

November 2021

Variation of Independent Water Networks' appointment to include Abbey Gardens, Shaftesbury

About this document

Variation of Independent Water Networks Limited's appointment to include Abbey Gardens, Shaftesbury

On 25 August 2021, Ofwat began a consultation on a proposal to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water provider for a development in Wessex Water Services Limited's ("**Wessex Water**") water supply area called Abbey Gardens in Shaftesbury ("**the Site**").

The consultation ended on 22 September 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 15 November 2021, 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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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 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 Wessex 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.

2. 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 Wessex 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.

Wessex Water has provided a letter, dated 19 January 2021, confirming that, in its view, the Site is unserved. We have also reviewed site maps which show that there are no existing buildings on the Site.

Given the information provided by the applicant and Wessex Water, we are satisfied that the Site may be considered 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’

Customers on the Site will be no worse off being served by Independent Water Networks rather than Wessex Water, as Independent Water Networks proposes to match its customer charges on the Site to Wessex Water's charges.

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 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 Wessex Water.

2.4 Effect of appointment on 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 price that 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 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 Wessex 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 potential annual increase of £0.011 on the water 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 BDW Trading Limited said that it wanted Independent Water Networks to be the water company for the Site.

3. Responses received to the consultation

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

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

3.1 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. CCW says that this is particularly true for developments that include domestic housing, as household customers do not currently have the facility to choose or switch supplier like business customers can.

CCW noted that it is disappointed that there will be no direct financial benefits to customers from being served by Independent Water Networks instead of Wessex Water since Independent Water Networks will charge customers on the same basis as Wessex Water. CCW noted that under this arrangement customers will be no worse off in terms of the amount they pay, but nor will they be any better off than if Wessex Water served them. However, CCW also recognises that Independent Water Networks offers discounts to customers who are able to and opt to take up e-billing or direct debit payments.

CCW noted that Independent Water Networks generally matches or exceeds Wessex Water service standards, and so overall CCW supports this application, agreeing with our assessment that customers will not be worse being served by Independent Water Networks on the Site. 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.

However, CCW noted that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that Wessex Water can. CCW recognised that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers, who find themselves in financial difficulty. CCW considered 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. Until it can provide a formal social tariff, however, CCW expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty, especially those who would otherwise benefit

from a social tariff. It noted 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 calculation of a potential increase of £0.011 on the annual water bills of existing Wessex Water's customers as a result of the variation. Whilst CCW appreciates that this would have a negligible impact on bills, it considers that it is unclear if there will be any significant benefits arising from this arrangement for existing Wessex Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to customers and consider that the incumbents existing customers should also receive some benefit from the new arrangement.

Our response

One of our key policies with respect to new appointments and variations is that customers should be no worse off if a 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.

3.2 The Environment Agency

The Environment Agency's consultation response stated that in principle it was supportive of Independent Water Network's application but raised a query about the proposed daily water consumption at the Site.

The Environment Agency stated that Independent Water Networks has committed to a 110 litres/person/day (**l/p/d**) consumption amount in water stressed area. As Wessex Water's area is now considered to be a water stressed area, the Environment Agency asked to see revised consumption figures and an explanation of how Independent Water Networks plan to fulfil this commitment on the Site.

In response to the above, Independent Water Networks stated that it used 125 l/p/d consumption, in line with the applicable government strategy when its Water Resource Management Plan (**WRMP**) was issued., which stated that the per capita consumption of water should be an average of 130 l/p/d by 2030. Independent Water Networks felt that the housing stock in its portfolio could do better than this. For water stressed areas Independent Water Networks stated that it implements a consumption level of 110 l/p/d.

Independent Water Networks stated that the Site was not included in its WRMP, as it had not been contracted to provide the services to the Site at the time. However, Independent Water Networks confirmed that the per capita consumption will be reviewed when creating the WRMP for the Site and its location will be taken into account.

Independent Water Networks added that its sites are 100% metered, and this allows it to effectively monitor water usage. Independent Water Networks said it strives to be as water efficient as possible and actively promote a 'Water Wise' message to its customers

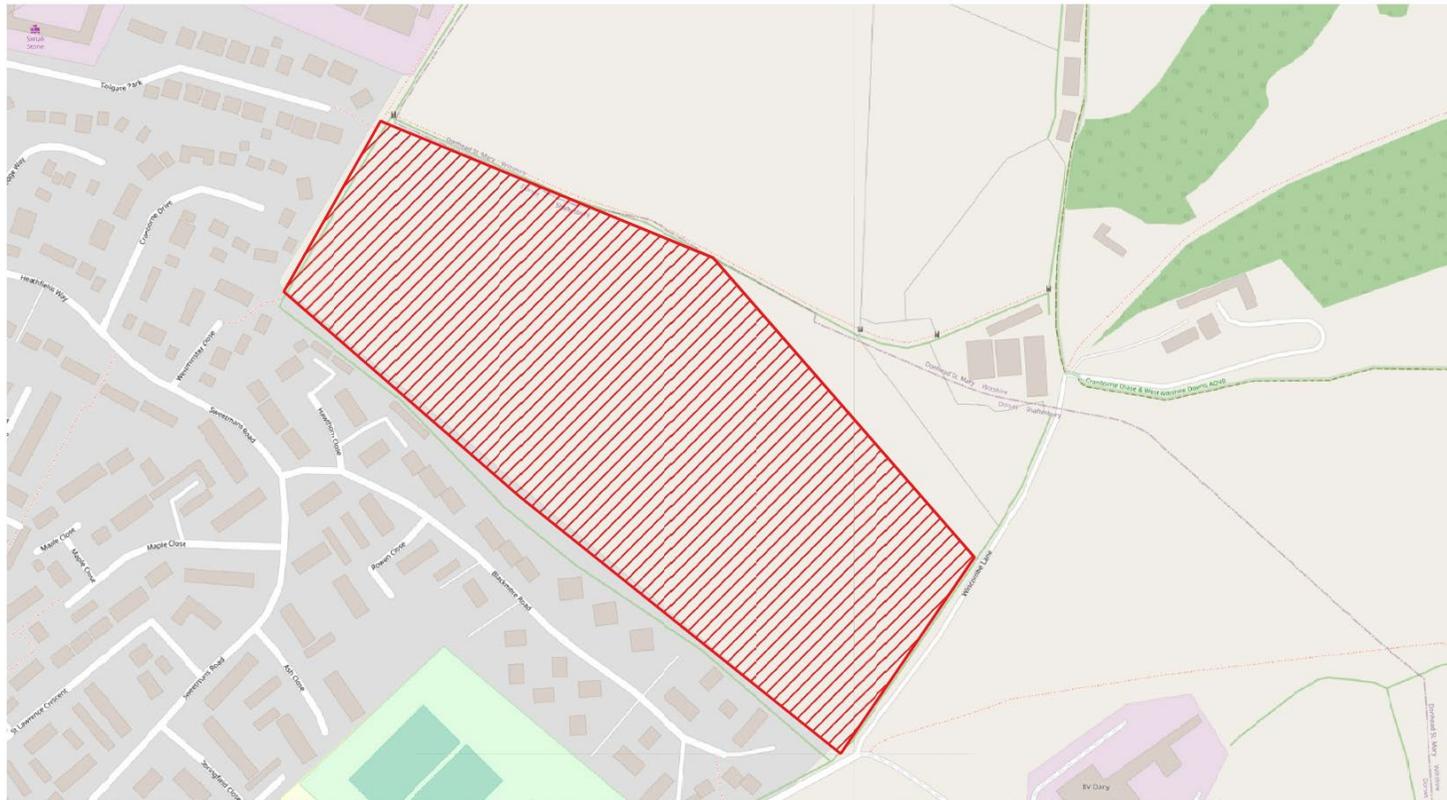
Independent Water Networks also stated that it produces a WRMP and a drought plan every five years, as well as an annual update to its WRMP. Its current plans are available on its website.

We shared the above response with the Environment Agency, and it confirmed that it was happy with the information provided and for the application to proceed.

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 services. This appointment became effective on 16 November 2021.

Appendix 1: Site Maps



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

15 November 2021

ADDRESS: ABBEY GARDENS, SHAFTESBURY, SP7 8RL
OS GRID REFERENCE: 387255, 123897

SCALE: 1:3000
DRAWN BY: MM
DATE: 21/01/2021

0 75 150 m



**ABBAY GARDENS
WATER SERVICES
INSET MAP 1**

PROJECT: ...



**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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