

February 2022

Variation of Independent Water Networks Limited's appointment to include CEG North Abingdon, Oxfordshire

About this document

Variation of Independent Water Networks Limited's appointment to include CEG North Abingdon, Oxfordshire

On 22 September 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 Thames Water Utilities Limited's ("**Thames Water**") water supply area and sewerage services area called CEG North Abingdon in Oxfordshire ("**the Site**").

The consultation ended on 19 October 2021. During the consultation period, we received representations from three organisations, and we received one further representation after the consultation closed. On 14 February 2022, 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 Networks Limited 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 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 a bulk supply and a bulk discharge agreement 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 provided a letter dated, 19 April 2021, confirming that in its view, the Site is unserved for water and sewerage. The Site is greenfield and aerial maps show that there are no existing buildings within the parameter of the Site.

Given the information by Independent Water Networks and Thames 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 Thames Water, as Independent Water Networks proposes to match its customer charges on the Site to those 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 potential annual increase of £0.01 on the annual water bills and no increase on the annual sewerage bills of Thames 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, David Wilson Homes Southern said that it wanted Independent Water Networks to be the water and sewerage provider for the Site.

3. Responses received to the consultation

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

The DWI and the Environment Agency 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 District Council 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 noted that Independent Water Networks proposes to charge customers on the same basis as Thames Water and it is disappointed that there will be no direct financial benefit to customers being served by Independent Water Networks. However, it noted that Independent Water Networks offers discount to customers who are able to and opt to take up e-billing or paying by direct debit.

CCW noted that due to the relatively small size of its customer base Independent Water Networks does not currently offer its financially vulnerable customers a social tariff in the way that Thames Water does. However, CCW noted that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers. CCW stated that this is a dis-benefit of this proposed variation. CCW stated that until Independent Water Networks can provide a formal social tariff, it is appropriate that it tailors some of the services it provides. CCW expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty, who would otherwise benefit from a social tariff. It noted that this should not be at the expense of its other customers. CCW said that it recognises that by matching Thames Water's charges, Independent Water Networks already benefits from the cross-subsidiary Thames Water's customers pay to support its social tariffs.

CCW said that it notes that Independent Water Networks generally matches or exceeds Thames Water's service standards, therefore, overall, it supports this application. For example, Independent Water Networks offer greater compensation for low water pressure, or for failing to read a meter once a year and it also offers a free leak repair service on customers external supply pipes. CCW noted our assessment that customers on the Site, will not be any worse off in terms of the level of service they receive from Independent Water Networks, then if they were served by Thames Water and said it is satisfied that this is correct.

CCW noted that we had calculated that there will be an annual increase on the water bills and no increase on sewerage bill of existing Thames Water's customers. CCW said that whilst it appreciates that this will have a negligible impact on bills, it is unclear if there are any significant benefits for Thames Water's customers from this arrangement. CCW states its questions the value of a NAV regime if it cannot deliver benefits to all customers.

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.

Vulnerable customers may not be aware of the social tariff that would be available to them if they were served by the incumbent rather than by the applicant. It is the responsibility of the applicant to identify and protect vulnerable customers on the Site. Although the applicant does not offer a social tariff, it should ensure customers will be no worse off.

3.2 The District Council

The District Council stated that outline planning permission for the Site was granted in October 2017 and detailed reserved matter consent was granted in March 2021. The planning permission requires the applicant to submit details to the local authority at certain stages of the Site's development, this includes in relation to technical matters including site drainage. The District Council highlighted three planning conditions which are relevant to this NAV application, condition 24 (surface water drainage scheme), condition 27 (foul drainage strategy) and conditions 14 (verification report for surface water drainage system).

It stated that as the local planning authority it would wish to seek assurance that Thames Water and Independent Water Networks will work together to resolve issues relating to the connections at the boundary of their areas and in responding to planning consultations. Particularly it asked the following:

- Whether there is sufficient capacity in Thames Water's network downstream of the Site and the receiving sewerage treatment work.
- For confirmation from Independent Water Networks that all surface water drainage on the Site is eligible for adoption under the Sewerage Sector Guidance and will be adopted including the sewers and connections downstream to the SUDS features, including the point of final connection.

We shared the above with Independent Water Networks and it responded with the following:

- Independent Water Networks will work with Thames Water and there is a bulk discharge agreement in place which covers the agreements for foul and surface water on the Site.
- Thames Water has confirmed that it has a project to complete network reinforcement at locations in the network downstream of the point of connections, it confirmed that Thames Water expect to complete network reinforcement in line with the Site's development programme.
- Independent Water Networks will be adopting the below ground assets (pipework) for the surface water network to the points of discharge (headwalls) as shown on the plans submitted to the District Council.

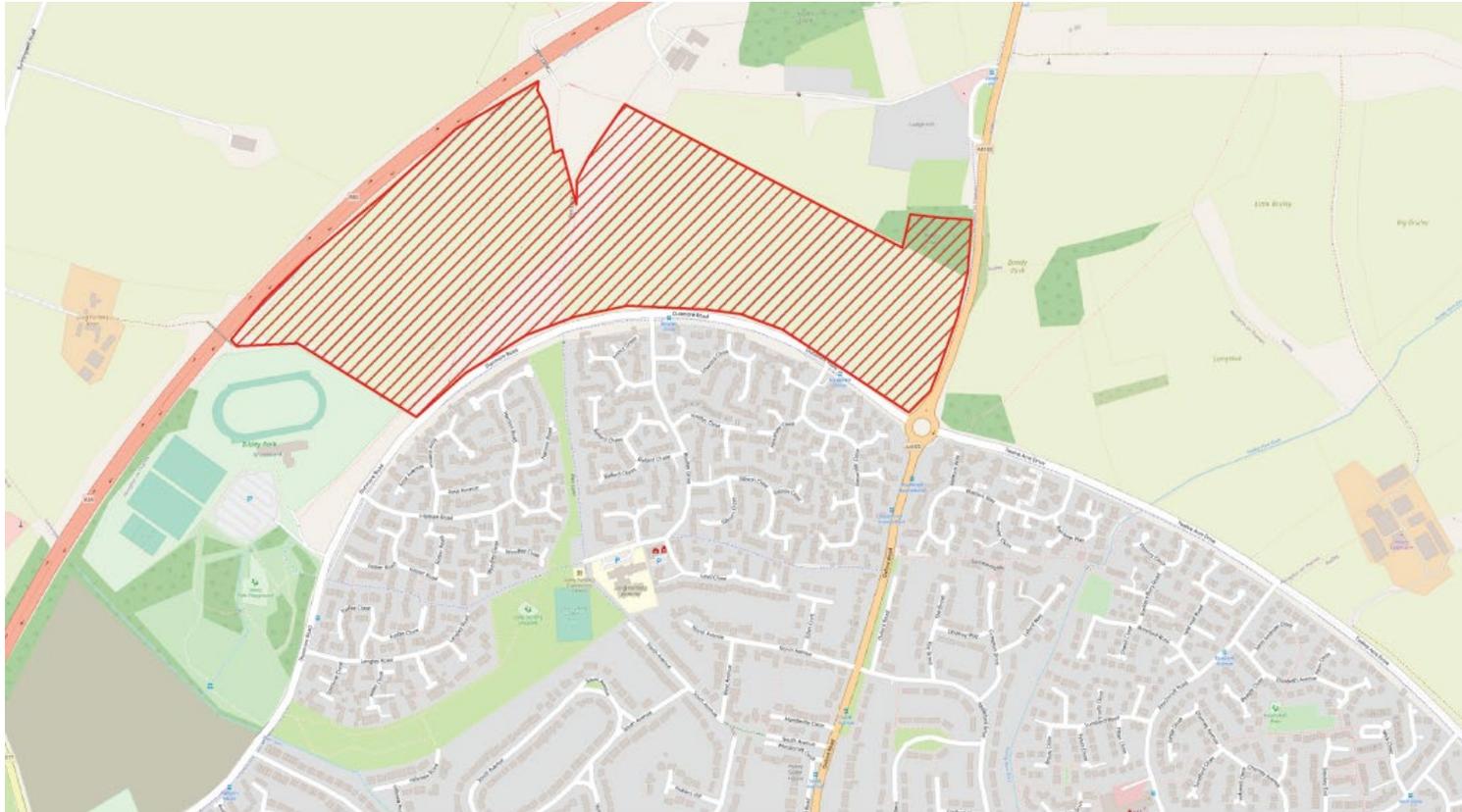
We shared the above response with the District Council, and it confirmed it was happy with the assurances given.

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 on 15 February 2022.

Appendix 1: Site Maps

Water map



PLAN REFERRED TO IN THE VARIATIONS
OF THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND THAMES
WATER UTILITIES LIMITED, AS WATER
UNDERTAKERS, MADE BY THE WATER
SERVICES REGULATION
AUTHORITY ON ... 14 February 2022

ADDRESS: CEG NORTH ABINGDON, ABINGDON
OXFORDSHIRE OX14 1XF.
OS GRID REFERENCE: 449785, 199369

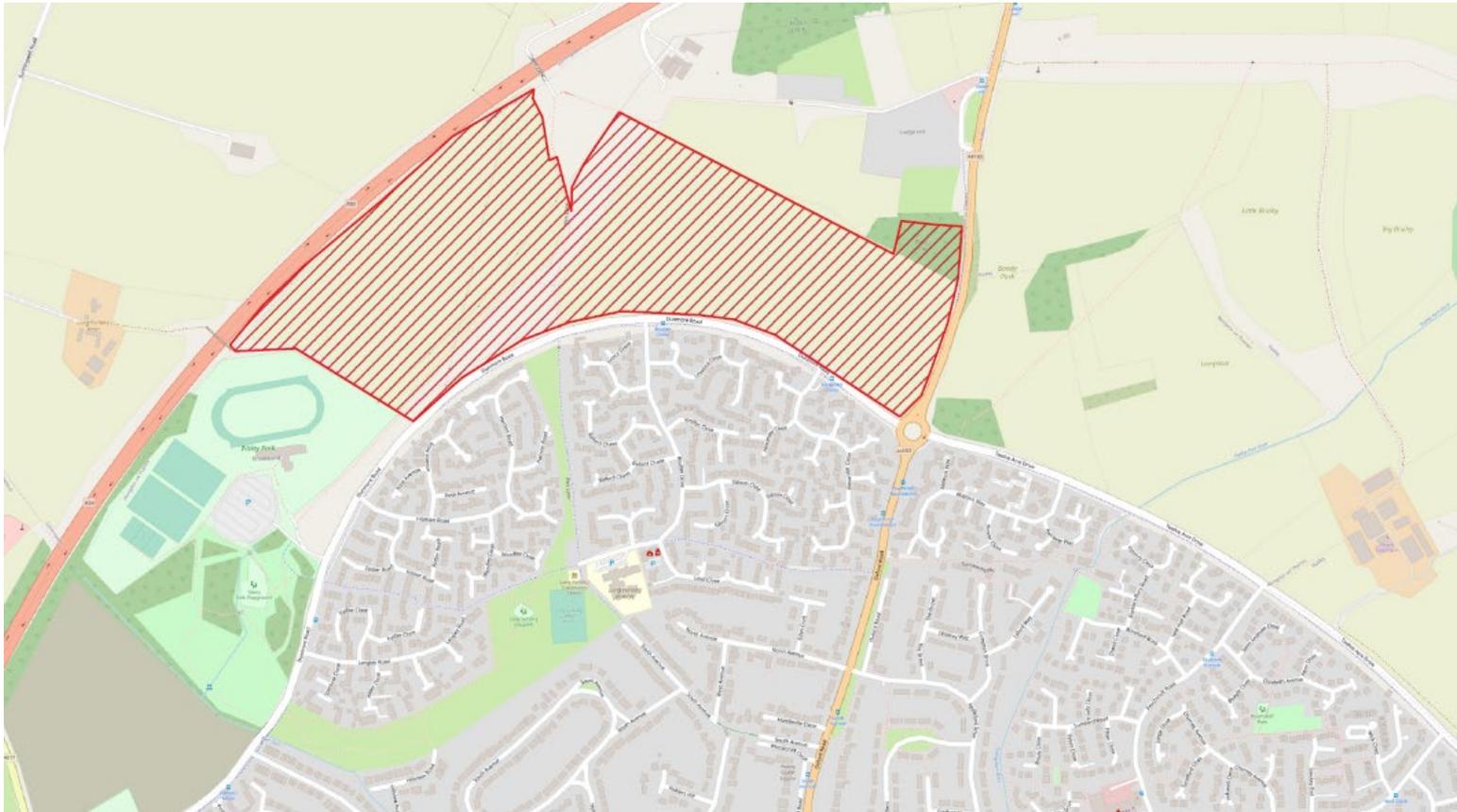
SCALE: 1:8000
DRAWN BY: NS
DATE: 16/06/2021

0 100 200 m



CEG NORTH ABINGDON INSET WATER
MAP 1

Sewerage map



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
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AUTHORITY ON ... 14 February 2022

ADDRESS: CEG NORTH ABINGDON, ABINGDON
OXFORDSHIRE OX14 1XF.
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SCALE: 1:8000
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0 100 200 m



CEG NORTH ABINGDON 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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