

January 2021

Variation of Independent Water Networks Limited's appointment to include Wheatley Hall Road, Whittlesey

About this document

Variation of Independent Water Networks Limited's appointment to include Wheatley Hall Road, Whittlesey

On 2 September 2020, Ofwat began a [consultation](#) on a proposal to vary Independent Water Network Limited's ("**Independent Water Networks**") appointment to become the water provider for a development in Yorkshire Water Services Limited's ("**Yorkshire Water**") water services area called Wheatley Hall Road in Doncaster ("**the Site**"). The consultation ended on 30 September 2020. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 9 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.

Contents

About this document	1
1. Introduction	3
2. The application	4
3. Responses received to the consultation	5
4. Conclusion	7
Appendix 1: Site Map	8

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**”);

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.

The application

Independent Water Networks applied to be the water 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 a bulk supply agreement with Yorkshire Water.

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.

Yorkshire Water has provided a letter, dated 17 January 2020, confirming that in its view the Site is unserved. This is due to the fact that Yorkshire Water has not identified any served properties for water supply on the Site.

There is also a site map attached to the application which confirms that there are currently no properties on the Site.

Having considered the facts of the Site, the maps and the letter from Yorkshire Water, we are satisfied that this Site is unserved.

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.

Assessment of ‘no worse off’

Independent Water Networks will match Yorkshire Water’s charges for the Site.

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

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 price 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 customers of Yorkshire 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 Yorkshire Water 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.

In this case, we have calculated that if we grant the Site to Independent Water Networks, there may be a potential impact on the bills of Yorkshire Water's existing customers of £0.001. We therefore consider that granting this variation would have a negligible impact (if any) on customers' bills and could have potential benefits for 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.

Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Taylor Wimpey has given its consent for Independent Water Networks to be the water services provider for the Site.

Responses received to the consultation

We received three responses to our consultation, from the Environment Agency, the Consumer Council for Water ("**CCWater**"), and the Drinking Water Inspectorate ("**DWI**"). We considered these responses before making the decision to vary Independent Water Networks' appointment.

The DWI and the Environment Agency stated that they had no comments to make with regards to this consultation. The points raised in the response from CCWater are set out below.

CCWater

In its consultation response CCWater stated that in general it expects new appointees to provide customers with prices, levels of service and service guarantees that match, or ideally better, those of the incumbent company.

CCWater noted that Independent Water Networks proposes to charge customers on the same basis as Yorkshire Water. However, Independent Water Networks will be continuing its voluntary general policy of charging 2.5% less than the incumbents' volumetric charges for the 2020-21 charging year at its sites. Hence, any customers who move into this Site before April 2021 will benefit from this price reduction. CCWater support this reduction, but note that it is unclear whether Independent Water Networks is planning to continue this discount beyond March 2021.

CCWater noted our conclusion that there will be a cost to the incumbent's existing customers of £0.001 per annual water bill once the Site is built out. Although this is very low, it stated Ofwat has provided no evidence of significant benefits to the existing customers of Yorkshire Water.

As part of the application process, CCWater commented on a comparison of Independent Water Networks' voluntary and statutory service standards with Yorkshire Water's own standards. Since then, Independent Water Networks has revised its service

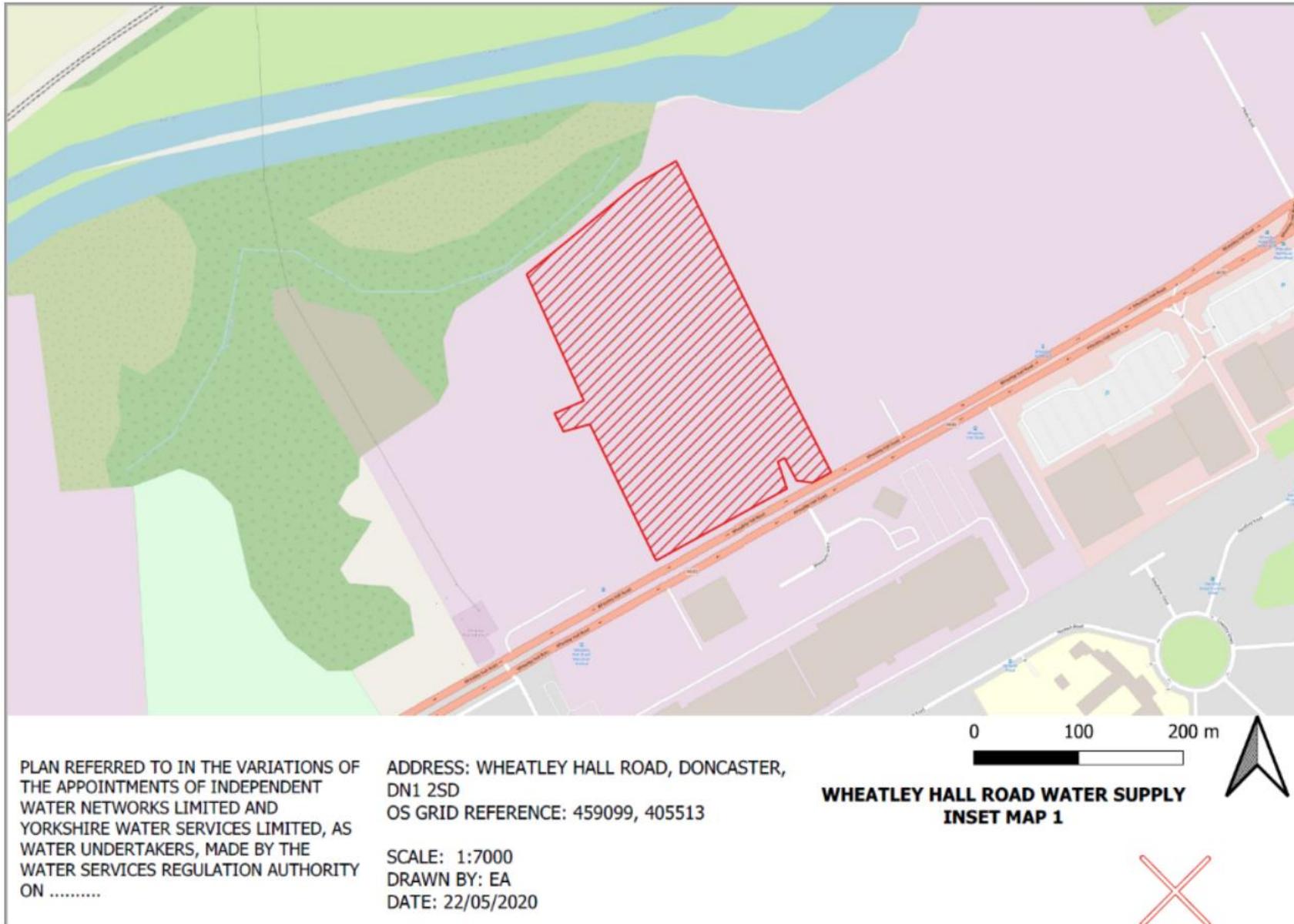
standards. Taking account of the revised levels of service, CCWater considers that Independent Water Networks generally matches or exceeds Yorkshire Water's standards and agrees with our assessment that customers would be no worse off being served by Independent Water Networks rather than Yorkshire Water. For example, Independent Water Networks pays higher compensation if it fails to respond to written complaints or billing queries within committed timescales.

However, CCWater notes that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that Yorkshire Water does, although it will offer the standard WaterSure tariff for qualifying customers. CCWater states 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, CCWater 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. CCWater would expect Independent Water Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs. Independent Water Networks generally matches or exceeds the service standards of Yorkshire Water, so, overall, CCWater support this application.

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 to supply water. This variation became effective on 10 November 2020.

Appendix 1: Site 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

© Crown copyright 2021

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 mailbox@ofwat.gov.uk.

OGL