

November 2019

Trust in water

Variation of Independent Water Networks Limited's appointment to include Ashby Road, Daventry

1. About this document

Variation of IWNL's appointment to include Ashby Road, Daventry

On 30 September 2019, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's (**IWNL**) appointment to become the water and sewerage services provider for a development in Anglian Water Services Limited's (**Anglian Water**) water supply and sewerage services area called Ashby Road in Daventry (**the Site**).

The consultation ended on 28 October 2019. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 14 November 2019, we granted IWNL a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

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2. 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, IWNL applied to replace Anglian Water to become the appointed water and sewerage 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.

3. The application

IWNL applied to be the water and sewerage services appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (**WIA91**). IWNL will serve the Site by way of bulk supply and discharge agreements with Anglian Water.

3.1 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.

IWNL applied for a variation based on the unserved criterion. Anglian Water provided a letter, dated 26 June 2019, confirming that, in its view, the Site is unserved.

IWNL provided maps of the Site as part of its application package. Anglian Water stated that it did not know whether there are any private supplies on the Site. We consider that even if there were private supplies on the Site, this would not render the Site served.

Having reviewed the facts of the Site, and taking into account the letter from Anglian Water, we consider the Site to be unserved.

3.2 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 IWNL has satisfied us that it can finance its functions and that it is able to properly carry them out.

3.3 Assessment of 'no worse off'

IWNL will match the charges to customers on the Site of Anglian Water – i.e. it will not offer a discount.

With regard to service levels, we have reviewed IWNL's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the

performance commitments of Anglian Water. Based on this review, we are satisfied that customers will be offered an appropriate level of service by IWNL and that overall customers will be 'no worse off' being served by IWNL instead of by Anglian Water.

3.4 Effect of appointment on Anglian 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 Anglian 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 Anglian 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 Anglian Water might have expected to receive in revenue from serving the Site directly, were they to serve the Site, with the revenues they might expect from the proposed arrangement with IWNL.

In this case, we have calculated that if we grant the Site to IWNL, there may be a potential impact on the bills of Anglian Water's existing customers of £0.01.

This impact 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 new sites.

3.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer (Orbit Homes) said that it wanted IWNL to be the water and sewerage company for the Site.

4. Responses received to the consultation

We received two responses to our consultation: from the Consumer Council for Water (**CCWater**) and the Environment Agency (**EA**). We considered these responses before making the decision to vary IWNL's appointment. The points raised in the response are set out below.

4.1 Consumer Council for Water

In its response, CCWater stated it was disappointed that there are no direct financial benefits to customers from being served by IWNL rather than Anglian Water for water and sewerage services as IWNL proposes to charge its customers the same rate as Anglian Water. It noted that IWNL does not offer a social tariff, whereas Anglian Water does. CCWater also noted that IWNL proposed to match or exceed many of the service standards currently provided by Anglian Water, notably increased compensation for low water pressure or failing to read a meter once a year, and a free leak repair service on customers' external supply pipes. Overall, CCWater supports our proposal and agreed with our assessment that customers will be no worse off.

One of the key policy principles Ofwat considers when assessing NAV applications is that current customers, or future customers, should overall be no worse off (in terms of the price and service they receive) than if they had been supplied by the existing appointee. This requirement has been met by IWNL in its proposal to improve the levels of service and match the pricing set by Anglian Water. Our assessment does not require applicants to better the service and price of the existing appointee.

4.2 The Environment Agency

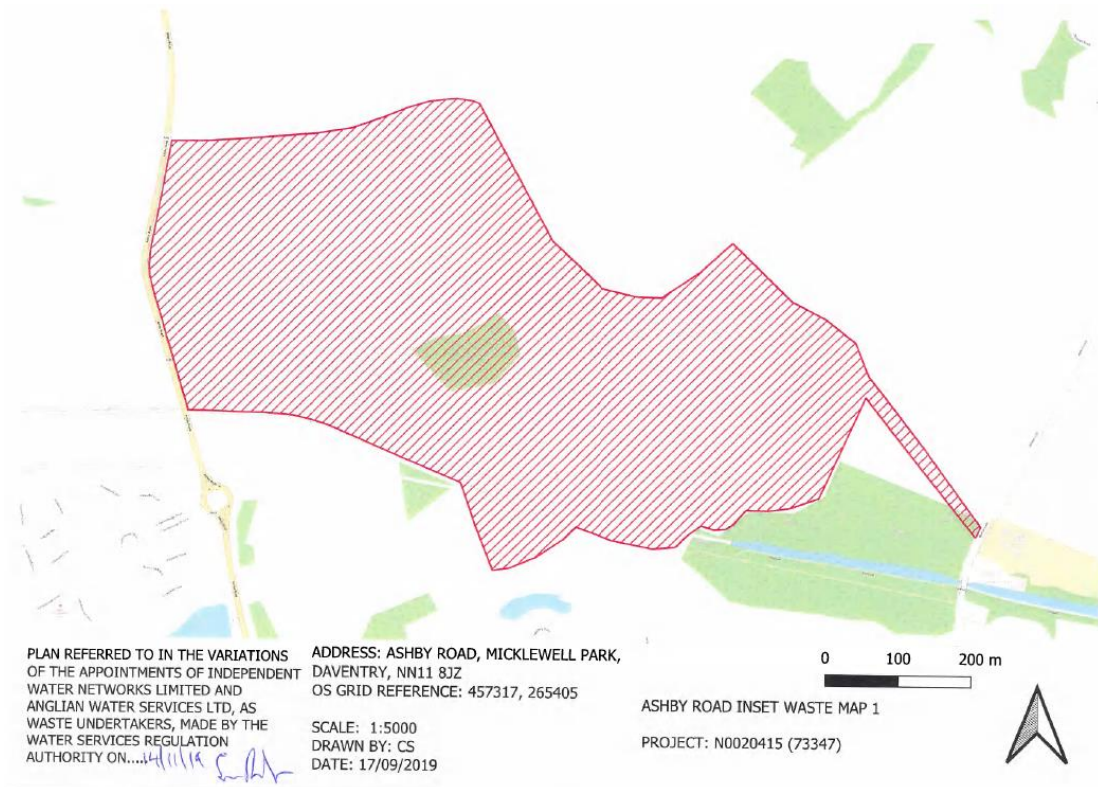
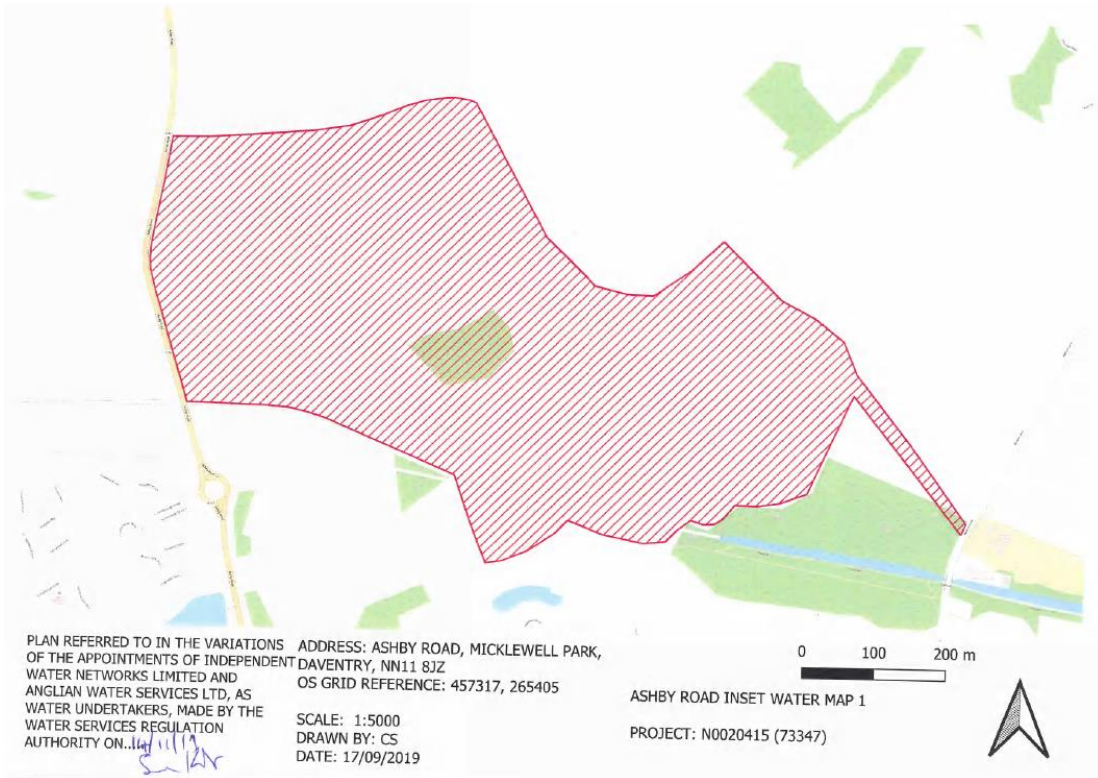
The EA responded to our consultation with no objections. However, it noted that IWNL's proposal to deliver waste water to Anglian Water is suitable as long as Anglian Water provides assurance that it has capacity in its local system to accept the waste water without risking a permit breach of risk to the environment. The EA also sought confirmation that the sewerage services would be dealt with by a bulk discharge agreement between IWNL and Anglian Water.

IWNL will supply the Site by way of bulk supply and bulk discharge agreements with Anglian Water. In addition, we informed IWNL of the EA's comments and it confirmed that it has assurance from Anglian Water regarding the capacity in the local system.

5. Conclusion

Having assessed IWNL's application, and having taken account of the responses we received to our consultation, we decided to grant a variation to IWNL's area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 15 November 2019.

Appendix 1: Site Maps



Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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