

August 2021

# **Variation of Independent Water Networks Limited's appointment to include Engine Lane, Nailsea, Somerset**

## About this document

# Variation of Independent Water Networks Limited's appointment to include Engine Lane, Nailsea, Somerset

On 10 June 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 services provider for a development in Bristol Water PLC's ("**Bristol Water**") water supply area and Wessex Water Services Limited's ("**Wessex Water**") sewerage services area called Engine Road, Nailsea, Somerset ("**the Site**").

The consultation ended on 8 July 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 17 August 2021, we granted Independent Water Networks a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

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## 1. 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 Bristol Water and Wessex Water to become the appointed water and 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 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 bulk supply and discharge agreements with Bristol Water and Wessex Water, respectively.

### 2.1 Unserved status of the Site 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.

Bristol Water provided a letter, dated 26 April 2021 confirming that, in its view, the Site is unserved for water. Wessex Water provided a letter, dated 18 January 2021, confirming that, in its view, the Site is unserved for sewerage. It is a greenfield site and the aerial maps show no properties within the Site's boundary.

Given the information provided by Independent Water Networks, Bristol Water and Wessex Water, 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 proposes to match its charges to customers on the Site to the charges of Bristol Water's water customers and Wessex Water's sewerage customers, that is, it will not offer a discount.

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 Bristol Water and Wessex 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 Bristol Water and Wessex Water.

## **2.4 Effect of appointment on Bristol Water's and Wessex Water's customers**

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the prices that Bristol Water's and Wessex 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 Bristol Water and Wessex 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 Bristol Water and Wessex 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 arrangement with Independent Water Networks.

In this case, we have calculated that if we grant the Site to Independent Water Networks, there may be a potential increase of £0.02 on the annual water bills of Bristol Water's customers and an increase of £0.01 on the sewerage bills of Wessex 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, BDW Trading Limited, said that it wanted Independent Water Networks to be the water and sewerage company for the Site.

### 3. Responses received to the consultation

We received three responses to our consultation, namely from the Consumer Council for Water (“**CCW**”) the Drinking Water Inspectorate (“**DWI**”) and the Environment Agency. We considered the responses before making the decision to vary Independent Water Networks' appointment. The DWI and the Environment Agency responses confirmed they had no comments or objections with regard to this consultation. The points raised in CCW's response are set out below.

#### 3.1 CCW

CCW states that in general it expects applicants for new appointments and variations to exceed or at least match the incumbent's prices, service levels and service guarantees. This is particularly true for developments that include domestic housing, as household customers cannot choose or switch supplier.

CCW is disappointed that there will be no direct financial benefit to customers from having Independent Water Networks as their provider of water and sewerage services, as Independent Water Networks intends to match the charges of Bristol Water and Wessex Water. However, CCW notes that Independent Water Networks offers discounts to those customers who are able and opt to take up e-billing or pay by direct debit.

CCW considers that Independent Water Networks' service levels generally match or exceed those of Bristol Water and Wessex Water, so overall CCW supports the application. For example, Independent Water Networks offers greater compensation for low water pressure, or failing to read a meter once a year and offers a free leak repair service on customers' external supply pipes.

CCW notes that Independent Water Networks will not be able to offer a social tariff to financially vulnerable customers in the way Bristol Water and Wessex Water do, 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 sets out its expectation that until it can offer a social tariff Independent Water Networks would offer appropriate, flexible support to any customer in financial difficulty who would otherwise have benefitted from a social tariff. It considers 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 notes our conclusion that, as a result of the variation, Bristol Water's existing customers would see an increase of £0.02 in their annual water bills and Wessex Water's existing customers would see an increase of £0.01 on their annual sewerage bill. CCW recognises this increase will have a negligible effect on bills, but CCW questions the value of the NAV regime if it cannot deliver benefits to customers. It notes it is unclear whether there will be any significant benefits from the arrangement for the existing customers of Bristol Water and Wessex Water.

## Our response

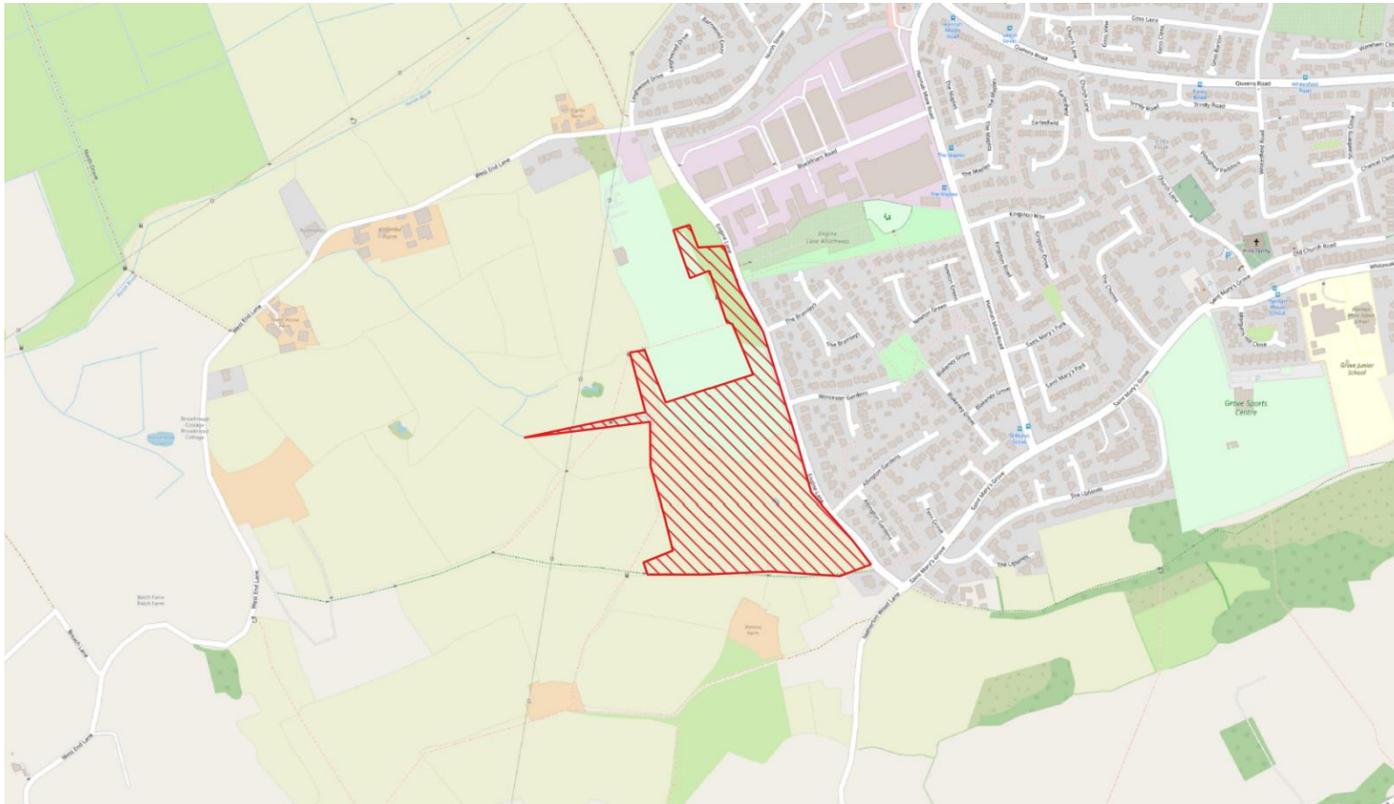
One of our key policies with respect to new appointment and variations is that customers should be no worse off if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do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

## 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 supply and sewerage services. This appointment became effective on 18 August 2021.

## Appendix 1: Site Maps

### Water Boundary



PLAN REFERRED TO IN THE VARIATIONS  
OF THE APPOINTMENTS OF INDEPENDENT  
WATER NETWORKS LIMITED AND BRISTOL  
WATER PLC, AS WATER UNDERTAKERS,  
MADE BY THE WATER SERVICES  
REGULATION AUTHORITY ON.....  
17/08/21

ADDRESS: ENGINE LANE, NAILSEA, SOMERSET, BS48  
4RL  
OS GRID REFERENCE: 345858, 169605  
SCALE: 1:7000  
DRAWN BY: CS  
DATE: 24/03/2021

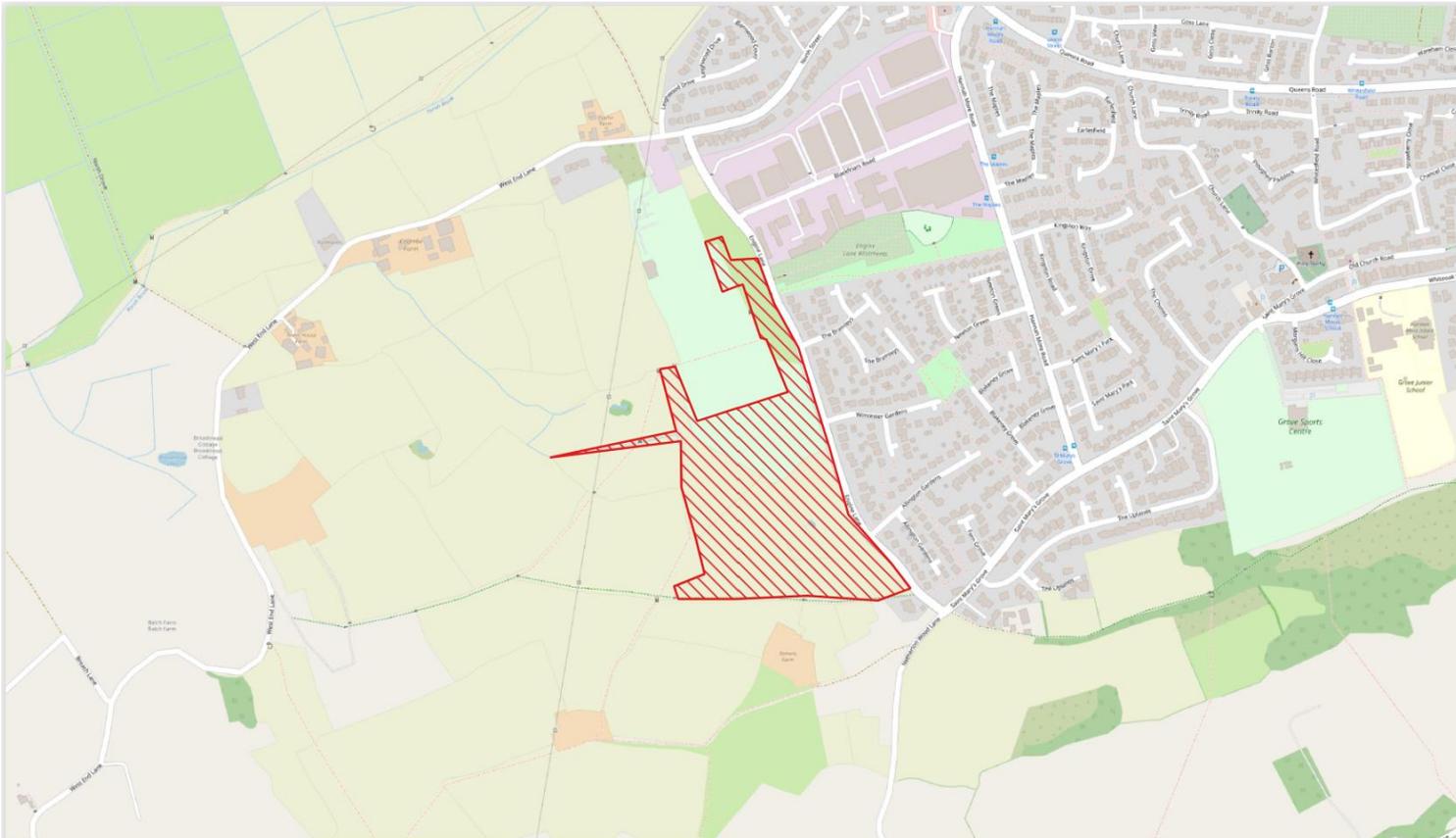
0 100 200 m

ENGINE LANE INSET WATER

MAP 1



Wastewater Boundary



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND WESSEX WATER SERVICES LIMITED, AS SEWERAGE UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON... 17/08/21

ADDRESS: ENGINE LANE, NAILSEA, SOMERSET, BS48 4RL  
OS GRID REFERENCE: 345858, 169605  
SCALE: 1:7000  
DRAWN BY: CS  
DATE: 24/03/2021

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ENGINE LANE INSET SEWERAGE

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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