

December 2020

Variation of Independent Water Network Limited's appointment to include Naisberry Farm, Hartlepool

1. About this document

Variation of Independent Water Network Limited's appointment to include Naisberry Farm, Hartlepool

On 6 October 2020, Ofwat began a [consultation on a proposal](#) to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water services provider for a development in Anglian Water Services Limited's ("**Anglian Water**") water supply area called Naisberry Farm, Hartlepool ("**the Site**").

The consultation ended on 3 November 2020.

On 16 November 2020, we granted Independent Water Networks a variation to its existing appointment to enable it to supply water to the Site.

This notice gives our reasons for making this variation.

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2. Introduction

The new appointment and variation (“**NAV**”) 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 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 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 for water 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 or variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

The Site is a greenfield site and Independent Water Networks provided Ofwat with a letter on 10 December 2019 from Anglian Water which states that the Site is unserved for water.

Given the information provided by the applicant and the letter from Anglian Water we consider the Site to be unserved.

3.2 Financial viability of the proposal

We will only make an appointment or variation if we are satisfied that the proposal poses a low risk of being financially non-viable. We assess the risk of financial viability 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’

Independent Water Networks will match the charges of Anglian Water.

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 Anglian 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 Anglian Water.

3.4 Effect of variation 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 charges 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 estimated that if we grant the Site to Independent Water Networks, there may be no potential increase on the water bills of existing Anglian Water 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 Site's developer, Barratt / David Wilson Homes, said that it wanted Independent Water Networks to be the water company for the Site.

4. Response received to the consultation

We received three responses to our consultation, from the Consumer Council for Water (“**CCW**”), the Environment Agency and the Drinking Water Inspectorate (“**DWI**”). The DWI stated that it had no comments in response to our consultation.

We considered the responses from the Environment Agency and CCW before making the decision to vary Independent Water Networks' appointment. The points raised in the responses are set out below.

4.2 Environment Agency

The Environment Agency stated that it had no objections in response to our consultation. It noted that the Site is in an area of restricted water available for licensing which may affect any future plans the applicant may have to apply for their own abstraction licence. This comment has been passed to Independent Water Networks.

4.1 CCW

In its response CCW stated that in general it expects new appointee to provide consumers with prices, levels of service and service guarantees that match or ideally better those of the incumbents.

Whilst Independent Water Networks' application states that it proposes to charge customers on the same basis as Anglian Water, CCW notes that Independent Water Networks intends to continue 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, but only for a short period. CCW supports this discount and states it will be disappointed if this discount does not continue beyond this charging year. CCW also noted that Independent Water Networks offers discounts to customers who take up e-billing or pay by direct debit.

CCW stated that it is aware that Independent Water Networks has revised its proposed service levels during the application process. Taking account of the revised service levels CCW considers that Independent Water Networks generally matches or exceeds Anglian Water's service levels so overall CCW supports the application. For example IWN offers increased compensation for low water

pressure or failing to read a meter once a year and offers and a free leak repair service on customers' external supply pipes.

CCW noted that Independent Water Networks will not be able to offer a social tariff to financially vulnerable customers in the way Anglian Water does, but will offer the standard WaterSure tariff for qualifying customers. CCW 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. CCW set out its expectation that Independent Water Networks would offer appropriate, flexible support to any customer in financial difficulty who would otherwise have benefitted from a social tariff and that this should not be at the expense of its other customers. CCW expects Independent Water Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW noted our conclusion that Anglian Water's existing customers would see no increase in their water bills as a result of the variation but questions the value of the NAV regime if it cannot deliver benefits to customers. It notes that there is no evidence of significant benefits to the existing customers of Anglian Water.

One of our key policies is that customers should be no worse off if a NAV is granted. That is, an applicant must ensure its customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service and price of previous incumbents.

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' area of appointment to allow it to serve the Site for water services. This variation became effective on 17 November 2020.

Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND ANGLIAN WATER SERVICES LIMITED, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON..... 16/11/2020

ADDRESS: NAISBERRY FARM, WORSET LANE, HART, HARTLEPOOL, TS27 3EA
OS GRID REFERENCE: 448140, 533351

SCALE: 1:3000
DRAWN BY: CS
DATE: 09/12/2019

0 75 150 m



NAISBERRY FARM INSET WATER SUPPLY MAP 1

PROJECT: N0021084



**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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