

23 September 2019

Trust in water

Variation of Independent Water Networks Limited's appointment to include Cowdray Centre in Colchester

1. About this document

Variation of Independent Water Networks Limited's appointment to include Cowdray Centre

On 8 August 2019, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water and sewerage services provider for a development in Anglian Water Services Limited's ("**Anglian Water**") water supply area and sewerage services area called Cowdray Centre in Colchester ("**the Site**").

The consultation ended on 6 September 2019. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 19 September 2019, we granted Independent Water Networks 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.

Contents

1. About this document	2
2. Introduction	4
3. The application	6
4. Responses received to the consultation	9
5. Conclusion	11
Appendix 1: Site Maps	Error! Bookmark not defined.

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, Independent Water Networks 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 by promoting effective competition, wherever appropriate. 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

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

3.1 The consent criterion

Independent Water Networks has applied to supply this Site under the consent criterion. To qualify under the consent criterion, an applicant must provide a letter of consent from the existing appointee consenting to the application and consenting to the variation of its area of appointment corresponding to the applicant's application.

We have a letter from Anglian Water, confirming that it consents to Independent Water Networks taking over the Site from it on the basis of the Site maps and that existing supplies are completely disconnected and premises demolished before the new development is progressed.

Independent Water Networks has confirmed that there is currently an existing (empty) commercial premises on the Site. This building will be disconnected and demolished as part of the Site construction and built over with new build properties. However, the developer is not planning to do this until a later phase of the development.

Based on the letter from Anglian Water and the assurances provided by Independent Water Networks regarding demolition and disconnection of the existing premises on the Site, we are satisfied that the application meets the consent criterion.

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 have assessed the financial position of the company as a whole.

Based on the information available to us, Independent Water Networks 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'

Independent Water Networks will offer a discount of 2.5% in the charging year 2019-20. First occupancy is expected on the Site in December 2019 and therefore, the discount will only be available for a short timeframe. Following this, Independent Water Networks will match the charges of Anglian Water, that is, it will not offer a discount to customers on the Site.

With regard to service levels, we have reviewed Independent Water Networks' Codes of Practice and its proposed service levels and compared these to the current 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 Independent Water Networks and that overall customers will be 'no worse off' being served by Independent Water Networks 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 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 impact on the bills of Anglian Water's existing customers. We estimate a potential £0.001 increase on the water bills and a potential £0.002 increase on the sewerage bills of existing Anglian Water customers, if we grant this variation to Independent Water Networks.

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.

3.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Persimmon Homes, said that it wanted Independent Water Networks 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 Independent Water Networks' appointment. The points raised in the responses are set out below.

4.1 The 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 Independent Water Networks rather than Anglian Water for water and sewerage services. It noted that Independent Water Networks proposes to charge its customers the same rate as Anglian Water after a short term discount which will only be applicable to a very small number of customers and for a short period of time. It noted that Independent Water Networks does not offer a social tariff, which Anglian Water does. CCWater also noted that Independent Water Networks proposes 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 to grant the variation and agrees with our assessment that customers will be no worse off.

4.2 Our response

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 Independent Water Networks 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.

4.3 The Environment Agency

The EA responded to our consultation 6 September 2019. Whilst it supports the application, the EA noted that there are two possible outcomes;

1. If Independent Water Networks plan to treat the waste water itself, then the appropriate permit must be applied for to ensure the waste water is

treated to a high enough standard to ensure no deterioration to the environment; and

2. If Independent Water Networks is proposing to deliver the waste water to Anglian Water, the proposal is suitable as long as Anglian Water provides assurance that it has capacity on its local system to accept the bulk waste water without risking a permit breach of risk to the environment. The EA stated given the close proximity of the development to existing sewerage network there is no reason why it should not be connected to the mains.

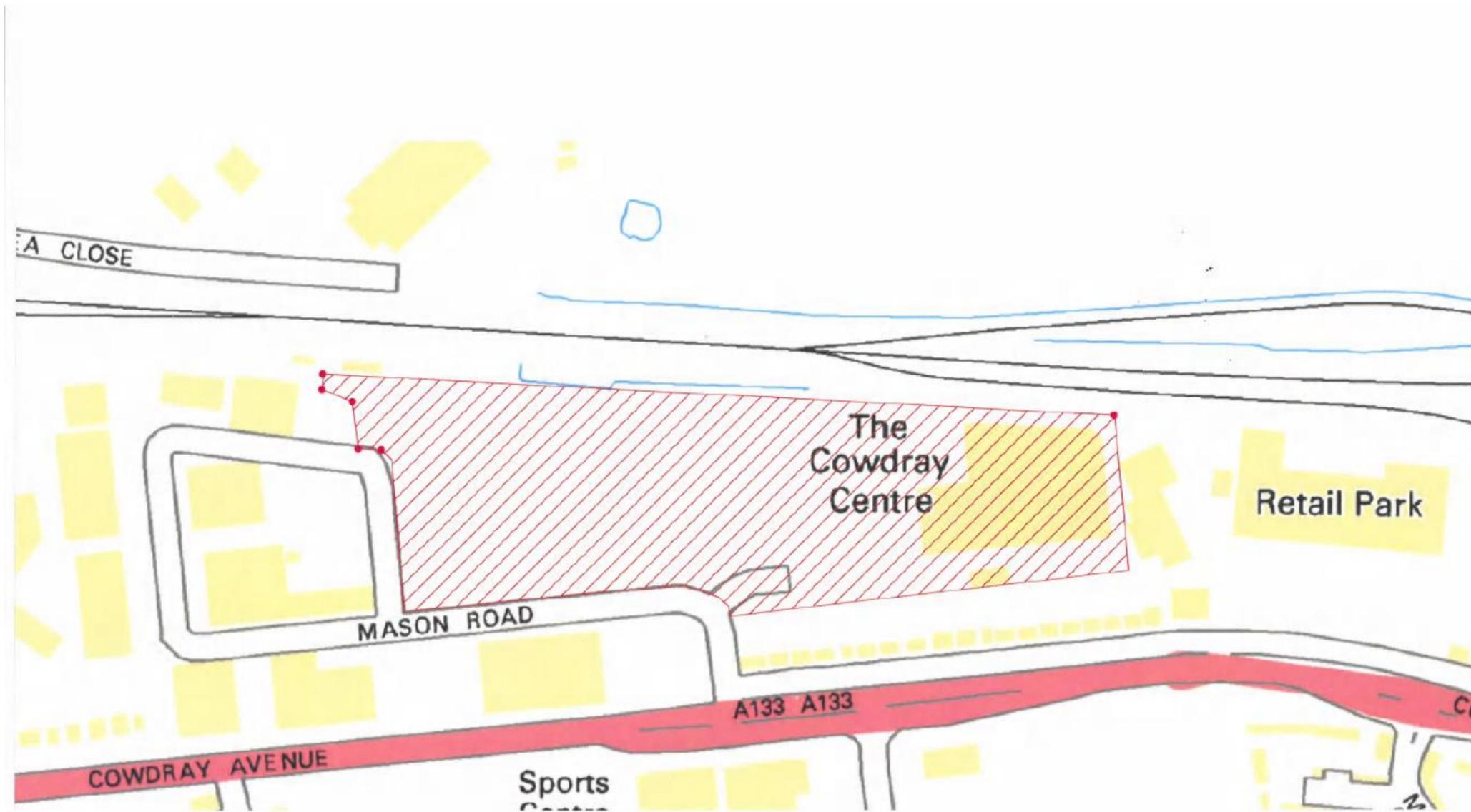
4.4 Our response

We shared the EA's comments with Independent Water Networks for its consideration. Independent Water Networks provided assurance, via an email it received from Anglian Water, that Anglian Water has assessed the proposed foul water drainage strategy for this development and is satisfied that the proposal is appropriately aligned with Anglian Water's broader catchment strategy and investment planning.

5. 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 and sewerage services. This appointment became effective on 20 September 2019.

Appendix 1: Site Maps



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND ANGLIAN WATER SERVICES LIMITED, AS WASTE WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 19/09/19



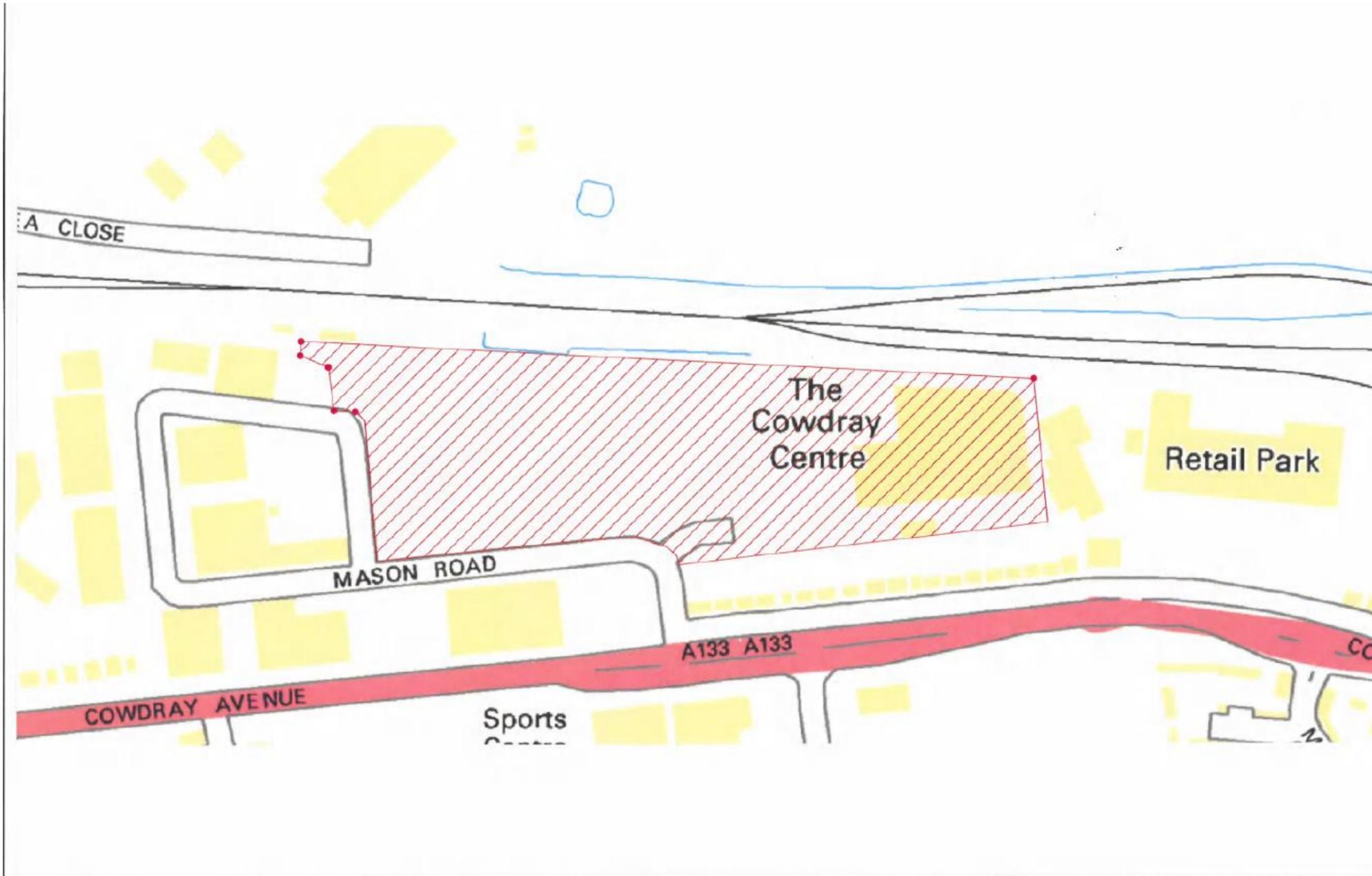
WASTE SUPPLY

PROJECT: 34098105
 ADDRESS: Cowdray Centre, Colchester, CO1 1YH
 OS GRID REFERENCE: 599960, 226248



INSET MAP 1
 DRAWN: EA
 DATE: 23/05/2019

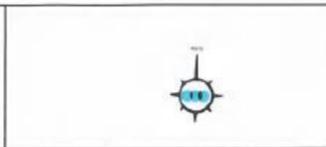
SCALE
 1:15 000 at A3



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND ANGLIAN WATER SERVICES LIMITED, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 19/05/19



WATER SUPPLY
PROJECT: 34098105
ADDRESS: Cowdray Centre, Colchester, CO1 1YH
OS GRID REFERENCE: 599960, 226248



INSET MAP 1
DRAWN: EA
DATE: 23/05/2019

SCALE:
1:15 000 at A3

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.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

September 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

