

November 2019

Trust in water

Variation of Independent Water Networks Limited's appointment to include Newmarket Road, Cambridge

1. About this document

Variation of Independent Water Networks Limited's appointment to include Newmarket Road

On 4 September 2019, Ofwat began a [consultation](#) on a proposal to vary the appointment of Independent Water Networks Limited ("**Independent Water Networks**") to become the water provider for a development in South Staffordshire Water PLC ("**South Staffs Water**")'s water supply area called Newmarket Road in Cambridge ("**the Site**").

The consultation ended on 2 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 Independent Water Networks a variation to its existing appointment to enable it to supply water 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, Independent Water Networks applied to replace South Staffs Water, as operated by Cambridge Water (a business within South Staffs 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.

3. The application

Independent Water Networks applied to be the water 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 a bulk supply agreement with South Staffs Water.

3.1 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.

South Staffs Water has provided a letter confirming that it consents to the application and to the variation of its appointment area on the basis of assurances from Independent Water Networks that all existing buildings on the Site will be demolished and disconnected from the South Staffs Water network in 2024-25.

We are therefore 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 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.

3.3 Assessment of ‘no worse off’

Independent Water Networks proposes to match charges to customers on the Site to those of South Staffs Water, that is, it will not offer a discount.

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 South Staffs 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 South Staffs Water.

3.4 Effect of appointment on South Staffs 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 South Staffs 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 South Staffs 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 South Staffs 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 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 South Staffs Water's existing water customers of £0.03.

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 – Hills Partnership – said that it wanted Independent Water Networks to be the water company for the Site.

4. Responses received to the consultation

We received two responses to our consultation, from the Environment Agency and from the Consumer Council for Water (“**CCWater**”). We considered these responses before making the decision to vary Independent Water Networks’ appointment. The points raised in the response are set out below.

4.1 Environment Agency

The Environment Agency raised no objections to the proposed variation. In its response it commented that Independent Water Networks:

- should state clearly in its Section 7.1.2 document¹ whether or not the application relates to water only, water and sewerage or just sewerage;
- provided little detail about the web-based solutions Independent Water Networks states it is developing to promote the efficient use of water; and
- should ensure that its leakage goals are aligned to those of South Staffs Water over the next 20 years.

Our response

We shared details of the Environment Agency’s comments with Independent Water Networks. Independent Water Networks responded that it would make clear in future notices as to which services it was seeking to provide and provided a [link](#) to its website, where further details of its promotion of water efficiency could be found.²

Independent Water Networks explained that its leakage target is 5% across all of its area of appointment. It noted that in 2018-19, Independent Water Networks’ leakage rate was 13.15 litres per property per day, which was lower than that reported in the Cambridge Water area.

¹ This refers to Section 7.1.2 of the [statement](#) issued by Ofwat in December 2018 on its process for dealing with NAV applications. Section 7.1.2 of the statement requested that applicants provide the Environment Agency with a brief summary of their application. This statement has been superseded by Ofwat’s current [guidance](#) on NAV applications (issued in September 2018). Section 4.1.3 of this statement sets out the information that is required to be provided to the Environment Agency.

² Independent Water Networks noted that these solutions were still under development.

4.2 Consumer Council for Water

Overall, CCWater agrees with our assessment that customers will be no worse off if served by Independent Water Networks rather than South Staffs Water.

CCWater recognised that Independent Water Networks was proposing to meet or exceed most of the service standards offered by South Staffs Water but expressed disappointment that, by setting charges at the same rate as South Staffs Water, Independent Water Networks was not offering any direct financial benefit to customers.

CCWater accepted that, given its relative size, it may be appropriate for Independent Water Networks to tailor some of the services that it provides. CCWater set out its expectation that Independent Water Networks would offer appropriate, flexible support to any customer in financial difficulty who would otherwise have benefitted from a social tariff. CCWater expects Independent Water Networks to keep its services under review in this regard.

CCWater noted that our calculations suggested that granting the variation would likely lead to only very small increases in the water bills for South Staffs Water's customers but noted that we had not identified any significant benefits to South Staffs Water's existing customers from the proposals.

Our response

One of our key policies is that customers should be no worse off if an application is granted. An applicant must therefore ensure that its new customers are made no worse off in terms of price and service quality than if they had been served by the incumbent. We consider that this requirement has been met by Independent Water Networks through its proposal to improve the levels of service and match the pricing set by South Staffs Water. We do not require applicants to offer a better service and price than the incumbent.

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. This appointment became effective on 15 November 2019.

Appendix 1: Site Map



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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