

June 2020

Variation of Independent Water Networks Limited's appointment to include Salhouse Road 3, Norwich

1. About this document

Variation of Independent Water Networks Limited's appointment to include Salhouse Road 3, Norwich

On 7 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 Anglian Water Services Limited's ("**Anglian Water**") water supply and sewerage services area called Salhouse Road 3 in Norwich ("**the Site**").

The consultation ended on 7 May 2020. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 2 June 2020, 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. This is Version 2 of this document, following amendment to Version 1 published on 3 June 2020.

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	12

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, 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 bulk discharge agreements with Anglian 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 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's 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.

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 our most recent company-based assessment of the company, we consider that 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 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, since it plans to charge no more than Anglian Water's charges. The publication of Independent Water Network's charging scheme for 2020-21 shows that a 2.5% discount will be offered for 2020-2021. Independent Water Network has confirmed to us that this will be reviewed again for 2021-2022 once it has visibility of the incumbents 2021-2022 charging arrangements.

Independent Water Networks also offers 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.

With regard to service levels, we 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 Anglian Water. Independent Water Networks provided its revised service level comparison against the service levels Anglian Water will deliver from 2020-21. 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 £0.002 annual increase on water bills and a potential £0.004 annual increase on sewerage bills for Anglian Water'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, Barratt David Wilson 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 CCW and Broadland District Council. We considered these responses before making the decision whether to vary Independent Water Networks' appointment. The points raised in the responses 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 or companies. This is particularly for developments that include domestic housing, as household customers do not currently have the ability to choose or switch supplier, unlike business customers. CCW states that overall it supports this application and agrees with Ofwat's assessment that customers will be 'no worse off'.

CCW stated that it is pleased that Independent Water Networks is charging its customers 2.5% less than Anglian Water's volumetric charge for water for the 2020-21 charging year. This means any customers who moves into this Site before April 2021 will benefit from this price reduction. CCW supports this reduction, but stated it is unclear whether Independent Water Networks is planning to continue this discount beyond March 2021. CCW stated that under these arrangements, customers may be temporarily better off than they would have been if Anglian Water had served them but the long-term price benefits are unclear. CCW noted that this will be reviewed annually and that it will be disappointed if the discount is not applied in future years.

CCW also noted that Independent Water Networks offers discounts to those customers who are able to and opt to take up e-billing or pay by direct debit. Whilst it welcomes these discounts, CCW notes that they will only apply to customers who are able to access e-billing or pay by direct debit, and not to customers generally.

Taking account of the recently revised levels of service, CCW considered that Independent Water Networks generally exceeds most of Anglian Water's standards. For example, Independent Water Networks offers increased compensation for low water pressure, or failing to read a meter once a year and offers a free leak repair service on customers' external supply pipes. CCW found that Independent Water Networks generally exceeds the service standards of Anglian Water.

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. CCW would expect Independent Water Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs

CCW stated Ofwat has calculated that the cost to existing customers is likely to be around £0.002 per annual bill for Anglian Water customers' water bills, and around £0.004 per annual bill for Anglian Water customers' sewerage bills once the Site is fully built out. CCW appreciates that this will have a negligible effect, but stated that it is unclear as to whether there will be any significant benefits arising from this arrangement for the existing customers of Anglian Water. CCW therefore questions the value of the NAV regime if it cannot deliver benefits to customers.

Our response

One of the key policy principles Ofwat considers when assessing NAV applications is that 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. Overall this requirement has been met by Independent Water Networks in its proposal. Our assessment does not require applicants to better the service and price of the existing appointee(s).

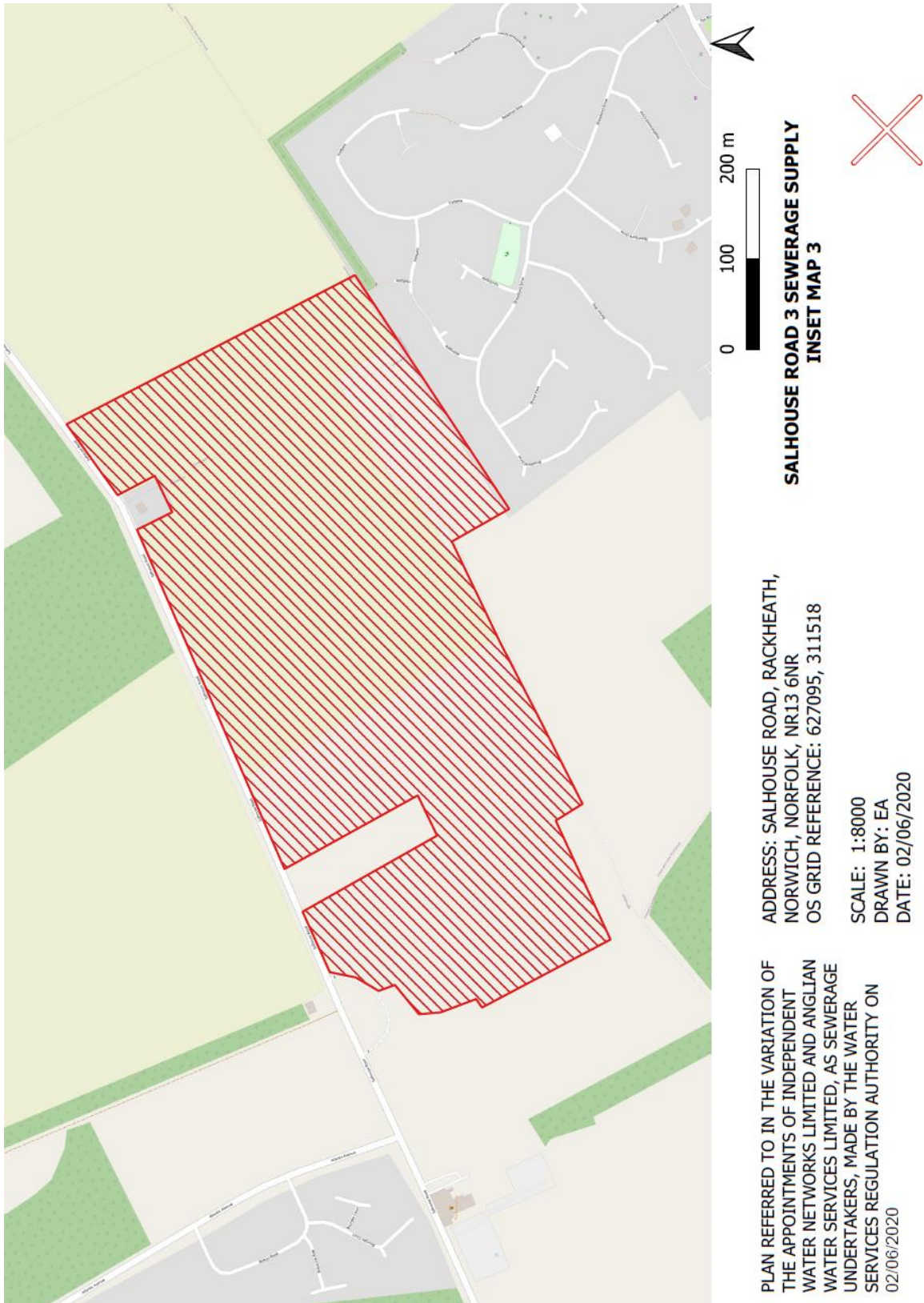
4.2 Broadland District Council

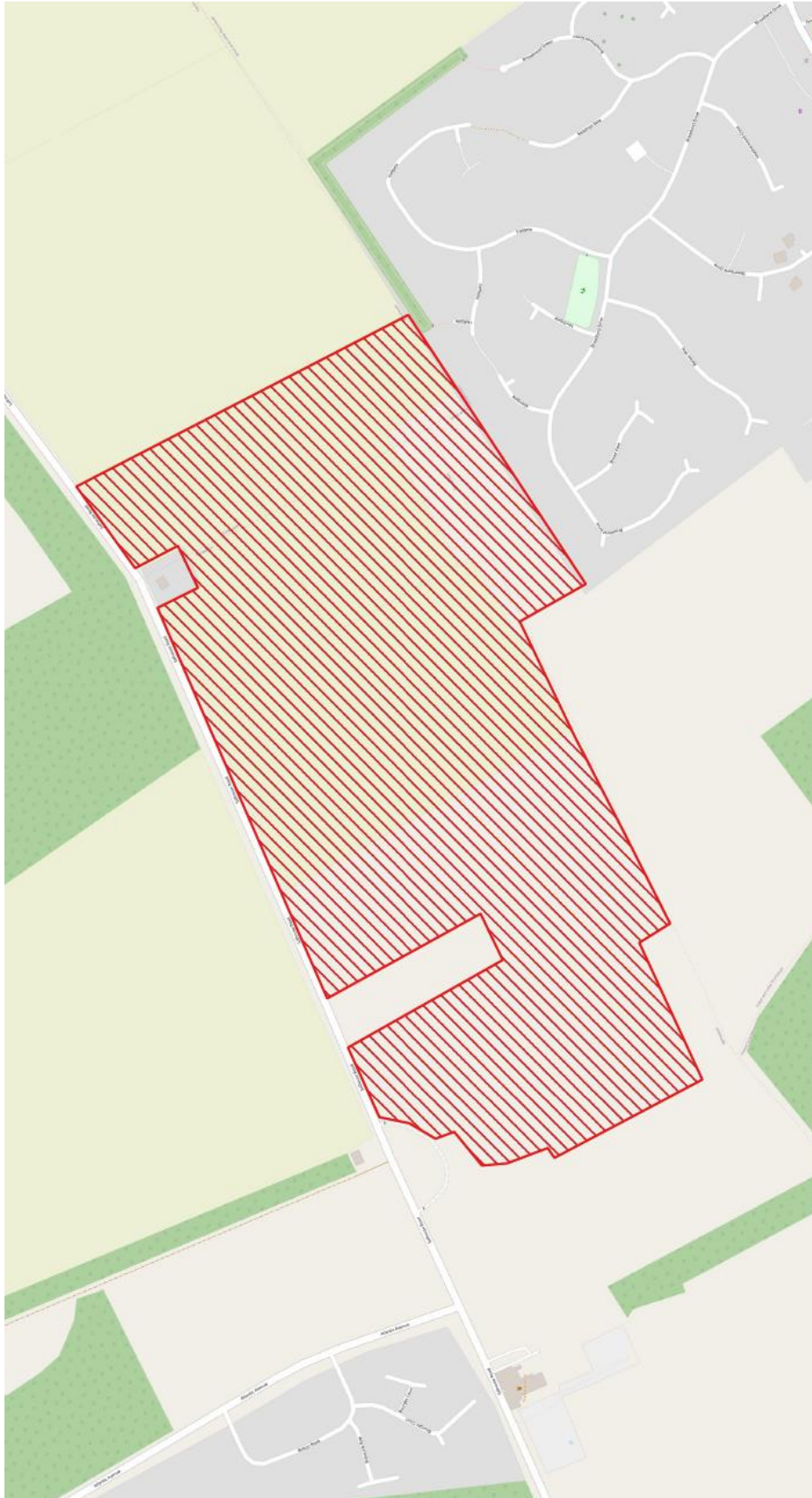
Broadland District Council confirmed that it does not have any objection to Ofwat's proposal.

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 Anglian Water's area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 3 June 2020.

Appendix 1: Site Maps





PLAN REFERRED TO IN THE VARIATION OF
THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND ANGLIAN
WATER SERVICES LIMITED, AS WATER
UNDERTAKERS, MADE BY THE WATER
SERVICES REGULATION AUTHORITY ON
02/06/2020

ADDRESS: SALHOUSE ROAD, RACKHEATH,
NORWICH, NORFOLK, NR13 6NR
OS GRID REFERENCE: 627095, 311518

SCALE: 1:8000
DRAWN BY: EA
DATE: 02/06/2020

**SALHOUSE ROAD 3 WATER SUPPLY
INSET MAP 1**



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

June 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.

