

September 2020

# **Variation of Independent Water Networks Limited's appointment to include Deer Park, Southampton**

## 1. About this document

### Variation of Independent Water Networks Limited's appointment to include Deer Park, Southampton.

On 28 July 2020, Ofwat began a [consultation on a proposal](#) to vary Independent Water Network Limited's ("IWN") appointment to become the water provider for a development in Southern Water Services Limited's ("**Southern Water**") water services area called Deer Park in Southampton ("**the Site**").

The consultation ended on 25 August 2020. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 14 September 2020, 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.

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## 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/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, IWN 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.

### **3. The application**

IWN 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**”). IWN will serve the Site by way of a bulk supply of water from 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 is served by the existing appointee.

IWN 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 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 match the charges of Southern Water at the Site.

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 Southern Water. 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 Southern Water.

### **3.4 Effect of appointment 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 IWN.

In this case, we have calculated that if we grant the Site to IWN, there may be a potential impact on the bills of Southern Water's existing customers of £0.008. We therefore consider that granting this variation would have a negligible impact (if any) on customers' bills and could have potential benefits for 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, Hampshire County Council has given its consent for IWN 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 Eastleigh Borough Council. DWI, Eastleigh Borough Council and EA responded stating that they have no comments to make regarding this consultation.

The points raised in the response from CCW are set out below.

### 4.1 CCW

CCW pointed out that although the consultation states that IWN proposes to charge customers on the same basis as Southern Water, they are aware that IWN 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 SRN had served them but the long-term price benefits are unclear.



## **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 to supply water. This variation became effective on 15 September 2020.

# Appendix 1: Site Map



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

ADDRESS: DEER PARK, WAYSIDE WOOD, BOTLEY, SOUTHAMPTON, SO30 2DJ  
OS GRID REFERENCE: 450248, 114075

SCALE: 1:10000  
DRAWN BY: EA  
DATE: 20/05/2020

*EA*  
14/09/2020

0 100 200 m



**DEER PARK WATER SUPPLY  
INSET MAP 1**





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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