

March 2021

# **Variation of Independent Water Networks Limited's appointment to include Drove Lane, Yapton in Arundel, West Sussex**

## About this document

# Variation of Independent Water Networks Limited's appointment to include Drove Lane, Yapton in Arundel, West Sussex.

On 3 February 2021, [Ofwat began a consultation on a proposal](#) to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water and sewerage provider for a development in Portsmouth Water Limited's ("**Portsmouth Water**") water supply and Southern Water Services Limited's ("**Southern Water**") sewerage supply area, called Drove Lane in Yapton ("**the Site**").

The consultation ended on 3 March 2021. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 23 March 2021, we granted Independent Water Networks a variation to its existing appointment to enable it to supply water and sewerage to the Site.

This notice gives our reasons for making this variation.

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## 1. 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 Water Networks applied to replace Portsmouth Water to become the appointed water company for the Site and Southern Water as the appointed 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.

## 2. The application

Independent Water Networks applied to be the water and sewerage provider 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 and a bulk discharge agreement with Southern Water.

### 2.1 Unserved status of the site

Independent Water Networks is applying for a variation based on the unserved criterion. 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.

Portsmouth Water has provided a letter, dated 29 July 2020, confirming that, in its view, the Site is unserved. Southern Water has provided a letter, dated 10 August 2020, confirming that, in its view, the Site is unserved. This is due to the fact that both Portsmouth Water and Southern Water has not identified any served properties for water or sewerage services on the Site.

The site map which was attached to the applicant's application confirmed that there are currently no properties on the Site. Having considered the information from the applicant and the incumbent we are satisfied that the Site is unserved.

### 2.2 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.

Based on the information available to us, we concluded the site demonstrates sufficient financial viability, and Independent Water Networks has satisfied us that it can finance its functions and that it is able to properly carry them out.

### 2.3 Assessment of 'no worse off'

Independent Water Networks will match the charges of Portsmouth Water and Southern 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 and Southern 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 and Southern Water.

## **2.4 Effect of appointment on Portsmouth Water's and 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 price that Portsmouth Water's and 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 Portsmouth Water and 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 Portsmouth Water and Southern Water 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 arrangements with Independent Water Networks.

In this case, we have calculated that if we grant the Site to Independent Water Networks there will be a very small increase (£0.002) on the water bills of Portsmouth Water's existing customers and a very small increase (£0.002) on the sewerage bills of Southern Water's existing 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.

## **2.5 Developer choice**

Where relevant, we take into consideration the choices of the site developer. In this case, the developer Barratt David Wilson Homes said that it wanted Independent Water Networks, to be the water company for the Site.

### 3. Responses received to the consultation

We received responses to our consultation from four organisations: the Consumer Council for Water (“**CCW**”) and Drinking Water Inspectorate (“**DWI**”), Portsmouth Water and the Environment Agency (“**EA**”). We considered these responses before making the decision to vary Independent Water Networks' appointment.

The DWI, Portsmouth Water and the Environment Agency confirmed that they had no comments to make on the consultation. The points raised in CCW's response are set out below.

#### CCW

CCW stated that in general it expects new appointments and variation appointees to match or ideally better the incumbent's prices, service levels and service guarantees.

Whilst Independent Water Networks' application stated that it proposes to charge customers on the same basis as Portsmouth Water and Southern Water, CCW is disappointed that there is no direct financial benefit to customers from having Independent Water Networks as their provider of water and sewerage services, as Independent Water Networks intention is to match Portsmouth Water's and Southern Water's charges. However, CCW noted that Independent Water Networks offers discounts to those customers who are able to and opt to take up e-billing or pay by direct debit.

CCW noted that Independent Water Networks generally matches or exceeds the service standards of Portsmouth Water and Southern Water, so, overall, it is supportive of the application. For example Independent Water Networks offers greater compensation for lower water pressure, or failing to read a meter once a year and offers a free leak repair services on customers' external supply pipes.

CCW noted that Independent Water Networks will not be able to offer a social tariff to financially vulnerable customers in the way Portsmouth Water and Southern Water do, but it will offer the standard WaterSure tariff for qualifying customers. CCW stated 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.



CCW noted our conclusion that Portsmouth Water's and Southern Water's existing customers would see a very small increases in their water and sewerage bills as a result of the variation. However, CCW said it was unclear as to whether there will be any significant benefits arising from the arrangement for the incumbents' customers. CCW questions the value of the NAV regime if it cannot deliver for customers.

One of our key policies is that customers should be no worse off if a new appointment and variation 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.

## 4. 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 and sewerage services. This appointment became effective 24 March 2021.

## Appendix 1: Site Maps

Water



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

ADDRESS: DROVE LANE, YAPTON, ARRUNDEL, WEST SUSSEX, BN18 0DX  
OS GRID REFERENCE: 497358, 103161

SCALE: 1:12000  
DRAWN BY: CS  
DATE: 02/12/2020

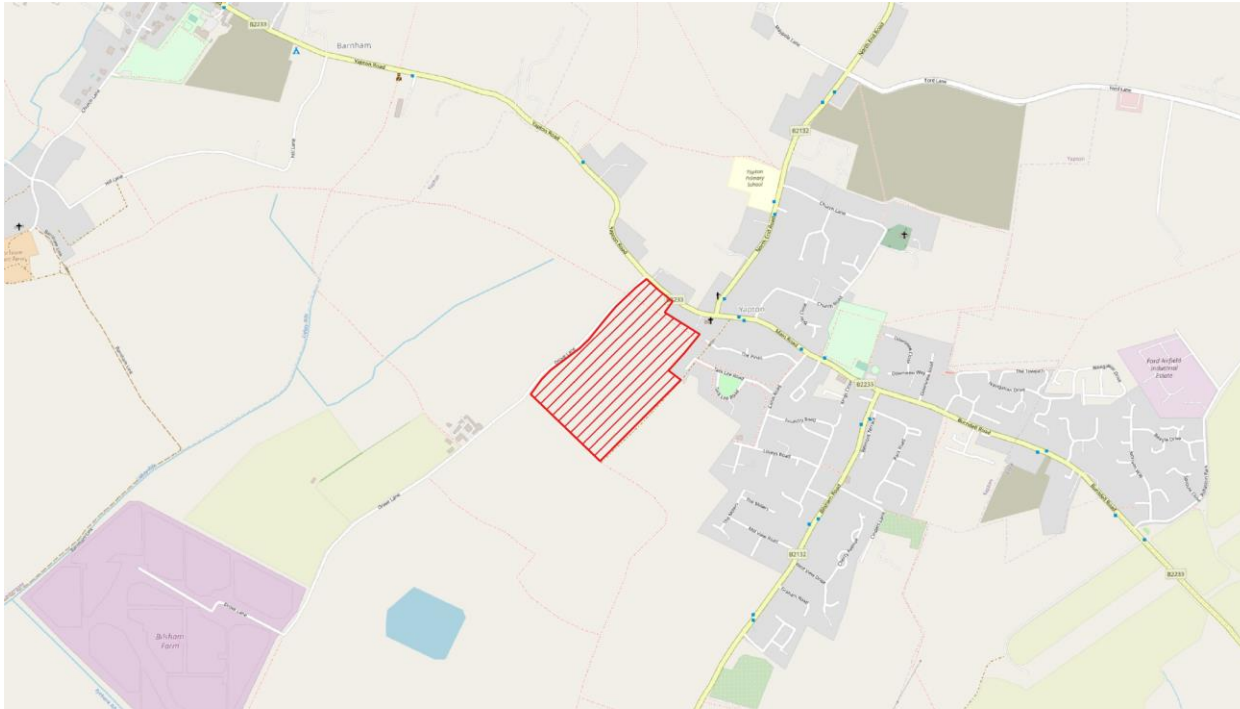
0 250 500 m

DROVE LANE INSET WATER

MAP 2



Sewerage



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

ADDRESS: DROVE LANE, YAPTON, ARRUNDEL, WEST SUSSEX, BN18 0DX  
OS GRID REFERENCE: 497358, 103161

SCALE: 1:12000  
DRAWN BY: CS  
DATE: 02/12/2020

0 250 500 m

DROVE LANE INSET WASTE  
MAP 2



**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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