

April 2020

Variation of Independent Water Networks Limited's appointment to include Chester Road, in Pennywell, Sunderland

1. About this document

Variation of Independent Waters Networks Limited's appointment to include Chester Road, Pennywell, Sunderland

On 25 February 2020, Ofwat began a [consultation on a proposal](#) to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment in order to become the water services provider for a development in Northumbrian Water Limited's ("**Northumbrian Water**") water services area called Chester Road, Pennywell ("**the Site**").

The consultation ended on 24 March 2020. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 8 April 2020, 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.

Contents

1.	About this document	2
2.	Introduction	4
3.	The application	6
4.	Responses received to the consultation	8
5	Conclusion	10
	Appendix 1: Site Map	11

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 Northumbrian 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”**); or
- 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 services provider 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 Northumbrian 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 are served by the existing appointee.

The Site is a greenfield site. Independent Water Networks has provided correspondence from Northumbrian Water indicating that the Site is not currently served by public water infrastructure and that Northumbrian Water considers the Site to be unserved.

Given the information provided by the application and the incumbent water company, we are satisfied that the Site is 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 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 to customers.

With regard to service levels, we have reviewed Independent Water Network's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of Northumbrian 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 Northumbrian.

3.4 Effect of appointment on Northumbrian Water's customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the charges that Northumbrian 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 Northumbrian Water's customers. 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 Northumbrian 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, the bills of Northumbrian Water's existing customers will increase by £0.001.

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's developer. In this case, the developer – Gentoo Homes – said that it wanted Independent water Networks to be the water services company for the Site.

4. Responses received to the consultation

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

4.1 CCW

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

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

CCW says that it is aware that Independent Water Networks is in the process of revising its Guaranteed Service Standards. It said that it expects NAV appointees to at least match the incumbent’s own standards, and as it not aware of any substantial changes to Independent Water Networks scheme, it is content that Independent Water Networks will continue to match or improve on the majority of Northumbrian Water’s standards.

CCW accepted that, given its relative size, it may be appropriate for Independent Water Networks to tailor some of the services that it provides. CCW 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. CCW expects Independent Water Networks to keep its services under review in this regard.

CCW noted that our calculations suggested that granting the variation would lead to increase in the water bill by £0.001 for Northumbrian Water’s customers. They noted that we had not identified any significant benefits to Northumbrian Water’s existing customers from the proposal.

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 overall its new customers will be 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. We do not require applicants to offer a better service and price than the incumbent.

4.2 Northumbrian Water

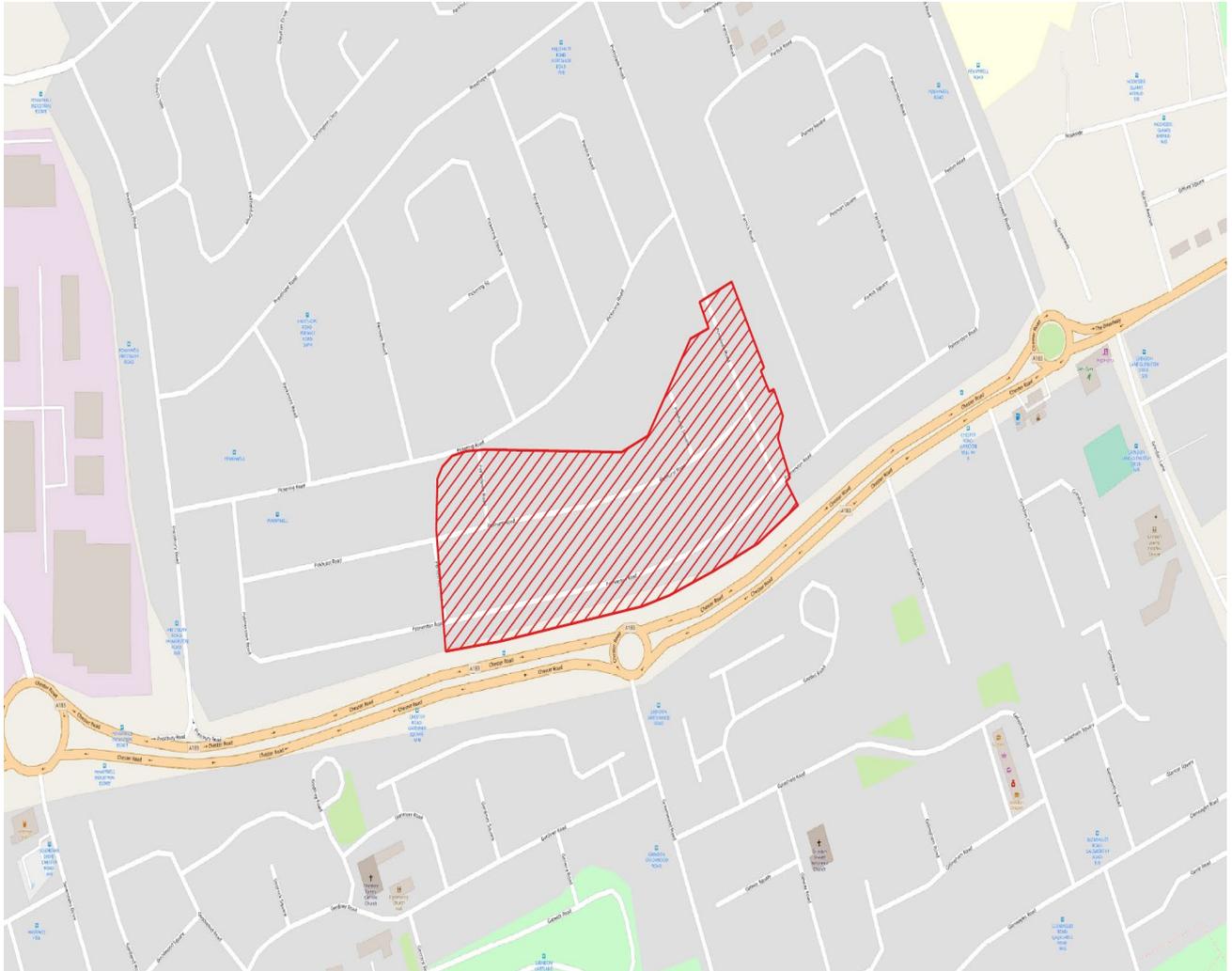
Northumbrian Water Limited stated that it had no objection to Independent Water Networks serving the Site for water services.

5 Conclusion

Having assessed Independent Water Network's 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 9 April 2020.

Appendix 1: Site map

8 April 2020



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND NORTHUMBRIAN WATER SERVICES LTD, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON

ADDRESS: CHESTER ROAD, PENNYWELL, SUNDERLAND, TYNE AND WEAR, SR4 9DR
OS GRID REFERENCE: 435688, 555508

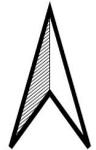
SCALE: 1:4000
DRAWN BY: CS
DATE: 11/12/2019

0 100 200 m



CHESTER ROAD INSET WATER SUPPLY
MAP 2

PROJECT: N0021094



Ofwat (The Water Services Regulation Authority)
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