

June 2022

Proposal to grant a variation of appointment to Independent Water Networks Limited – Kings Hill (Phase 5, Area 5.1)

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	Details
Applicant	Independent Water Networks Limited (“ Independent Water Networks ”)
Site Details	Kings Hill (Phase 5, Area 5.1) (“ the Site ”)
Services	Water Only
Current water appointee	South East Water Limited (“ South East Water ”)
Proposed supply arrangements	Bulk supply agreement with South East Water Limited
Criterion	Unserved
Household Customer	70
Business Customers	0
Developer	Bellway Homes Limited
Estimated Site completion date	2024
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 company. To also vary the appointment of South East Water as a water company. Consequently, Independent Water Networks will become the water company for the Site.
Deadline for submissions	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. Reponses must be received by Ofwat no later than 17.00 hours on 11 July 2022

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/>.

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](#).

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

Independent Water Networks is applying for a variation based on the unserved criterion. 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.

South East Water has provided a letter, dated 18 February 2022, confirming that, in its view, the Site is unserved. Satellite images of the Site show no existing buildings or infrastructure.

Given the facts of the Site and the information provided by the applicant and South East Water, we are satisfied that the Site may be considered unserved.

Price

Independent Water Networks proposes to offer charges to customers on the Site equivalent to those of South East Water and is currently offering a discount of 2.5% against South East Water's charges. This discount is reviewed annually.

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

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.

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 South East Water were to be the customers' water 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 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. 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 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.

We estimate there will be no annual increase on the water bills of existing South East Water 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 no financial impact on customers' bills and could have potential benefits for customers.

Ability to finance and properly carry out its functions

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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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 services to the Site, and we are satisfied the 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.

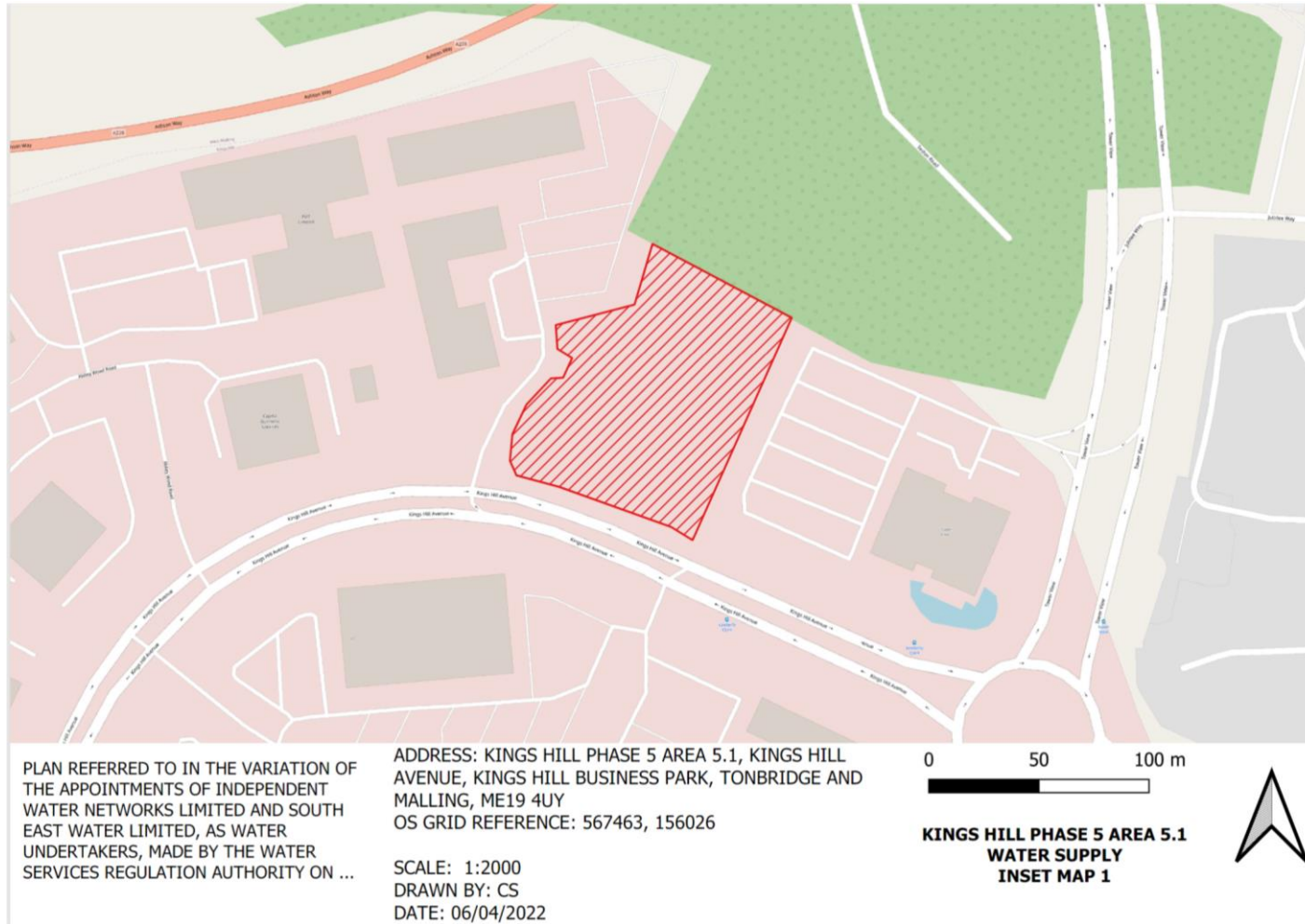
On this basis, we are currently satisfied that Independent Water Networks would be able to finance its functions if the variation is granted.

1. 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 South East Water.

We are currently minded to grant the variation under the unserved criterion. 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.

2. Site map



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is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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