

February 2022

Variation of Independent Water Networks Limited's appointment to include Alton Brewery, Alton

About this document

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On 16 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 South East Water Limited's ("**South East Water**") water supply area and Thames Water Utilities Limited's ("**Thames Water**") sewerage services area called Alton Brewery in Alton ("**the Site**").

The consultation ended on 13 October 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. Subsequently, after the public consultation closed, on 14 January 2022, Independent Water Networks notified us that it would like to reduce the scope of the application, namely, to apply to provide only water services to customers on the Site (and not water and sewerage services as previously sought). No other changes were made to this application. Ofwat notified all statutory consultees of this change, none of whom we received any further representations from.

On 9 February 2022, 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/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 South East 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 South East 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.

Independent Water Networks have confirmed that all existing connections on the Site have been demolished, as part of the development on the Site.

South East Water provided a letter, dated 17 September 2021, confirming that in its view the Site is unserved for water.

Having reviewed the facts of this Site and taking into account the letter from the South East Water, we consider the Site will 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’

Customers on the Site will be no worse off being served by Independent Water Networks rather than South East Water, as Independent Water Networks proposes to match its customer charges on the Site to those of South East 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 South East 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 South East Water.

2.4 Effect of appointment on South East Water customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the price that South East Water 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 South East 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 South East 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 water bills of existing South East Water 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 Cala Homes (Thames) Limited said that it wanted Independent Water Networks Limited to be the water and sewerage 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 and the Environment Agency had no comments to make with regard to this consultation and did not have any objections. Also, the points raised in CCW's response is set out below. CCW provided its comments before Independent Water Networks changed the scope of its application to water supply only. Therefore, CCW's comments below regarding sewerage services and Thames Water are not relevant for this application but have been included for completeness.

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 say 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 is it disappointed that there will be no direct financial benefits to customers from being served by Independent Water Networks instead of South East Water and Thames Water – since Independent Water Networks will charge customers on the same basis as South East Water and Thames Water. CCW note 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 South East Water and Thames 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 South East Water and Thames Water's 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. Independent Water Networks also offers a disturbance allowance in the event of sewer flooding in same circumstances.

However, CCW noted that, due to the relatively small size of its customer base, Independent Water Networks does not offer its financially vulnerable customers a social tariff in the way that South East Water and Thames Water do. CCW recognised that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers. CCW considered that until it can provide a formal social tariff, 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 £0.01 on the annual water bills of South East Water customers and no potential increase on the sewerage bills of existing Thames Water 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 South East Water and Thames Water customers.

Finally, 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.

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.

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 10 February 2022.

Appendix 1: Site Map



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

ADDRESS: ALTON BREWERY, DRAYMANS WAY, ALTON GU34 1TS
OS GRID REFERENCE: 471950 , 139306

SCALE: 1:2000
DRAWN BY: NS
DATE: 03/06/2021

9 February 2022

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ALTON BREWERY INSET WATER 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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