

7 April 2020

**Proposal to grant a variation of appointment to Independent Water Networks Limited to enable it to provide water and sewerage services to a site called Salhouse Road 3, Norwich**

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Proposal to grant a variation of appointment to Independent Water Networks Limited as a water and sewerage company

## **1. About this document**

We propose granting a variation of appointment to Independent Water Networks Limited (“**Independent Water Networks**”) as a water and sewerage company and varying the appointment of Anglian Water Services Limited (“**Anglian Water**”) as a water and sewerage company. This notice is a consultation on this proposal under section 8(3) of the Water Industry Act 1991 (“**WIA91**”).

The consultation period will last for 28 days from the date of publication of this notice. Having considered any representations submitted during the consultation period in response to this consultation notice, Ofwat will decide whether or not to grant the variation of appointment set out above.

## 2. The Site

Independent Water Networks has applied for a variation of its appointment to enable it to provide water and sewerage services to a site called Salhouse Road 3, Norwich (“**the Site**”). The Site will comprise 534 residential properties, and 1 business property and is expected to be fully built out in 2029. This Site is located in a similar area to two previous NAV applications submitted to Ofwat by Independent Water Networks, namely Salhouse Road and Salhouse Road 2.

Site boundary maps can be viewed in section 8 of this document.

The Site is within the water and sewerage services area of Anglian Water. Water supply services will be provided by way of a bulk supply agreement between Independent Water Networks and Anglian Water. Sewerage services will be provided by way of a bulk discharge agreement with Anglian Water.

### **3. The applicant**

In October 2007, Independent Water Networks obtained its first appointment as a water and sewerage undertaker for a housing development at the Long Croft Road site in Anglian Water's area. Since then Ofwat has agreed to vary Independent Water Networks' area of appointment so it can serve a further 50 sites for water and/or sewerage. The register of new appointments and variations can be viewed [here](#).

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## **4. The proposal**

Ofwat proposes to:

- grant a variation of appointment to Independent Water Networks as a water and sewerage company to include the Site in its water supply and sewerage areas; and
- vary the appointment of Anglian Water as a water and sewerage company by excluding the Site from its water supply and sewerage services areas.

By means of the above, Independent Water Networks will become the water and sewerage services supplier for the Site.

## 5. Our approach to the assessment of this application

The new appointment and variation mechanism, set out in primary legislation,<sup>1</sup> provides an opportunity for entry and expansion into the water and sewerage sectors by allowing one company to replace the existing appointee 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 appointees to expand their businesses.

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our statutory duty to protect consumers, wherever appropriate by promoting effective competition. In particular, in relation to unserved sites, we consider that we must ensure that the future customers on a 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 that:

- customers, or future customers, should be no worse off than if the Site had been supplied by the existing appointee; and
- Ofwat 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.

We clarified these two policy principles in February 2011, and updated them more recently, when we published our new appointments and variations – [policy \(2015 and 2019\)](#) and [process \(2018\)](#) documents. In December 2015, we published our '[Statement on our approach for assessing financial viability of applications for new appointments and variations](#)'. This states that we will adopt a company-based assessment of financial viability, rather than a detailed site-based assessment, where it is appropriate to do so.

When we assess whether customers will be no worse off as a result of the appointment, we not only consider the customers on the Site but also the generality of customers – i.e. customers of the existing provider and customers more generally across England and Wales, who in our view benefit from the effective operation of the new appointment and variation mechanism.

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<sup>1</sup> The legal framework for new appointments is set out in the WIA91. Section 7 of the WIA91 sets out the criteria by which an appointment or variation may be made. Section 8 sets out the procedure for making that appointment or variation.

## 6. The application

Independent Water Networks has applied to be the water and sewerage company for the Site under the unserved criterion, set out in section 7(4)(b) of the WIA91.

### 6.1 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.

Independent Water Networks is applying for a variation based on the unserved criterion, and the Site is greenfield. In a letter dated 27 January 2020, Anglian Water confirmed that in its view the Site is unserved. Independent Water Networks also confirmed that Anglian Water, the developer and the applicant are not aware of any premises served via a private supply. It clarified that if in the course of construction a private supply was found, Independent Water Networks would stop construction, ensure the supply is not disrupted, and engage with the relevant owners/occupiers, as relevant. Ofwat's review of aerial satellite maps of the Site indicated a number of structures within the Site boundary. Independent Water Networks confirmed that the structures are farm outbuildings and will be demolished as part of the site development. The applicant also confirmed that there are no existing customers on the Site.

Having reviewed the facts of this Site, taking into account the letter from the incumbent and the applicant's responses to further information, we consider the Site to be unserved.

### 6.2 Protecting customers

Ofwat acts to protect consumers, especially those who are unable to choose their supplier. In assessing applications to supply new development sites, Ofwat acts on behalf of both existing customers as well as potential new customers who are not yet on site, to protect their interests. The fact that future customers on a site have not directly chosen their supplier is not a position unique to new appointments and variations – only business, charity and public sector customers ("**Business Customers**") in England and Wales are able to choose their supplier.<sup>2</sup>

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<sup>2</sup> The majority of Business Customers where the area of the relevant appointed company is not wholly or mainly in Wales (and whose premises are, or are likely to be, supplied with at

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Recognising this, our assessment of an applicant's proposals includes analysis of its plans to ensure customers will be at least no worse off in terms of their annual bills and levels of service than if they had been supplied by the existing appointee in whose geographical area the relevant site sits. We will continue to protect customers on a site by regulating the new appointee's prices and service levels.

### **6.3 Price**

Independent Water Networks has confirmed that customers on the Site will be no worse off financially than they would have been if they were served by Anglian Water. Independent Water Networks offer a £3 discount per annum to customers that sign up to e-billing, and £5 off a customer's annual bill if they pay by Direct Debit.

### **6.4 Levels of service**

Every appointee is required under its conditions of appointment to publish Core Customer Information (often referred to as "Codes") for its household customers. We have assessed Independent Water Networks' proposed Codes of Practice and Customer Code, and our view is that these are of an appropriate standard. Our view is that customers on the Site would be no worse off in relation to the points covered by the above Codes of Practice and the Customer Code than they would be if Anglian Water were to be the customers' water and sewerage services supplier.

### **6.5 Site owner choice**

Independent Water Networks has the consent of the Site developer Barratt David Wilson Homes to become the water and sewerage services provider.

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least 50 MI where the relevant area is wholly or mainly in Wales) have been able to effectively switch suppliers of water and/or sewerage since 1 April 2017.

## **6.6 Environment Agency (EA) and Drinking Water Inspectorate (DWI)**

We take the views of these organisations into account before progressing to formal consultation on an application for a new appointment. Both the EA and DWI informed us that they are content for us to consult on this application<sup>3</sup>.

## **6.7 Incumbent's existing customers**

In considering whether customers will be no worse off, we also considered the potential effects of this variation on the prices 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. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try to quantify the possible effect in an easily understandable way.

We have assessed the potential magnitude of this impact by comparing how much Anglian Water's 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.

We estimate a potential £0.002 annual increase on the water bills and £0.004 annual increase on the sewerage bills of existing Anglian Water customers if we grant this variation to Independent Water Networks. This is once the Site is fully built out.

This estimate 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 sites.

Therefore we consider that granting this variation to Independent Water Networks would have a very small financial impact on customers' bills and could have potential benefits for customers.

## **6.8 Ability to finance and properly carry out its functions**

We have a statutory duty to ensure that efficient appointees can finance the proper carrying out of their functions. When a company applies for a new appointment or variation, it must satisfy us that it is able to carry out all of the

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<sup>3</sup> The Environment Agency and the Drinking Water Inspectorate will also be formally consulted on the proposals, as they are on the list of organisations which must be formally consulted as set out in section 8(4)(b) of WIA91.

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duties and obligations associated with being an appointed water and/or sewerage company.

We have considered the revenues and costs of the Site relating to the provision of water and sewerage services should this variation be granted.

We have considered the financial position of Independent Water Networks in relation to providing water and sewerage services to the Site, and we are satisfied the company demonstrates sufficient financial viability.

Independent Water Networks obtained an unlimited Keepwell Agreement from its owner Brookfield Utilities UK Limited (“**BUUK**”) in July 2013. Independent Water Networks has confirmed that this agreement is still in place and will cover this proposed new site. BUUK continues to hold an investment grade credit rating with Moody’s.

On this basis, we are currently satisfied that Independent Water Networks would be able to finance the proper carrying out of its statutory functions if the variation is granted.

## **7. Conclusion and next steps**

In assessing Independent Water Networks' application, we have considered the general benefits of new appointments. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and Independent Water Networks would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed variation on the existing customers of Anglian Water.

We are currently minded to grant the variation under the unserved criterion. We are consulting on our proposal to do so.

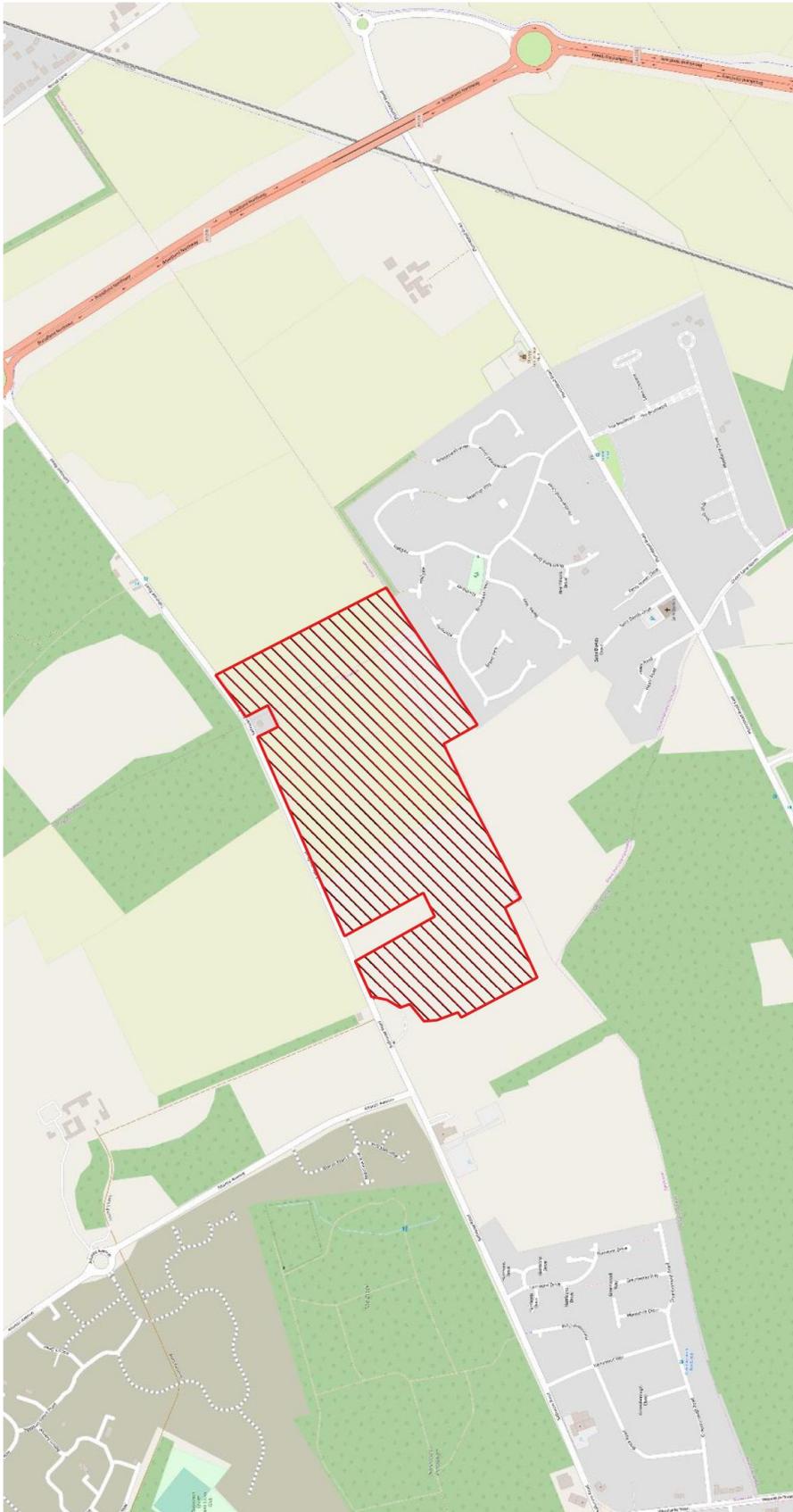
### **Where to send submissions**

Any person who wishes to make representations or objections with respect to the application should do so in writing to Laura Easterbrook at Centre City Tower, 7 Hill Street, Birmingham, B5 4UA or by email at [Laura.Easterbrook@ofwat.gov.uk](mailto:Laura.Easterbrook@ofwat.gov.uk).

Representations must be received by Ofwat no later than 17:00 hours on 7 May 2020. Further information about how to make representations or objections, including information on the treatment of confidential information, can be obtained from Ofwat at the above address or at <http://www.ofwat.gov.uk/foi/>

Ofwat will only use the information you have provided for the purpose of this consultation. We will retain your information in accordance with Ofwat's retention schedule and will not share with third parties unless we have a legal obligation to do so. For further information please see Ofwat's Privacy Policy in our [Publication Scheme](#).

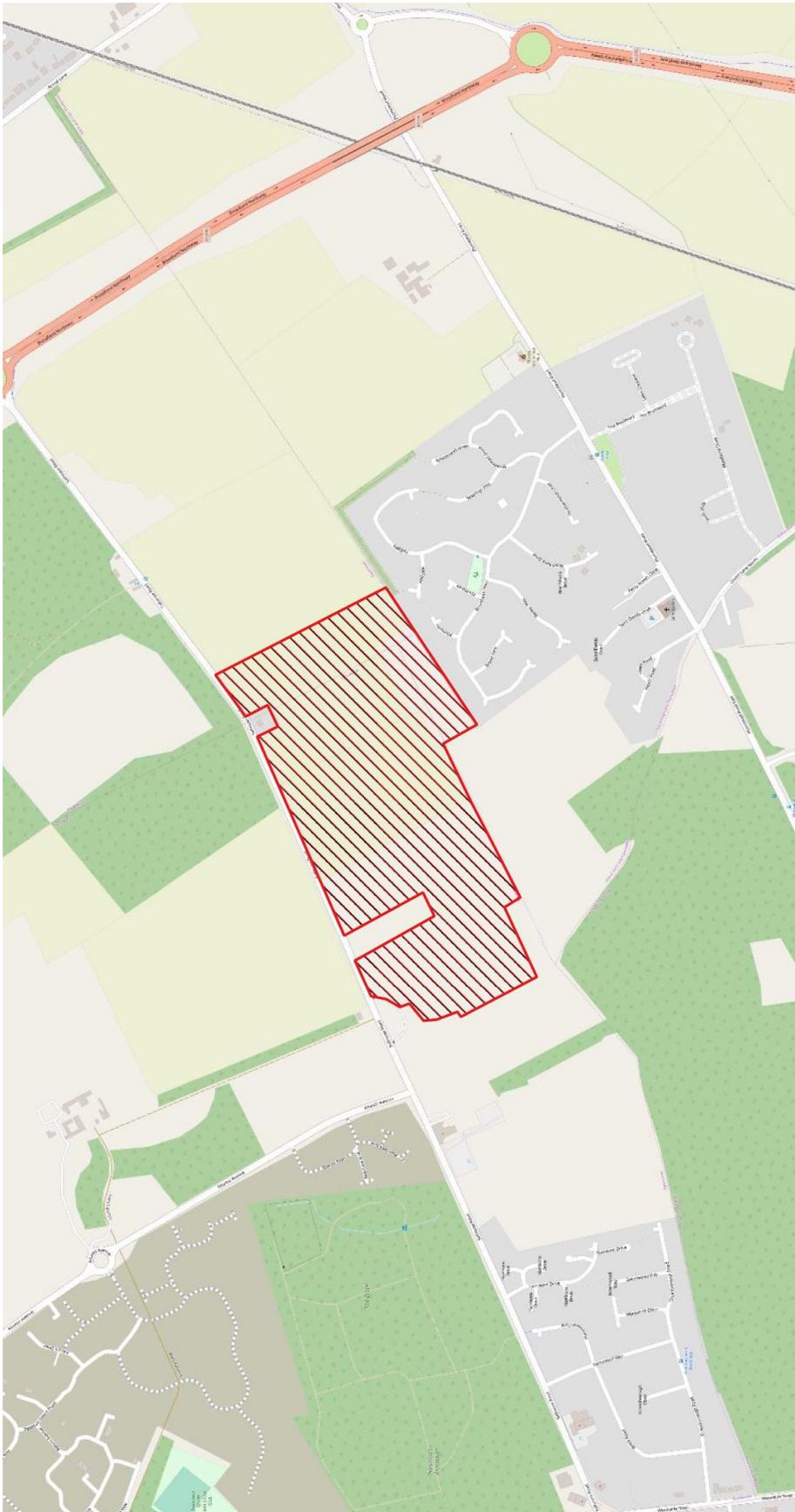
## 8. Site maps



ADDRESS: SALHOUSE ROAD, RACKHEATH,  
NORWICH, NORFOLK, NR13 6NR  
OS GRID REFERENCE: 627095,311518  
SCALE: 1:16000  
DRAWN BY: MM  
DATE: 23/01/2020

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

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0 250 500 m

**SALHOUSE ROAD 3  
INSET WASTE MAP 2**

**PROJECT: ...**

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AUTHORITY ON ...

Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.

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April 2020

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