

December 2020

# **Variation of Independent Water Networks Limited's appointment to include Hatfield Lane, in Armthorpe, South Yorkshire**

## Variation of Independent Water Networks Limited's appointment to include Hatfield Lane, in Armthorpe, South Yorkshire

On 30 September, 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 Yorkshire Water Services Limited's ("**Yorkshire Water**") water services area called Hatfield Lane in Armthorpe, South Yorkshire ("**the Site**").

The consultation ended on 28 October 2020. During the consultation period, we received representations from two organisations, which we considered in making our decision. On 11 November 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.

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## 1. 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 Yorkshire 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 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.

## 2. 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 Yorkshire Water.

### 2.1 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 Yorkshire Water indicating that the Site is not currently served by public water infrastructure and that Yorkshire 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.

### 2.2 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.

### 2.3 Assessment of ‘no worse off’

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 Yorkshire Water indicating that the Site is not currently served by public water infrastructure and that Yorkshire 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.

## **2.4 Effect of appointment on Yorkshire 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 Yorkshire 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 Yorkshire 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 Yorkshire 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 estimated that if we grant the Site to Independent Water Networks, the bills of Yorkshire Water's existing water customers will increase by £0.007; this is once the Site is fully built out.

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.

## **2.5 Developer choice**

Where relevant, we take into consideration the choices of the site's developer. In this case, the developer – Albemarle Homes Limited – said that it wanted Independent water Networks to be the water services provider for the Site.

### 3. Responses received to the consultation

We received two responses to our consultation from the Consumer Council for Water (“**CCW**”) and the Drinking Water Inspectorate (“**DWI**”). We considered these response before making the decision to vary Independent Water Networks' appointments. The DWI stated that it had no comments to make on the proposed variation. The points raised in CCW's response are set out below.

#### 3.1 CCW

CCW states that in general it considers that new appointees should provide consumers with prices, levels of service and service guarantees that match or ideally better those of the incumbent water company. Overall, CCW agrees with our assessment that customers will be no worse off in terms of service by Independent Water Networks rather than Yorkshire Water.

In relation to levels of service, CCW notes that Independent Water Networks generally matches or exceeds most of Yorkshire Water's standards. For example in many instances Independent Water Networks offers increased compensation in the event of not meeting service commitments.

CCW notes that Independent Water Networks is not able to offer its financially vulnerable customers a social tariff in the way that the incumbent company does, although it will offer the standard WaterSure tariff for qualifying customers. It agrees that, given its relatively small size and customer base, it may be appropriate for Independent Water Networks to tailor some of the services that it provides. Until it can provide a formal social tariff, it expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty who would otherwise benefit from a social tariff. This should not be at the expense of its other customers. It would expect Independent Water Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs

In relation to charging CCW comments that whilst the application states that Independent Water Networks will match Yorkshire Water's charges, its Charges Scheme for 2020-21 continues its voluntary policy of charging 2.5% less than the incumbent's volumetric charges for the 2020-21 charging year. Any customers who move into the Site before April 2021 will therefore benefit from this reduction. CCW welcomes this discount, but notes it is unclear if it will continue beyond this charging year. It notes that under these arrangements, customers may be temporarily better off than they would have been if Yorkshire Water had served them but the long-term price

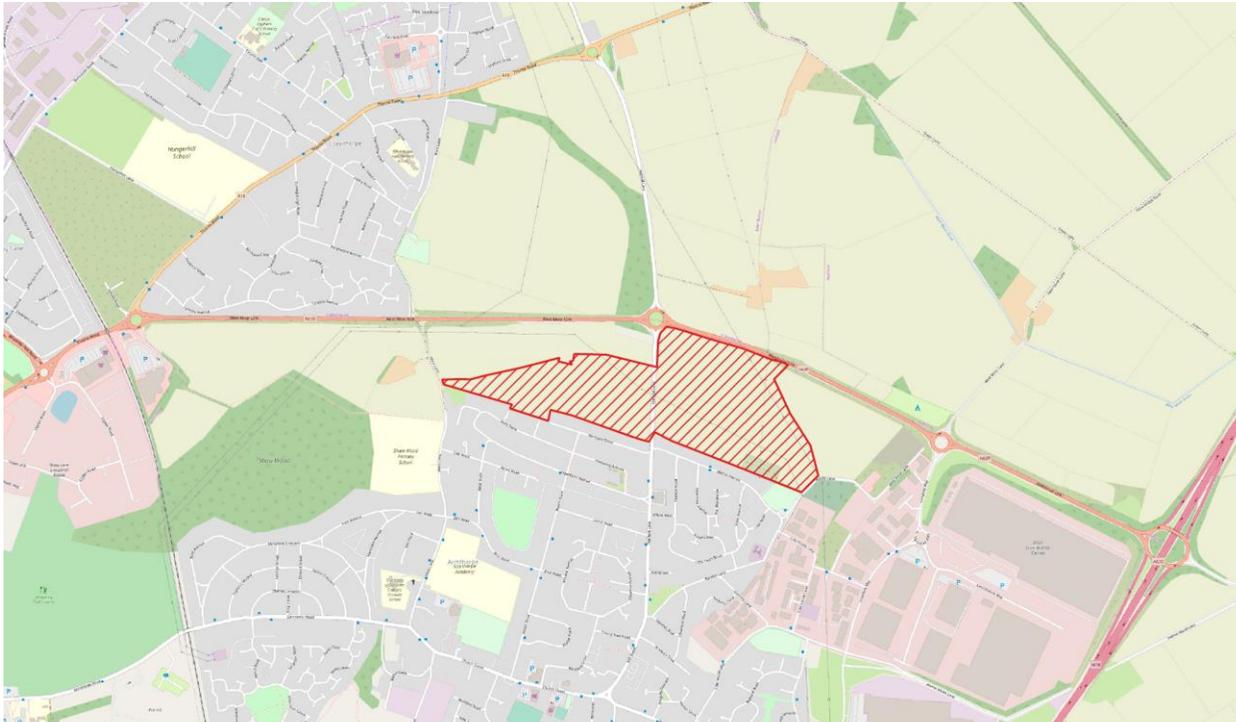
benefits are unclear. CCW states that it will be disappointed if the discount is not applied in future years.

CCW noted our estimate that the variation would result in a negligible increase of in the water bills of Yorkshire Water's existing customers, but notes it is unclear whether there will be any significant benefits arising from this arrangement for the incumbent's customers.

## **4. 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 services. This appointment became effective on 12 November 2020.

## Appendix 1: Site Map



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

ADDRESS: HATFIELD LANE, ARMTHORPE, DONCASTER, SOUTH YORKSHIRE DN3 3HS  
OS GRID REFERENCE: 462999, 405716

SCALE: 1:15000  
DRAWN BY: CS  
DATE: 18/11/2019

0 250 500 m

HATFIELD LANE INSET WATER SUPPLY MAP 2



**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
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