

July 2018

Trust in water

Variation of Independent Water Networks Limited's appointment to include Blythe Valley Park

1. About this document

Variation of Independent Water Networks Limited's appointment to include Blythe Valley Park

On 19 December 2017, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's ("IWN") appointment to become the water and sewerage services provider for a development in Severn Trent Water Limited's ("SVT") water supply area and sewerage services area called Blythe Valley Park in Solihull ("the Site"). Our consultation began on 19 December 2017 and ended on 19 January 2018.

We received three responses to our consultation; from the Consumer Council for Water ("CCWater"), the Environment Agency ("EA") and SVT. We considered these responses before making the decision to vary IWN's appointment although these did not raise any concerns which affected our decision to proceed with granting the appointment.

This notice gives our reasons for making this variation.

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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, IWN applied to replace SVT 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.

3. The application

IWN 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**”). IWN will serve the Site by way of bulk supply and bulk discharge agreements with SVT.

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.

We have a letter from SVT confirming its view that the Site is unserved for both water and sewerage services. IWN has also provided an aerial view photograph which indicates that there are no buildings on the Site. Having reviewed the facts, we are satisfied that the Site is unserved for water and sewerage.

3.2 Financial viability of the proposal

We will only make an appointment or 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 offer charges equivalent to those of SVT.

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 SVT. 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 SVT.

3.4 Effect of variation on SVT'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 SVT'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 SVT. 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 SVT might have expected to receive in revenue from serving the Site directly, were they to serve the Site, with the revenues they might expect from the proposed arrangement with IWN.

In this case, we have calculated that if we grant the Site to IWN, there may be a potential impact £0.007 increase in the sewerage bills of SVT's existing customers and estimate that there will be no increase in the water bills of existing SVT 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.

3.5 Developer choice

Where relevant, we take into consideration the choices of the Site developer. In this case, the developer (IM Properties (BVP2) Limited) said that it wanted IWN to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received three responses to our consultation; from CCWater, the EA and SVT. We considered these responses before making the decision to vary IWN's appointment. The points raised in the responses are set out below.

4.1 CCWater

In its response to our consultation CCWater stated that it agrees with Ofwat's conclusion that customers will be no worse off under IWN than they would have been had they been served by SVT.

CCWater indicated that it was disappointed that customers will not receive any financial benefit from having IWN as its service provider as opposed to SVT. However, CCWater supports the application as IWN improves on most of the service standards offered by SVT.

CCWater also highlighted that no cost will be passed on to SVT customers in relation to water supply and a negligible cost will be passed on to SVT's customers in relation to sewerage services. Whilst it notes that this is a very low cost, it indicates that there has been no material evidence of a significant benefit for those customers arising from a New Appointment and Variation ("NAV").

One of Ofwat's key NAV policies is that customers should be 'no worse off' if a NAV is granted. In other words, an applicant must ensure its new customers are made no worse off in terms of price and service than if they had been supplied by the previous incumbent. This requirement has been met by IWN in its proposal to improve the levels of service and match the pricing set by SVT. We do not require applicants to better the service and price of the previous incumbents.

4.2 SVT

Prior to consultation, new Site boundary maps were submitted to Ofwat. In response to the consultation, SVT confirmed that it is not currently serving any premises within the updated boundary of the Site for water or wastewater services, save for the possibility of private drains or sewers which may not be shown on its records.

SVT highlighted that there is a small leg of end distribution main with an end hydrant is located on the updated Site boundary line (at the edge of the boundary). It indicated that this asset is most likely used for firefighting purposes or for standpipes.

SVT highlighted that following the granting of this NAV, if no parties require the assets, it will most likely disconnect this for water quality purposes.

In addition, SVT stated that it does not consider that the map included in the application and consultation document is sufficient. It requested that a more detailed map be provided to clearly show the boundary line as it considers this will help all parties to understand responsibilities and reduce the potential for future dispute.

Following conclusion of the consultation, SVT has confirmed that it is satisfied with the detailed boundary map of the Site which was provided by IWN. It has also advised that to the north east of the Site it has two short legs of main running to end hydrants which may extend just inside the Site boundary. It has confirmed that these mains do not supply any properties, so do not affect the unserved status of the Site.

SVT has advised that the short legs of main may have been installed in anticipation of SVT supplying new development on this land at some point in the future, however, now that this area of land will be include in the NAV and supplied by IWN's new pipework after the bulk meter, it has advised that it may, at some point in the future, choose to isolate / cut off these lengths of main.

Given the above, we are satisfied that the unserved status of the Site is not in dispute.

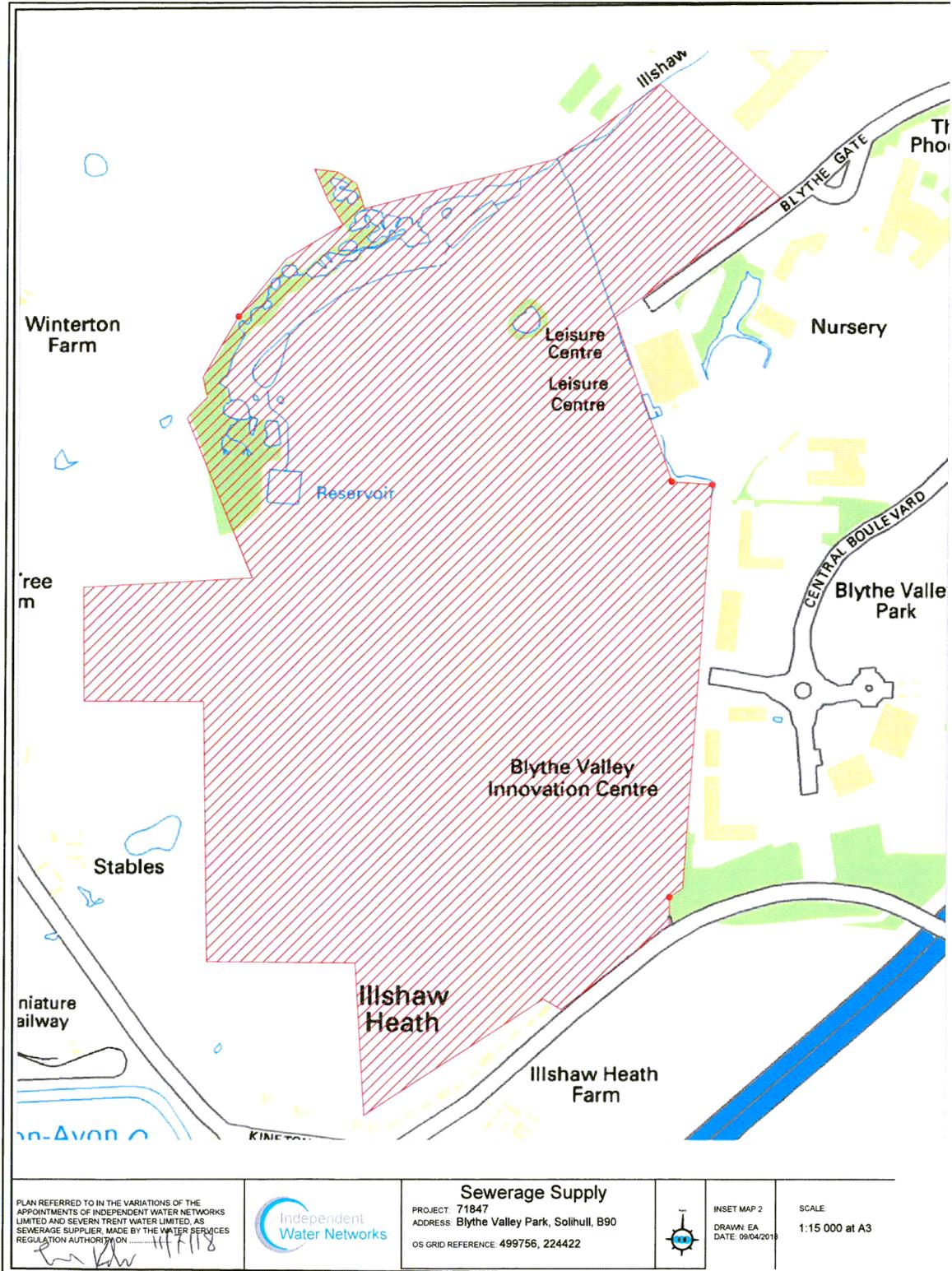
4.3 EA

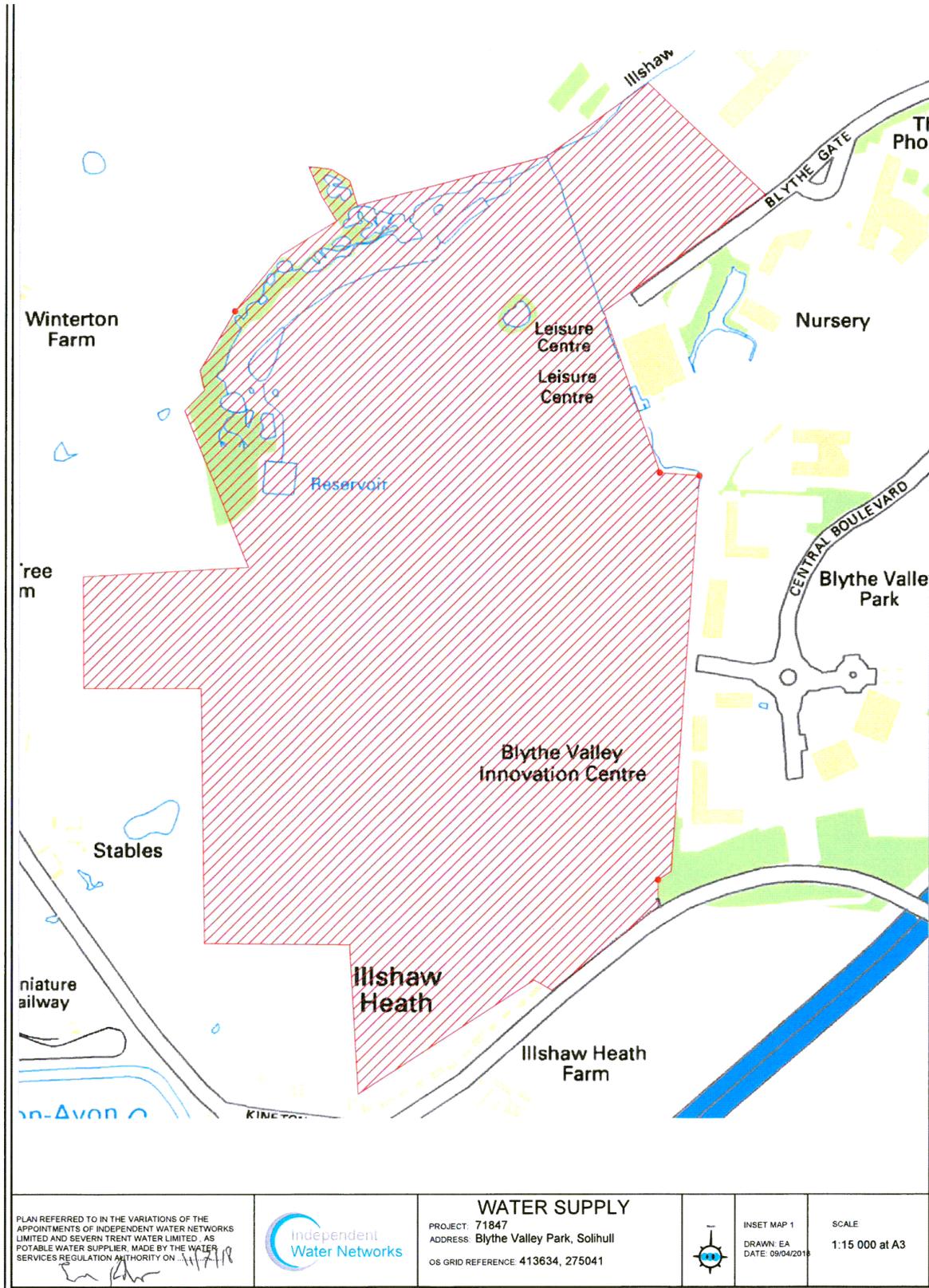
The EA responded to our consultation requesting additional information regarding the planning permission for the Site. It also requested confirmation relating to the sewerage works capacity and information as to how IWN plans to manage incidents and emergencies and how it will communicate with customers in any such event. This information was provided to the EA and it confirmed, on 26 June 2018, that it is satisfied that any risk to the environment as a result of the variation is considered to be low.

5. Conclusion

Having assessed IWN's application, and having taken account of the responses 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 and sewerage services. This appointment became effective on 12 July 2018.

6. Maps





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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