below.

3. The application

IWN applied to be the water services appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). IWN will serve the Site by way of a bulk supply agreement with BRL.

3.1 Unserved status of the site

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

IWN has applied under the unserved criterion which is set out in section 7(4)(b) of WIA91. IWN did confirm the Site is predominantly greenfield. IWN has provided a map showing the water boundaries for the Site overlaid on the BRL asset map. BRL agree that the Site is unserved. Based on the information provided, we are satisfied that the Site is unserved.

3.2 Financial viability of the proposal

We will only make a variation 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 IWN 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’

IWN will charge customers based on BRL's existing water household tariffs. IWN is not offering a discount on these tariffs.

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

3.4 Effect of appointment on BRL'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 BRL'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 BRL. It is therefore necessary to use a simplified set of figures. We usually express the effect in 'per bill' terms to try and quantify the possible effect in an easily understandable way.

In this case, we have calculated that if we grant the Site to IWN, the potential impact on the water services bills of BRL's existing customers is below £0.04 per year.

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.

3.5 Developer choice

Where relevant, we take into consideration the choices of the Site developer. In this case, the developer, Mead Realisations Ltd, said that it wanted IWN to be the water company for the Site.

4. Responses received to the consultation

We received one response to our consultation; from the Consumer Council for Water (“**CCWater**”). We considered the response before making the decision to vary IWN's appointment.

4.1 **CCWater**

Overall CCWater does not oppose this application being granted, it appreciates that customers on the Site will be ‘no worse off’ and the levels of service are sufficient.

CCWater noted that IWN proposes to charge customers based on BRL's existing water household tariffs, noting that customers will be no worse off, nor will they be any better off. Ideally, in its view, existing customers should receive some benefit from the new arrangements. CCWater also noted that customers will no longer benefit from having a single bill for water and sewerage charges. However, IWN has stated it will approach sewerage incumbent Wessex Water with a view to developing a water and waste water billing service which would enable customers to receive one joint bill.

5. Conclusion

Having assessed IWN's application, and having taken account of the response we received to our consultation, we decided to grant a variation to IWN's area of appointment to allow it to serve the Site for water services. This variation became effective on 21 July 2018.

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

July 2018

ISBN 978-1-911588-75-7

© 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.

