

September 2020

Variation of Independent Water Network Limited's appointment to include Stoneham Lane, Eastleigh

1. About this document

Variation of Independent Water Networks Ltd's appointment to include Stoneham Lane, Eastleigh.

On 10 June 2020, Ofwat began a [consultation on a proposal](#) to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water provider for a development in Southern Water Services Limited's ("**Southern Water**") water services area called Stoneham Lane, Eastleigh in Hampshire ("**the Site**").

The consultation ended on 03 July 2020. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 25 August 2020, we granted Independent Networks Limited 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 |
| Appendix 1: Site Map | 10 |

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/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, Independent Networks Limited applied to replace Southern Water 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 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 Networks Limited applied to be the water services provider for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). Independent Networks Limited will serve the Site by way of a bulk supply of water from Southern Water. On 07 August, we received a bulk supply agreement signed by Southern Water.

3.1 Unserved status of the Site

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

Independent Networks Limited is applying for a variation based on the unserved criterion. Southern Water has provided a letter, dated 18 March 2020, confirming that, in its view, the Site is unserved. This is due to the fact that Southern Water has not identified any served properties for water supply on the Site.

There is also a site map attached to the application which confirms that there are currently no properties on the Site.

Having considered the facts of the Site, the maps and the letters from Southern Water, we are satisfied that this Site may be considered as unserved.

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 that the Site demonstrates sufficient financial viability, and Independent Networks Limited 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’

Independent Networks Limited will match the charges of Southern Water at the Site.

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

3.4 Effect of variation on Southern Water's customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the charges that Southern 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 Southern 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 Southern 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 Independent Networks Limited.

In this case, we have calculated that if we grant the Site to Independent Networks Limited, there may be a potential impact on the bills of Southern Water's existing customers of £0.001.

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, Highwood Group has given its consent for Independent Networks Limited to be the water services provider for the Site.

4. Responses received to the consultation

We received four responses to our consultation, from the Consumer Council for Water (“**CCW**”), the Drinking Water Inspectorate (“**DWI**”), Environment Agency (“**EA**”), and Leep Networks Water Limited (“**Leep Networks**”). DWI stated that it has no comments to make regarding this consultation.

The points raised in the response from CCW, EA and LNWL are set out below.

4.1 CCW

CCW pointed out that although the consultation states that Independent Networks Limited proposes to charge customers on the same basis as Southern Water, it is aware that Independent Networks Limited will be continuing its voluntary general policy of charging 2.5% less than the incumbent’s volumetric water charges for the 2020-21 charging year at its NAV sites. Therefore, any customers who move onto the Site before April 2021 will benefit from the price reduction. Therefore, customers may be temporarily better off than they would have been if Southern Water had served them, but the long-term price benefits are unclear.

4.2 Leep Networks

Leep Networks responded to the consultation to note that the area proposed to Independent Networks Limited appears to overlap an appointment granted to Leep Networks on 17 August 2018. Chesnut Avenue is a sewerage-only site and accordingly Leep Networks have no objection to the consultation. Leep Networks has however, asked that Independent Networks Limited contact it should the variation be granted regarding the recording of connections and the transfer of information to Leep Networks of relevant data to enable Leep Networks to create accounts. Independent Networks Limited has agreed that should the variation be granted, it will contact Leep Networks regarding this.

4.3 EA

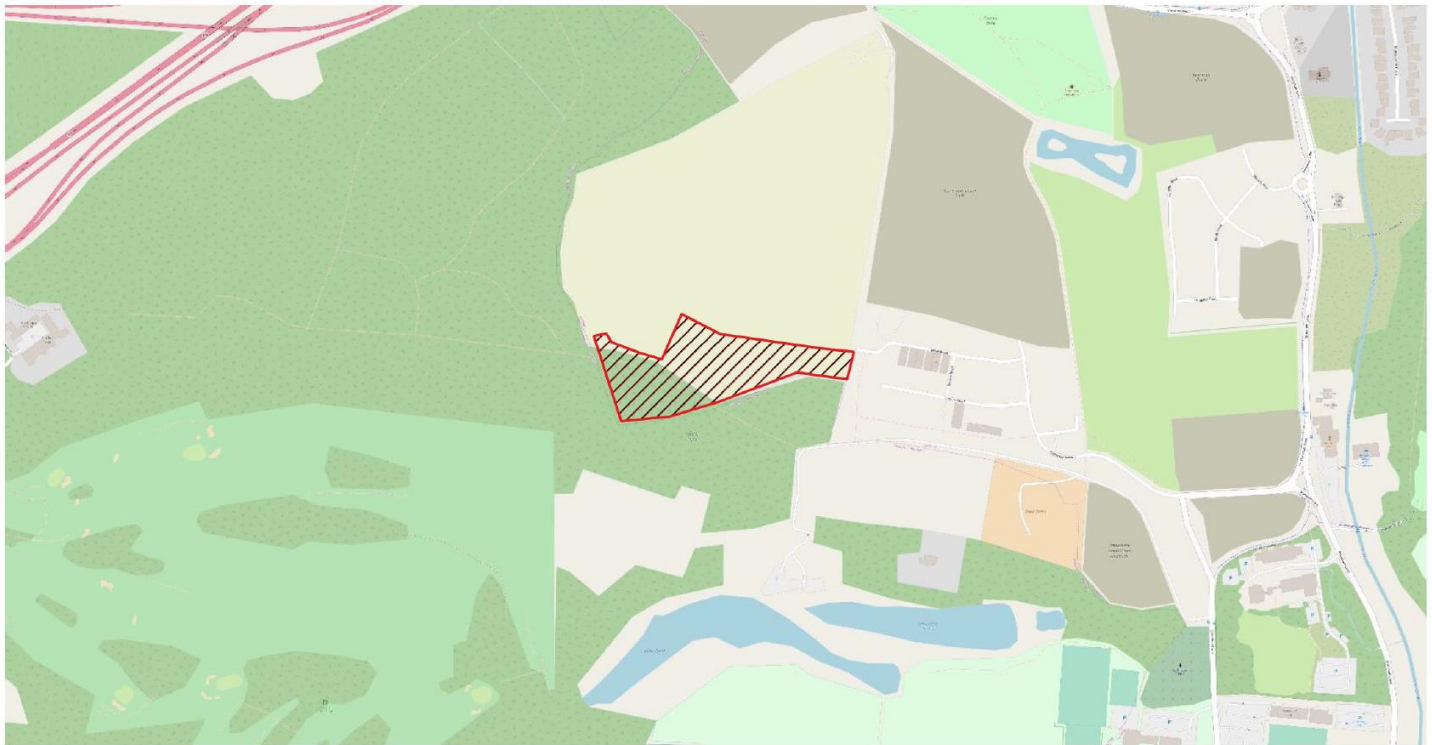
EA responded to the consultation stating that it had no major areas of concern with the proposal from Independent Networks Limited to supply water to the site by way of bulk supply from Southern Water. However, EA did outline that Independent Networks Limited had set a high per capita consumption per customer compared to Southern Water’s targets to which Independent Networks Limited responded.

EA responded thanking Independent Networks Limited for its detailed response and said it would be in touch with Independent Water Networks should there be any further information required.

5. Conclusion

Having assessed Independent Networks Limited's application and having taken account of the responses we received to our consultation, we decided to grant a variation to Independent Networks Limited's area of appointment to allow it to serve the Site to supply water. This variation became effective on 26 August 2020.

Appendix 1: Site Map

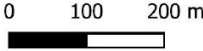


PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND SOUTHERN WATER SERVICES LTD, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON ...

ADDRESS: STONEHAM LANE, SO50 9HQ
OS GRID REFERENCE: 443550,117698

SCALE: 1:10000
DRAWN BY: MM
DATE: 03/03/2020

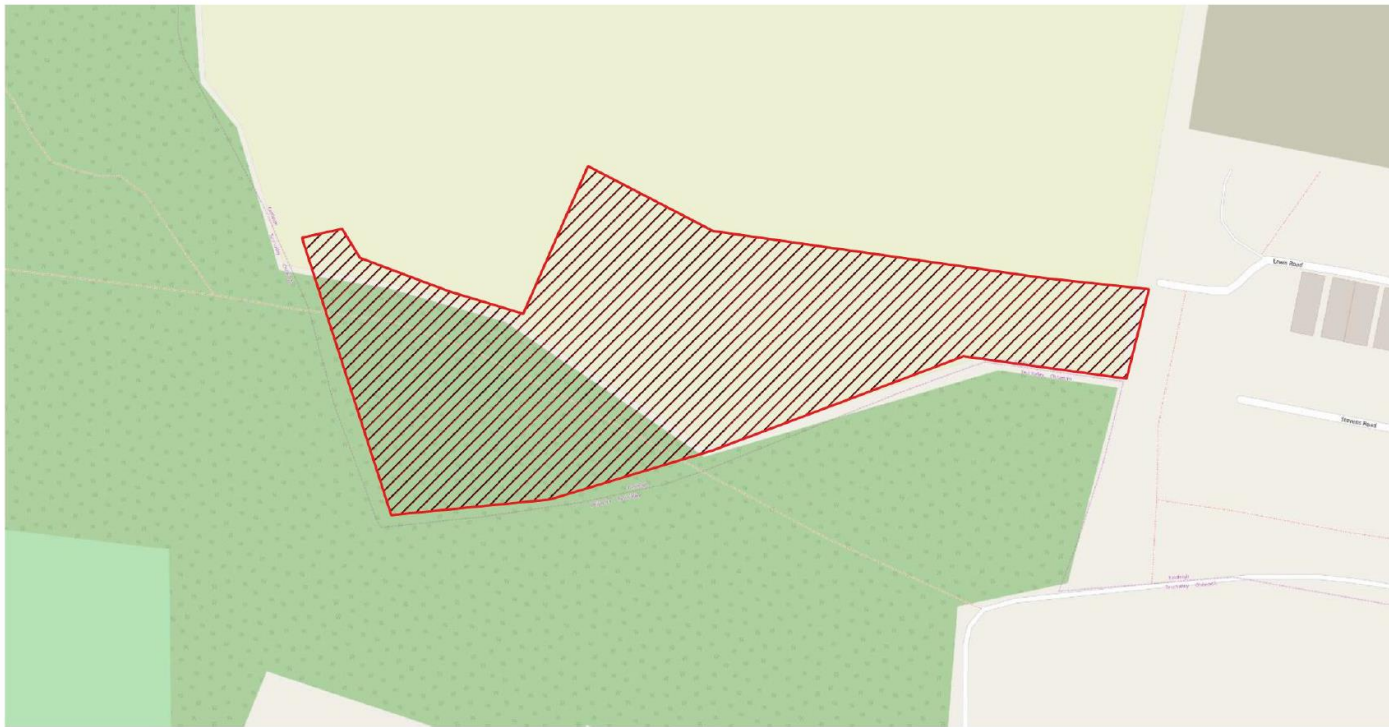
E. R.
25/08/2020



**STONEHAM LANE PHASE 5B-5C
INSET WATER MAP 2**

PROJECT: ...





PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND SOUTHERN WATER SERVICES LTD, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON ...

ADDRESS: STONEHAM LANE, SO50 9HQ
OS GRID REFERENCE: 443550,117698

SCALE: 1:3000
DRAWN BY: MM
DATE: 03/03/2020

MM
25/08/2020

0 50 100 m



**STONEHAM LANE PHASE 5B-5C
INSET WATER MAP 1**



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