

April 2022

# **Variation of Independent Water Networks Limited's appointment to include North Whiteley (Phase 2), Southampton**

## About this document

# Variation of Independent Water Networks Limited's appointment to include North Whiteley (Phase 2), Southampton

On 22 February 2022, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's ("Independent Water Networks") appointment to become the water services provider for a development in Southern Water Services Limited's ("Southern Water") water supply area called North Whiteley (Phase 2), in Southampton ("the Site").

The consultation ended on 22 March 2022. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 13 April 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 Southern 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

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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 Southern Water.

### 2.1 The Site

The Site subject to this application is for land adjacent to an area that was subject to a previous variation Ofwat granted in November 2019 called [North Whiteley](#). Together these variations would enable Independent Water Networks to serve all of the housing development being constructed.

Following our consultation we identified that part of the map Independent Water Networks had provided to Ofwat with its application did not accurately reflect the boundary of the previous North Whiteley variation and the development site. Ofwat raised this with Independent Water Network and it confirmed that the boundary for the North Whiteley site granted in 2019 is correct and the boundary map for the Site (North Whiteley (Phase 2)) needed to be amended. On 7 April, Independent Water Network provided updated maps for the Site. This new boundary can be viewed in Appendix 1.

There are no other changes to the North Whiteley (Phase 2) application, its other details, including customers numbers and financial projections remain the same as the original submission.

Independent Water Networks is reviewing its internal process for creating and reviewing site map boundaries to reduce the risk of errors occurring with its future applications.

Given the information provided by the applicant and the updated boundary, we are satisfied that there are no remaining issues with the boundary. We have notified stakeholders who commented on the application of the map change.

### 2.2 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.

Southern Water has provided a letter, dated 11 February 2022, confirming that, in its view, the Site is unserved. The Site is a greenfield site and a desk survey shows no properties within the Site boundary.

Given the information provided by the applicant and Southern Water we are satisfied that the Site may be considered unserved.

## **2.3 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.

## **2.4 Assessment of 'no worse off'**

Independent Water Networks will offer equivalent charges to those of Southern Water. It will offer a small discount to customers who choose to pay their bills through direct debit or via e-billing.

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 Southern 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 Southern Water.

## **2.5 Effect of appointment on Southern 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 Southern 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 Southern 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 Southern 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 increase of £0.02 on the annual water bills of Southern 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.

## 2.6 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Taylor Wimpey UK Limited, said that it wanted Independent Water Networks to be the water company for the Site.

### 3. Responses received to the consultation

We received responses to our consultation from three organisations: 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 confirmed that they had no comments on the application. The points raised in CCW’s response 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 it is disappointed that there will be no direct financial benefits to customers being served by Independent Water Networks, instead of Southern Water, since Independent Water Networks will charge customers on the same basis as Southern Water. However, CCW 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 recognises that Independent Water Networks generally matches or exceeds Southern Water’s service standards, and so overall CCW supports this application. For example, Independent Water Networks offers higher 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.

However, CCW noted that due to its small size Independent Water Networks does not currently offer its financially vulnerable customers a social tariff in the way that Southern Water does. It noted that Independent Water Networks will, however, offer the standard WaterSure tariff for qualifying customers. It stated that until Independent Water Networks can provide a formal social tariff, it is appropriate for Independent Water Networks to tailor some of its services. CCW stated that it expects Independent Water Networks to offer appropriate and flexible support to customers in financial difficulty who would otherwise benefit from a social tariff. CCW considered that such support should not be at the expense of its other customers. CCW recognised that by matching Southern Water’s charges Independent Water Networks already benefits from the cross-subsidy Southern Water’s customers pay to support its social tariff.

CCW noted our calculation that there may be a small increase of £0.02 on the annual water bills of existing Southern Water customers as a result of the variation. CCW stated that whilst it appreciates that this is a very small cost, it considers that it is unclear if there will be any significant benefits arising from this arrangement for existing Southern Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to all customers.

## **Our response**

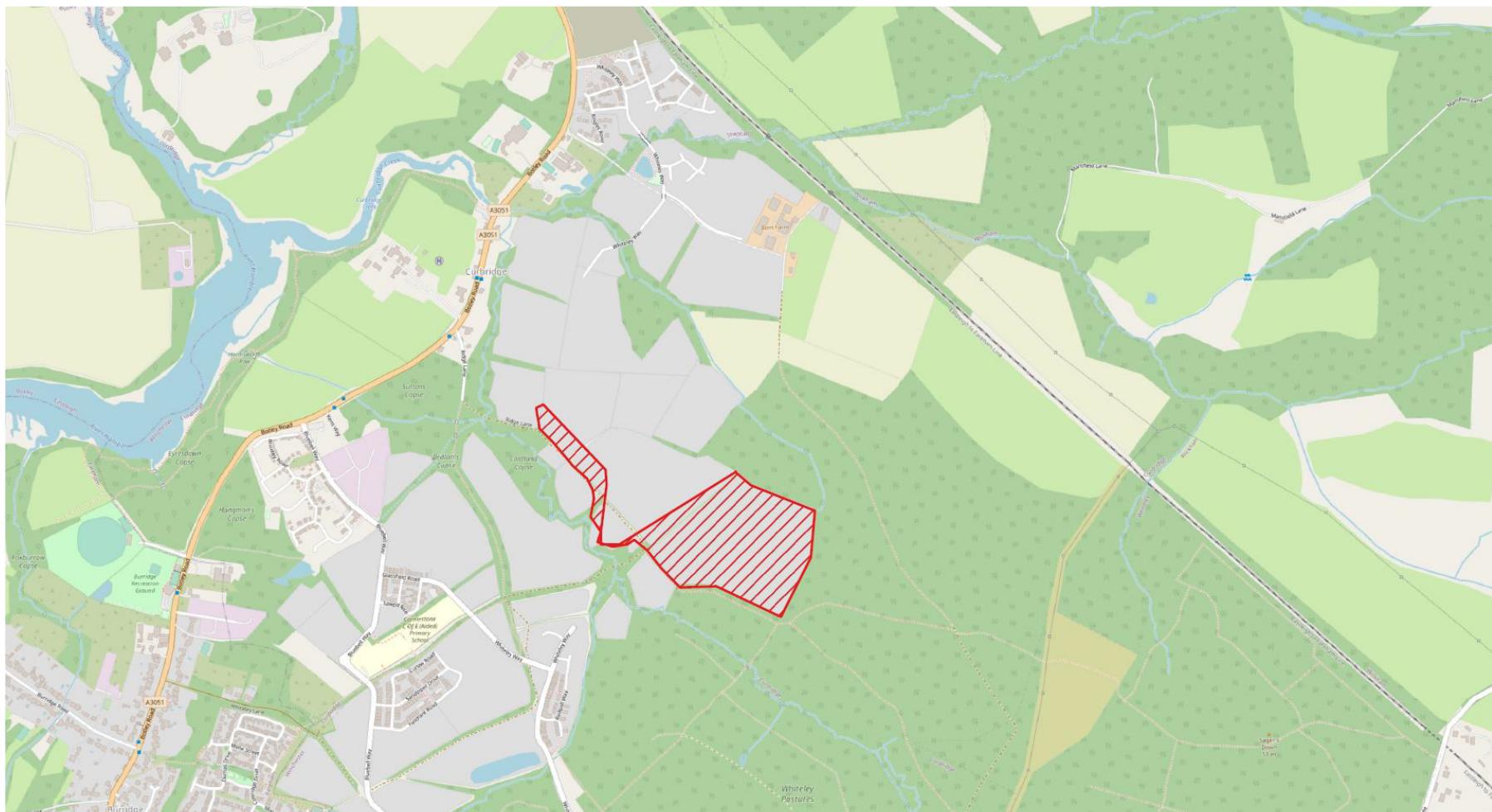
One of our key policies with respect to new appointments and variations is that customers should be no worse off if a variation is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. 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.

## 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 14 April 2022.

## Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATION OF  
THE APPOINTMENTS OF INDEPENDENT  
WATER NETWORKS LIMITED AND  
SOUTHERN WATER SERVICES LIMITED, AS  
WATER UNDERTAKERS, MADE BY THE  
WATER SERVICES REGULATION  
AUTHORITY ON ... 13/04/2022

ADDRESS: NORTH WHITELEY (PHASE 2),  
SOUTHAMPTON, SO30 2HB  
OS GRID REFERENCE: 453187, 111196

SCALE: 1:13000  
DRAWN BY: CS  
DATE: 15/12/2021

NORTH WHITELEY (PHASE 2)  
WATER SUPPLY  
INSET 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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