

October 2021

Variation of Independent Water Network Limited's appointment to include - Thornton Park, Clapham Common

About this document

Variation of Independent Water Network Limited's appointment to include Thornton Park, Clapham Common

On 20 August 2021, Ofwat began a consultation on a proposal to vary Independent Water Network Limited's ("**Independent Water Networks**") appointment to become the water and sewerage services provider for a development in Thames Water Utilities Limited's ("**Thames Water**") water supply area and sewerage services area, called Thornton Park, Clapham Common ("**the Site**").

The consultation ended on 20 September 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 27 September 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 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 Thames 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 supply 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 Thames Water.

2.1 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.

Thames Water has provided a letter, dated 4 May 2021, confirming that it considers the Site to be unserved.

The Site's maps had previously showed existing buildings on the Site. Independent Water Networks has confirmed these have now been demolished and services to the properties disconnected.

Having reviewed the facts of this Site, and considering the letter from Thames Water, we consider the Site to be 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 Thames 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 Thames 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 Thames Water.

2.4 Effect of appointment on Thames 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 Thames 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 Thames 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 Thames 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, there may be a very minor impact on the annual bills of Thames Water's existing customers if we grant this variation to Independent Water Networks. In our public consultation notice we incorrectly stated that this would be an increase of £0.014 on annual water bills and an increase of £0.006 on the annual sewerage bills. The correct figures remain very small: a potential increase of £0.003 on annual water bills, and an increase of £0.001 on annual sewerage 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.

2.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Henry Construction Projects Limited, said that it wanted Independent Water Networks to be the water and sewerage company for the Site.

Responses received to the consultation

We received three responses to our consultation: from the Environment Agency, the Drinking Water Inspectorate ("DWI ") and the Consumer Council for Water ("CCW "). We considered these responses before making the decision to vary Independent Water Networks' appointment.

The Environment Agency and DWI had no comments to make with regard to this consultation and did not have any objections. The points raised in CCW's response are set out below.

3.1 CCW

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

CCW noted that Independent Water Networks proposes to charge customers on the same basis as Thames Water. It is disappointed that there is no direct financial benefits to customers from having Independent Water Networks as their water and sewerage services provider. However, CCW notes that Independent Water Networks offers discounts to those customers who are able to and opt out to take up e-billing or pay by direct debit.

CCW considers that Independent Water Networks generally matches or exceeds Thames Water's level of service and so overall it supports the application. It noted that 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 noted that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that Thames Water does, although it will offer the standard Water Sure tariff. CCW notes that given the relatively small customer base, it may be appropriate for Independent Water Networks to tailor some of its services. CCW expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty, who would otherwise benefit from a social tariff which should not be at the expense of other customers. CCW would expect Independent Water Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW acknowledges that the increase to the water and sewerage bills of existing Thames Water customers will be small, but states that it is unclear whether there will be any significant benefits from the arrangement for these customers. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

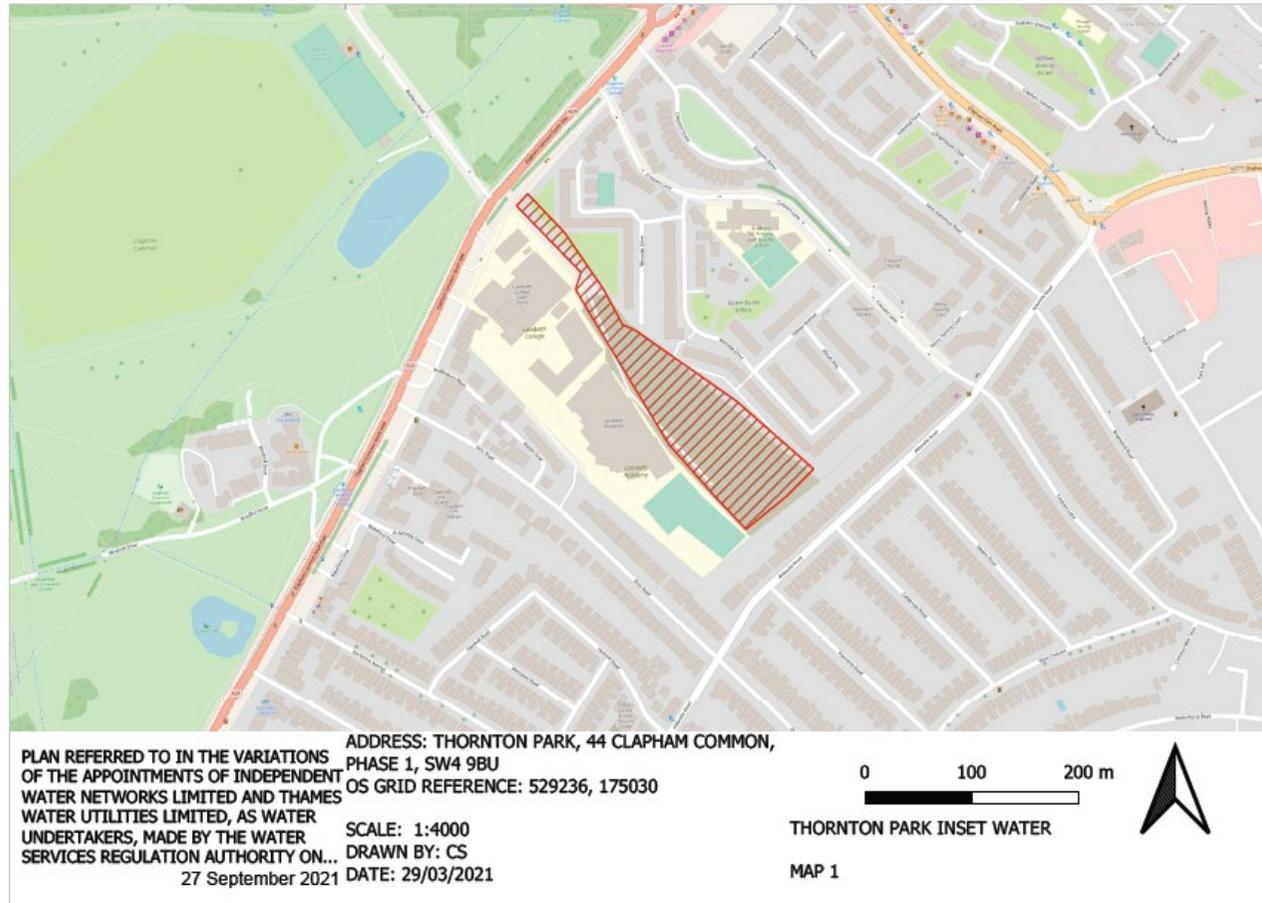
Our response to CCW's comments

One of our key policies in relation to new appointments and variations, 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 the previous incumbent.

3. 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 on 28 September 2021.

Appendix 1: Site Map – Water



Site Map – Sewerage



PLAN REFERRED TO IN THE VARIATIONS
OF THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND THAMES
WATER UTILITIES LIMITED, AS SEWERAGE
UNDERTAKERS, MADE BY THE WATER
SERVICES REGULATION AUTHORITY ON...
27 September 2021

ADDRESS: THORNTON PARK, 44 CLAPHAM COMMON,
PHASE 1, SW4 9BU
OS GRID REFERENCE: 529236, 175030
SCALE: 1:4000
DRAWN BY: CS
DATE: 29/03/2021

0 100 200 m
THORNTON PARK 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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