

May 2020

Variation of Independent Water Networks Limited's appointment to include Nightingale Quarter, Derby

1. About this document

Variation of Independent Water Networks Limited's appointment to include Nightingale Quarter, London Road, Derby

On 9 April 2020, 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 Severn Trent Water Limited's ("**Severn Trent**") water supply and sewerage services area called Nightingale Quarter, London Road, Derby ("**the Site**").

The consultation ended on 9 May 2020. During the consultation period, we received one response from the Consumer Council for Water ("**CCW**"), which we have considered in making our decision.

On 21 May 2020, we granted Independent Water Networks a variation to its existing appointments 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	8
5. Conclusion	9
Appendix 1: Site Maps	10

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.

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 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**”). Independent Water Networks will serve the Site by way of bulk supply and discharge agreements with Severn Trent.

3.1 Unserved status of the Site

Independent Water Networks is applying for this variation based on the unserved criterion. 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.

The Site is brownfield with no existing dwellings within its boundary. Independent Water Networks has provided a letter from [Severn Trent dated 16 September 2019](#), confirming that in its view, the Site is unserved. The letter confirms that their billing and asset records indicate that it does not currently serve any properties within the boundary of the Site.

Having reviewed the facts of this Site, and taking into account the letter from the Severn Trent, 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 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’

In its application Independent Water Networks proposes to charge customers for services on the same basis as Severn Trent and will not offer a discount.

However in Independent Water Networks’ published charges scheme for 2020-2021 it states that it will be continuing its voluntary policy of charging 2.5% less than the

incumbents' volumetric charges for the 2020-21 charging year. Any customers who move into this Site before April 2021 will benefit from this price reduction.

Independent Water Networks also offers a £3 discount per year to customers that sign up to e-billing, and a £5 discount to customers who choose to pay by direct debit.

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 Severn Trent. 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 Severn Trent.

3.4 Effect of appointment on Severn Trent'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 Severn Trent'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 Severn Trent. 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 Severn Trent might have expected to receive in revenue from serving the Site directly, 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 no impact on the bills of Severn Trent's existing customers.

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 BJD (UK) Ltd 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 one response to our consultation; from CCW. We considered this response before making the decision to vary Independent Water Networks' appointment. The points raised in the response are set out below.

4.1 CCW

CCW stated it generally expects NAV appointments to provide customers with prices, levels of service and service guarantees that match, or ideally, better those of the incumbent company. This is particularly for developments that include domestic housing, as household customers do not currently have the ability to choose or switch supplier. Overall CCW agrees with our assessment that customers will be no worse off from this variation.

CCW noted Independent Water Networks' intention to match the charges of Severn Trent on the Site. However it highlighted that Independent Water Networks' charges scheme for 2020-2021 continues its voluntary policy of charging 2.5% less than the incumbents' volumetric charges for the 2020-21 charging year. This will benefit any customers who move onto this Site before April 2021. However, CCW noted that it is unclear whether Independent Water Networks is planning to continue this discount beyond March 2021. CCW also recognised the discounts Independent Water Networks offers to customers choosing to sign up to e-billing and/or direct debit.

CCW recognised that customers of Severn Trent will not see an increase in their charges as a result of the variation. It expressed its view that ideally the incumbent company's customers should receive some benefit from the new arrangement.

In relation to levels of service, CCW stated that it considers that Independent Water Network generally exceeds most of Severn Trent's service levels, so overall it supports the application.

CCW noted that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that the incumbent companies do. However, it will offer the standard WaterSure tariff for qualifying customers who find themselves in financial difficulty. CCW stated that, given its relatively small size and customer base, it may be appropriate for Independent Water Networks to tailor some of the services it provides. CCW noted that until Independent Water Networks can provide a formal social tariff, it expects it to offer appropriate, flexible support to customers in financial difficulty who would otherwise benefit from a social tariff. CCW considered that such support should not be at the expense of its other customers. This is because Independent Water Networks is not currently in a position to research the views of its customers on cross-subsidy.

5. Conclusion

Having assessed Independent Water Networks' application, and having taken account of the response we received to our consultation, we decided to grant a variation to Independent Water Networks' areas of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 22 May 2020.

Appendix 1: Site Maps



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND SEVERN TRENT WATER LTD, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 22/05/2020

ADDRESS: Nightingale Quarter, Former Derby Royal Infirmary, London Road, Derby, DE1 2QY
OS GRID REFERENCE: 435681, 335502

SCALE: 1:3000
DRAWN BY: CS
DATE: 11/11/2019

0 75 150 m



NIGHTINGALE QUARTER INSET WATER SUPPLY MAP 1



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND SEVERN TRENT WATER SERVICES LIMITED, ASSEWERAGE UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON .22/05/2020

ADDRESS: NIGHTINGALE QUARTER, FORMER DERBY ROYAL INFIRMARY, LONDON ROAD, DERBY, DE1 2QY
OS GRID REFERENCE: 435681, 335502

SCALE: 1:6000
DRAWN BY: EA
DATE: 20/05/2020

0 100 200 m

NIGHTINGALE QUARTER SEWERAGE UNDERTAKERS INSET MAP



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

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.gov.uk

May 2020

© Crown copyright 2020

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.gov.uk.

OGL