

May 2022

**Proposal to grant a variation of
appointment to Independent Water
Networks Limited to include the site
Hoe Lane, North Baddesley**

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	Details
Applicant	Independent Water Networks Limited (“ Independent Water Networks ”)
Site Details	Hoe Lane, North Baddesley (“ the Site ”)
Services	Water and Sewerage
Current water/sewerage appointee	Water and Sewerage Appointee: Southern Water Services Limited (“ Southern Water ”)
Proposed supply arrangements	Bulk supply and Bulk discharge agreement with Southern Water.
Criterion	Unserved
Household Customer	300
Business Customers	0
Developer	The site developer named on the application is Wyatt Homes Limited and the applicant has also confirmed there is a self-lay provider Connect It Utility Services LTD appointed for the site.
Estimated Site completion date	2027
Summary of consultation	A statutory consultation made under section 8(3) of the Water Industry Act 1991 (“ WIA91 ”) to grant Independent Water Networks a variation to its appointment as a water and sewerage company. To also vary the appointment of Southern Water as a water and sewerage company. Consequently, Independent Water Networks will become the water and sewerage company for the Site.
Deadline for submissions	<p>Representations or objections to this consultation should be sent by email to Licensing@ofwat.gov.uk or in writing and sent to the NAV licensing team, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA.</p> <p>Reponses must be received by Ofwat no later than 17.00 hours on 29 June 2022.</p>
<p>Further information about how to make representations or objections, including information on the treatment of confidential information, can be obtained from Ofwat at the above address or at http://www.ofwat.gov.uk/foi/.</p> <p>Ofwat will only use the information you have provided for the purpose of this consultation. We will retain your information in accordance with Ofwat’s retention schedule and will not share with third parties unless we have a legal obligation to do so. For further information please see Ofwat’s Privacy Policy in our Publication Scheme.</p>	

1. Our assessment of this application

Our approach

The new appointment and variation mechanism set out in primary legislation¹, provides an opportunity for entry and expansion into the water and sewerage sectors by allowing one company to replace the existing appointee 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 appointees to expand their businesses.

You can find further details of our approach to assessing applications for New Appointments and Variations ("NAVs") [here](#).

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 is applying for a variation based on the unserved criterion, however, the site served maps show there are some existing buildings.

Southern Water have provided a site served letter date 21 March 2022 for both water and sewerage. There appears to be 4 existing buildings to the south of the Site. While we will continue to consult on this application, we will not grant this application until Independent Water Networks have provided assurances these buildings have been demolished and disconnected.

Given the information provided by the applicant and the incumbent company, we are satisfied that the Site may be considered unserved subject to confirmation that the demolition of the existing buildings has been carried out.

Price

Independent Water Networks will at least match the charges to customers on the Site to those of Southern Water customers. Independent Water Networks currently offers a discount

¹ The legal framework for new appointments is set out in the WIA91. Section 7 of the WIA91 sets out the criteria by which an appointment or variation may be made. Section 8 sets out the procedure for making that appointment or variation.

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of 2.5% against the incumbents' charges. This discount is reviewed every 12 months. It will also offer a saving to those opting to pay by Direct Debit or via e-billing,

Levels of service

Every appointee is required under its licence conditions to publish and make available the Core Customer Information for its household customers. We have assessed Independent Water Network's proposed Customer Code of Practice, and our view is that it is of an appropriate standard. Our view is that customers on the Site would be no worse off in relation to the scope of Independent Water Networks' proposed Customer Code of Practice than they would be if Southern Water were to be the customers' water and sewerage company.

Stakeholder engagement

We take the view of the Environment Agency into account before progressing to formal consultation on an application for a new appointment. The Environment Agency informed us that it is content for us to consult on this application. We no longer contact the Drinking Water Inspectorate before progressing to formal consultation on an application, following its confirmation that it considers our notification at the consultation stage sufficient².

Impact on existing customers

In considering whether customers will be no worse off, we also considered the potential effects of this variation on the prices 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. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try to quantify the possible effect in an easily understandable way.

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.

We estimate a potential £0.02 annual increase on the water bills of existing Southern Water's customers and a potential £0.01 increase on the sewerage bills of existing Southern Water's

² The Environment Agency as well as the Drinking Water Inspectorate will also be formally consulted on the proposals, as they are on the list of organisations which must be formally consulted as set out in section 8(4)(b) of WIA91.

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customers if we grant this variation to Independent Water Networks. This is once the Site is fully built out.

This estimate does not take into account the potential spill-over benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win sites.

Therefore, we consider that granting this variation to Independent Water Networks would have a small financial impact on customers' bills and could have potential benefits for customers.

Ability to finance and properly carry out its functions

We have a statutory duty to ensure that efficient appointees can finance the proper carrying out of their functions. When a company applies for a new appointment or variation, it must satisfy us that it is able to carry out all of the duties and obligations associated with being an appointed water or sewerage company.

We have considered the financial position of Independent Water Networks in relation to providing water and sewerage services to the Site, and we are satisfied the granted company demonstrates sufficient financial viability.

Independent Water Networks has an unlimited Keepwell agreement from its owner Brookfield Utilities UK Limited ("**BUUK**") in July 2013.

Independent Water Networks has confirmed that this agreement is still in place and will cover this proposed new site. BUUK continues to hold an investment grade credit rating with Moody's.

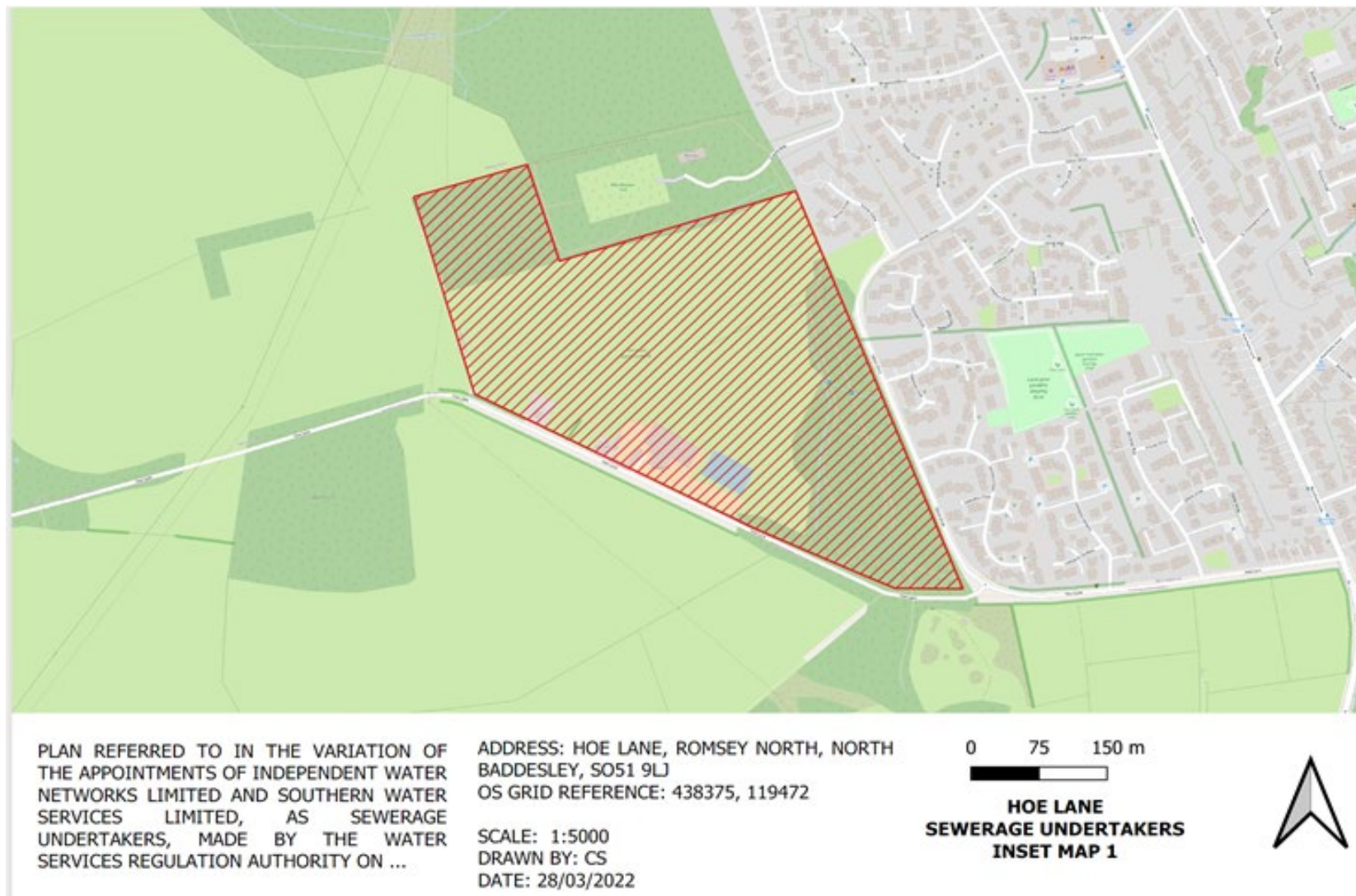
On this basis, we are currently satisfied that Independent Water Networks would be able to finance its functions if the variation is granted.

2. Conclusion and next steps

In assessing Independent Water Networks application, we have considered the general benefits of new appointments and variations. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and Independent Water Networks would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed variation on the existing customers of Southern Water.

We are currently minded to grant the variation under the unserved criterion subject to confirmation that the demolition of the existing buildings has been carried out. Subject to considering any representations submitted during the consultation period in response to this consultation notice, Ofwat will decide whether or not to grant the variation of appointment set out above.

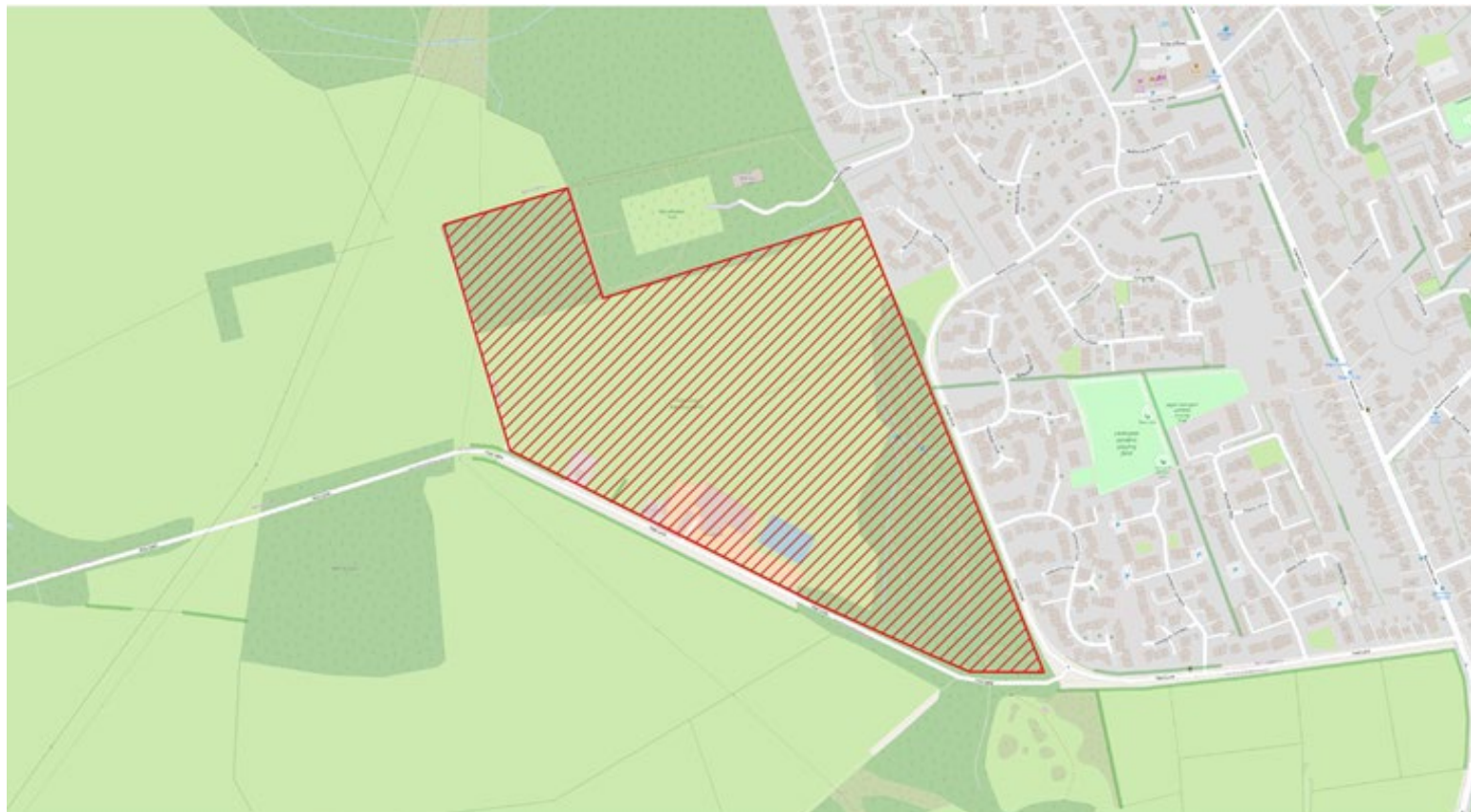
3. Site maps



Water

Sewerage

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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 ...

ADDRESS: HOE LANE, ROMSEY NORTH, NORTH BADDESLEY, SO51 9LJ
OS GRID REFERENCE: 438375, 119472

SCALE: 1:5000
DRAWN BY: CS
DATE: 28/03/2022

0 100 200 m



**HOE LANE
WATER SUPPLY
INSET MAP 1**



**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
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