

March 2020

Variation of Independent Water Networks Limited's appointment to include Bidwell West 2 in Houghton Regis, Bedfordshire

1. About this document

Variation of Independent Water Networks Limited's appointment to include Bidwell West 2

On 14 January 2020, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water services provider for a site in Affinity Water Limited's ("**Affinity Water**") water supply area, called Bidwell West 2 in Houghton Regis, Bedfordshire ("**Bidwell West 2**").

The consultation ended on 11 February 2020. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 12 February 2020, we granted Independent Water Networks a variation to its existing appointment to enable it to supply water to Bidwell West 2.

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 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, Independent Water Networks applied to replace Affinity Water to become the appointed water company for Bidwell West 2.

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

Independent Water Networks applied to be the water services appointee for the Bidwell West 2 site under the consent criterion set out in section 7(4)(a) of the Water Industry Act 1991 (“**WIA91**”).¹ Independent Water Networks will serve Bidwell West 2 by way of bulk supply agreement with Affinity Water.

3.1 The 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.

Independent Water Networks has provided a letter from Affinity Water which confirmed that it consented to this variation of appointment. The letter confirmed that Affinity Water consented to the transfer of the four household customers it is currently serving on the Bidwell West 2 site to Independent Water Networks. The four household customers have also provided their consent to be transferred to Independent Water Networks.

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.

We assessed the financial viability of the Bidwell West 1 application (which comprises 1,800 household premises and 14 non-household premises) before we granted that application in January 2019. Following our site based review we concluded that Bidwell West 1 demonstrated sufficient financial viability and on that basis, we were satisfied that the applicant would be able to finance the proper carrying out of its functions if the variation was granted.

The four properties at Bidwell West 2 will connect to the network on Bidwell West 1. Given that the properties will be connected to the network on Bidwell West 1 and the number of properties to be added to the network is not a material change, we concluded that we did not need to revisit the financial assessment we carried out for

¹ This application relates to Independent Water Networks' application to vary its appointment, allowing it to provide water and sewerage services to a development of 1,800 household properties and 14 business customers at a site called Bidwell West 1. On 18 January 2019, Ofwat granted that variation to Independent Water Networks.

Bidwell West 1, as this remained applicable in relation to the application for Bidwell West 2.

On this basis, we concluded that Bidwell West 2, combined with Bidwell West 1, is financially viable and that the applicant has satisfied us that it can finance its functions and that it is able to properly carry them out.

3.2 Assessment of 'no worse off'

Independent Water Networks will offer a discount of 2.5% to customers on the Bidwell West 2 site for the 2019-20 charging year. Independent Water Networks has not yet published its charging scheme for the charging year 2020-21 as Affinity Water has not yet published its charging scheme. Although, customers on the Bidwell West 2 site will be no worse off after the 2019-20 charging year as Independent Water Networks' charges will not exceed those of Affinity Water.

3.3 Effect of appointment on Affinity 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 Affinity 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 Affinity Water's. 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 Affinity Water's might have expected to receive in revenue from serving Bidwell West 2 directly, with the revenues they might expect from the arrangement with Independent Water Networks.

In this case, we have calculated that if we grant Bidwell West 2 to Independent Water Networks, there may be no annual increase on the water bills of existing Affinity Water 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.

3.4 Site owner choice

We have been provided with signed consent forms from each of the four affected household customers. Each of these customers has consented to Independent Water Networks becoming their water supplier.

4. Responses received to the consultation

We received three responses to our consultation, from Central Bedfordshire Council, the Consumer Council for Water (“**CCWater**”) and the Drinking Water Inspectorate (“**DWI**”). We considered these responses before making the decision to vary Independent Water Networks’ appointment. The points raised in the response are set out below.

4.1 Central Bedfordshire Council

Central Bedfordshire Council responded to our consultation to confirm that it had no objections to our proposal.

4.2 CCWater

In its response, CCWater stated it was disappointed that there are no direct financial benefits to customers from being served by Independent Water Networks rather than Affinity Water for water services. That is, beyond an initial discount period during the remainder of 2019-20 charging year.

It also noted that Independent Water Networks, unlike Affinity Water, does not offer a social tariff other than WaterSure. CCWater stated that it may be appropriate for Independent Water Networks to tailor some of the services it provides, and that it should offer appropriate, flexible support to any individual customers in financial difficulty that would otherwise benefit from a social tariff. However, it noted that Independent Water Networks proposes to match or exceed the majority of the service standards currently provided by Affinity Water. For this reason, CCWater agrees with our assessment that customers will be no worse off.

We have noted CCWater’s concern that there is no direct financial benefit to customers (beyond an initial discount period during the remainder of 2019-20 charging year). One of our key policies 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 price and service than if they had been supplied by the previous incumbent. This requirement has been met by Independent Water Networks in its proposal to improve the levels of service and match the charges of Affinity Water. We do not require applicants to better the service and price of the previous incumbent.

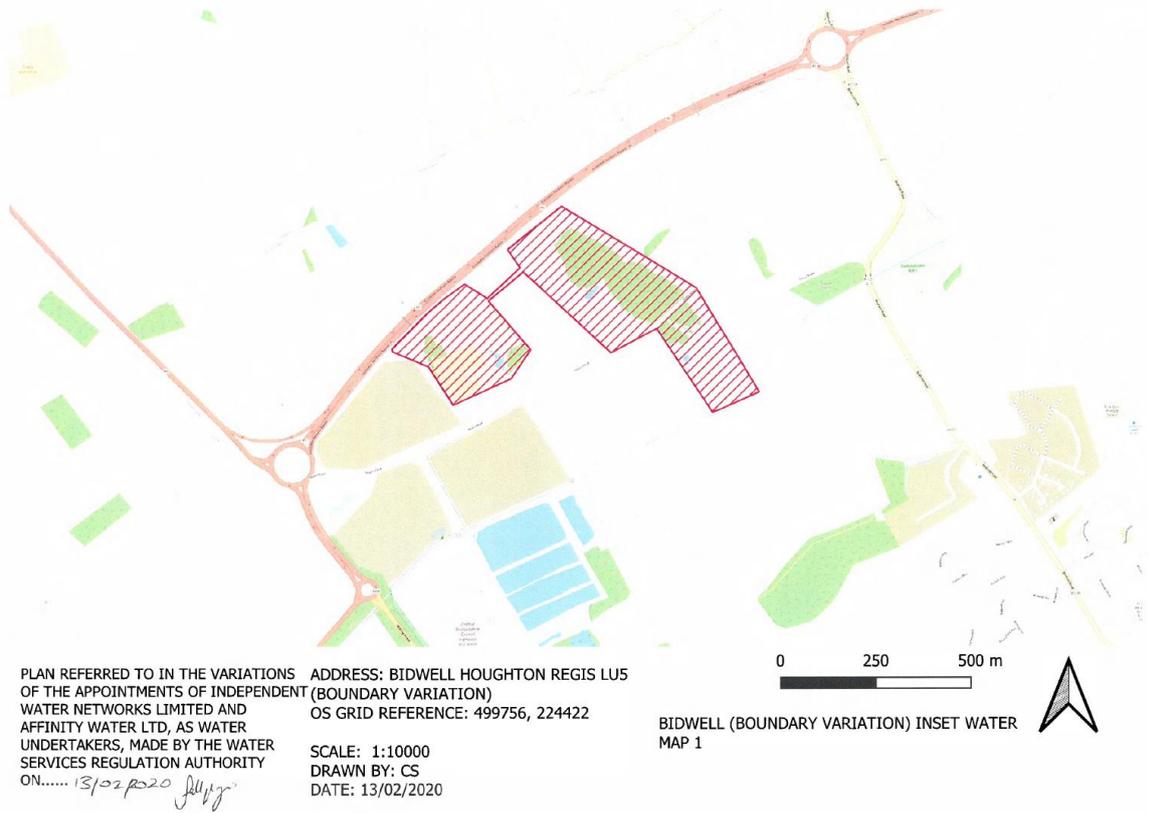
4.3 DWI

The DWI responded to our consultation to confirm that it had no comments on our proposal.

5. Conclusion

Having assessed Independent Water Networks' application, and having taken account of the responses we received to our consultation, we decided to grant a variation to Independent Water Networks' area of appointment to allow it to serve Bidwell West 2 for water. This appointment became effective on 13 February 2020.

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.

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