

June 2022

Variation of Independent Water Networks' appointment to include Swanage Grammar School, Swanage, Dorset

About this document

Variation of Independent Water Networks Limited's appointment to include Swanage Grammar School, Swanage, Dorset

On 24 February 2022, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's (“**Independent Water Networks**”) appointment to become the water provider for a development in Wessex Water Services Limited's (“**Wessex Water**”) water supply area called Swanage Grammar School in Swanage, Dorset (“**the Site**”).

The consultation ended on 25 March 2022. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 24 May 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 Wessex 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 Wessex 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.

We reviewed site maps which showed that there was an existing building on the Site; we have received confirmation from Independent Water Networks that the building is being used temporarily to assist with building work, and then it will be demolished. Wessex Water has provided a letter, dated 10 December 2021, confirming that, in its view, the Site meets the unserved criterion.

Given the information provided by the applicant and Wessex 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 Wessex Water, as Independent Water Networks proposes to match its customer charges on the Site to Wessex Water's charges.

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 Wessex 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 Wessex Water.

2.4 Effect of appointment on Wessex 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 Wessex 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 Wessex 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 Wessex 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 will be a potential £0.01 increase on the annual water bills of Wessex 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, the developer, BDW Trading Limited, said that it wanted Independent Water Networks to be the water 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. The points raised in the responses from CCW 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 says 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 Wessex Water since Independent Water Networks will charge customers on the same basis as Wessex Water. CCW noted 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 Wessex 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 Wessex 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.

However, CCW notes due to the relatively small size of Independent Water Networks' customer base, Independent Water Networks does not currently formerly undertake to offer its financially vulnerable customers a social tariff in the way that Wessex Water does, although it will offer the standard WaterSure tariff for qualifying customers. CCW considers that until Independent Water Networks can provide a formal social tariff, it is appropriate that it tailors some of the services that it does provide. CCW expects NAV (“**New appointments and variations**”) companies to offer appropriate flexible support to any individual in financial

difficulty who would otherwise benefit from a Social Tariff. This should not be at the expense of its other customers. CCW recognise that by matching Wessex Water's charges Independent Water Networks already benefits from the cross-subsidy Wessex Water's customers pay to support its Social Tariff.

CCW notes our conclusion that, as a result of the variation, Wessex Water's existing customers would see an increase of £0.01 on their annual water bills. While CCW appreciate this is a negligible amount, it is unclear whether there will be any significant benefits arising from this arrangement for Wessex Water's customers. CCW question the value of the NAV regime if it cannot deliver benefits to all customers.

Our response

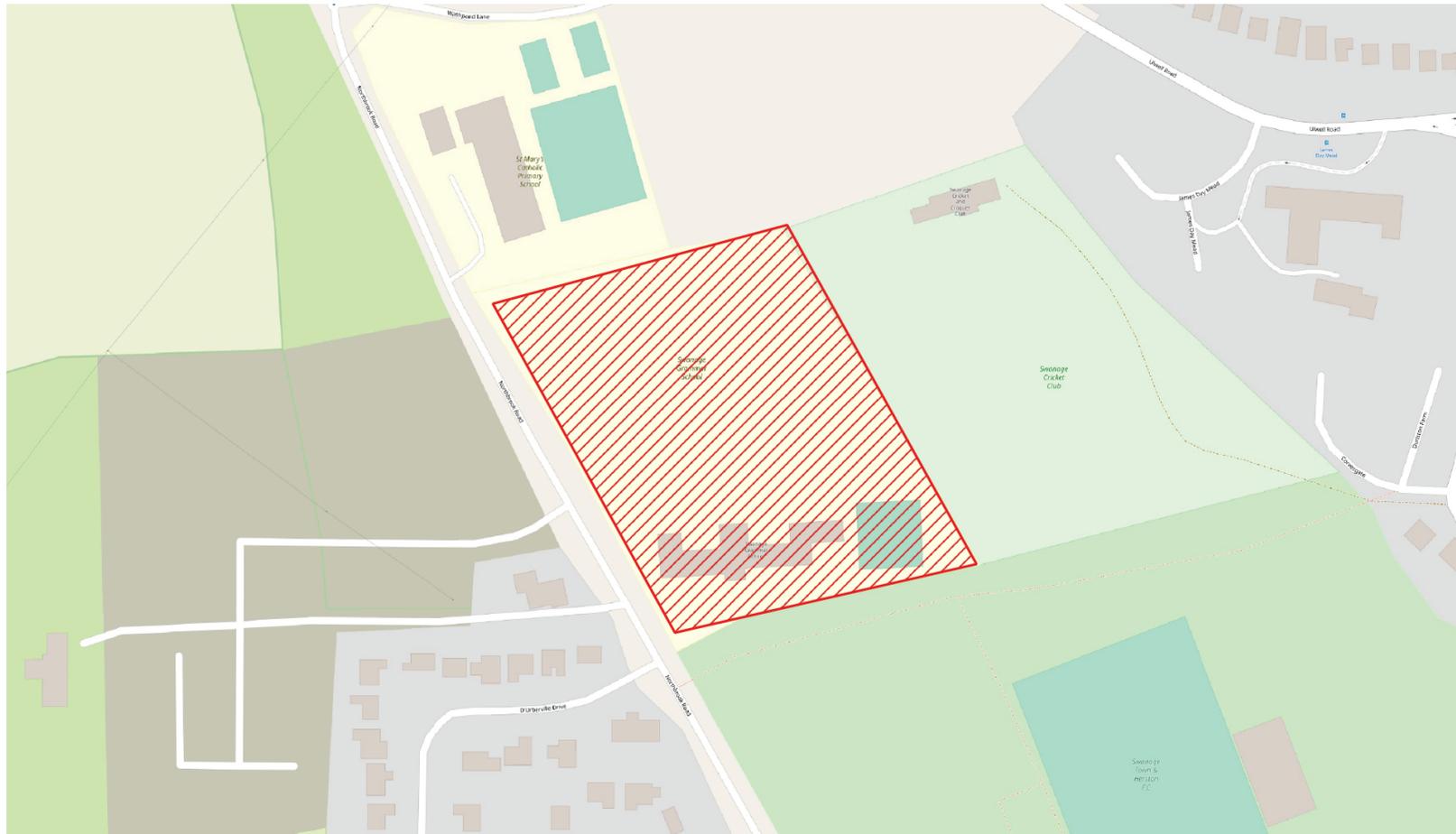
One of our key policies when considering NAV applications, is that customers should be no worse off if a new appointment and variation is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. 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 25 May 2022.

Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND WESSEX WATER SERVICES LIMITED, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON ...
24 May 2022

ADDRESS: SWANAGE GRAMMAR SCHOOL,
SWANAGE, BH19 1QR
OS GRID REFERENCE: 402616, 80124
SCALE: 1:2000
DRAWN BY: CS
DATE: 13/12/2021

0 50 100 m



**SWANAGE GRAMMAR SCHOOL
WATER SUPPLY
INSET MAP 1**

PROJECT: N0022801



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is a non-ministerial government department.
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