

October 2020

Variation of Independent Water Networks Limited's appointment to include Windmill Views, Barnham, West Sussex

1. About this document

Variation of Independent Water Networks Limited's appointment to include Windmill Views, Barnham

On 9 July 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 development in Portsmouth Water Limited's ("**Portsmouth Water**") water supply area called Windmill Views, Barnham in West Sussex ("**the Site**").

The consultation ended on 6 August 2020. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 15 October 2020, we granted Independent Water Networks 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, Independent Water Networks applied to replace Portsmouth 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 Water Networks 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**”). Independent Water Networks will serve the Site by way of a bulk supply agreement with Portsmouth Water.

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.

Independent Water Networks has informed Ofwat that the Site is a greenfield development site. Aerial photographs and maps show there are no existing buildings within the perimeter of the Site.

Portsmouth Water has confirmed in a letter, dated 19 April 2020, that to its knowledge the Site is unserved.

On the basis of the information provided by Independent Water Networks and Portsmouth Water and the facts of the Site, we are satisfied that the Site may be considered as unserved for water services.

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 will not materially impact the financial viability of Independent Water Networks, and Independent Water Networks 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 Water Networks proposes to charge customers on the Site charges that are equivalent to the charges of Portsmouth Water.

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

3.4 Effect of the variation on Portsmouth 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 Portsmouth 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 Portsmouth 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 Portsmouth 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 Water Networks.

In this case, we have calculated that if we grant the Site to Independent Water Networks, existing customers of Portsmouth Water would see no increase in their water bills.

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, Redrow Homes Limited has confirmed that it wants Independent Water Networks to be the water company for the Site.

4. Responses received to the consultation

We received four responses to our consultation, from the Drinking Water Inspectorate (“**DWI**”), the Environment Agency (“**EA**”), Portsmouth Water and the Consumer Council for Water (“**CCW**”).

The points raised in the responses are set out below. We considered these responses before making the decision to vary Independent Water Networks' appointment.

4.1 DWI

The DWI confirmed that it had no comments to make in regards to this consultation.

4.2 EA

The EA asked for confirmation that there is an existing local supply network and for further information concerning Independent Water Networks engagement with local plans and water cycle studies.

Independent Water Networks stated that since it does not develop its own water sources and does not undertake wastewater treatment it does not comment on local plans. It stated that it will assess a surface water drainage strategy from the developer and check that the surface water modelling has the appropriate pipe sizing and that the discharge is as expected.

The EA confirmed that it had no further comments and did not have any objections.

4.3 Portsmouth Water

Portsmouth Water raised no objection to the proposal, but noted that Barnham, where the Site is located, is in West Sussex not in Hampshire as stated in the consultation notice.

4.4 CCW

CCW stated that in general it expects NAV appointees to exceed or at least match the incumbent's prices, service levels and service guarantees.

CCW stated that it met with Independent Water Networks and reviewed its Charges Scheme for 2020-21. CCW noted that Independent Water Networks intends to

continue its voluntary policy of charging 2.5% less than Portsmouth Water's volumetric charges for the 2020-21 charging year. Any customers who move into the Site before April 2021 will therefore benefit from this reduction, but it is unclear if it will continue beyond this charging year. CCW stated that under these arrangements, customers may be temporarily better off than they would have been if Portsmouth Water had served them but the long-term price benefits are unclear.

CCW stated that it is aware that Independent Water Networks has revised its proposed service levels during the application process. Taking account of the revised service levels CCW consider Independent Water Networks generally matches or exceeds Portsmouth Water's service levels so overall CCW supports the application.

CCW noted that Independent Water Networks will not be able to offer a social tariff to financially vulnerable customers in the way Portsmouth Water does, but will offer the standard WaterSure tariff for qualifying customers. CCW states that given its relatively small size and customer base it may be appropriate for Independent Water Networks to tailor some of the services that it provides. CCW set out its expectation that Independent Water Networks would offer appropriate, flexible support to any customer in financial difficulty who would otherwise have benefitted from a social tariff and that this should not be at the expense of its other customers. CCW expects Independent Water Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

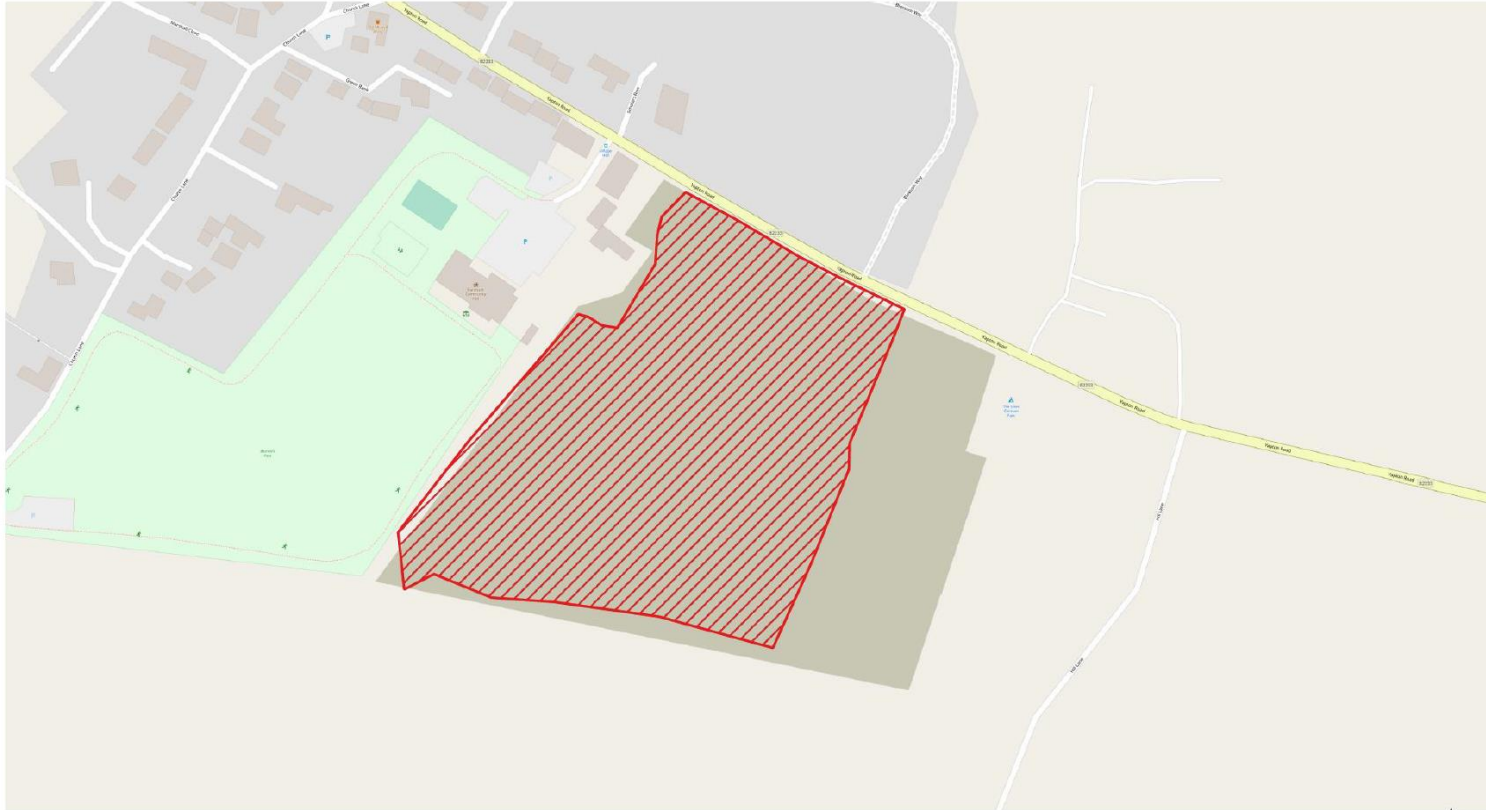
One of our key policies is that customers should be no worse off if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service and price of previous incumbents.

CCW noted our conclusion that Portsmouth Water's existing customers would see no increase in their water bills as a result of the variation but questions the value of the NAV regime if it cannot deliver benefits to customers. It notes that there is no evidence of significant benefits to the existing customers of Portsmouth Water.

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 the Site for water services. This variation became effective on 16 October 2020.

Appendix 1: Site Map



0 75 150 m

**WINDMILL VIEWS WATER SUPPLY
INSET MAP 1**

PLAN REFERRED TO IN THE VARIATIONS
OF THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND
PORTSMOUTH WATER LIMITED, AS
WATER UNDERTAKERS, MADE BY THE
WATER SERVICES REGULATION
AUTHORITY ON 15 October 2020

ADDRESS: WINDMILL VIEWS, YAPTON ROAD,
BARNHAM, PO22 0AU
OS GRID REFERENCE: 496181, 104204

SCALE: 1:4000
DRAWN BY: EA
DATE: 05/05/2020



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