

December 2020

# **Variation of Independent Water Networks Limited's appointment to include Green Lane East in Norwich, Norfolk**

## 1. About this document

# Variation of Independent Water Networks Limited's appointment to include Green Lane East in Norwich, Norfolk

On 22 September 2020, Ofwat began a [consultation on a proposal to vary Independent Water Networks Limited's \("Independent Water Networks"\)](#) appointment to become the water provider for a development in Anglian Water Services Limited's ("**Anglian Water**") water services area called Green Lane East in Norwich, Norfolk ("**the Site**").

The consultation ended on 21 October 2020. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 12 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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## 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.

### **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 of water from Anglian Water.

#### **3.1 Unserved status of the Site**

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

Anglian Water has provided a letter, dated 11 June 2020, confirming that in its view the Site is unserved. Anglian Water has not identified any served properties for water supply on the Site. The satellite images of the Site show that there are no existing properties on the Site.

Having considered the application details, the maps, the satellite images and the letter from Anglian Water, we are satisfied that this Site may be considered as 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 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 that 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 at the Site.

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 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 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 estimate there will be no increase on the water bills of existing Anglian Water customers if we grant this variation to IWN. 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, Lovell Partnerships Limited, has given its consent for Independent Water Networks to be the water services provider for the Site.

## 4. Responses received to the consultation

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

### 4.1 CCW

In its response CCW stated that in general it expects NAV appointees to match or ideally better the incumbent's prices, service levels and service guarantees.

Whilst Independent Water Networks' application proposes to match the charges of Anglian Water, CCW noted that Independent Water Networks' charging scheme for 2020-21 continues its voluntary policy of charging 2.5% less than Anglian Water's volumetric charges. Any customers who move into the Site before April 2021 will therefore benefit from this reduction, but it was unclear to CCW if it will continue beyond this charging year adding that they would be disappointed if discounts are not continued.

Regarding e - billing and direct debit, CCW 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 and that Independent Water Networks generally matches or exceeds the service standards of Anglian Water, so, overall, CCW supported the application, noting further that there will be no cost to the incumbent's existing customers.

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 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 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.

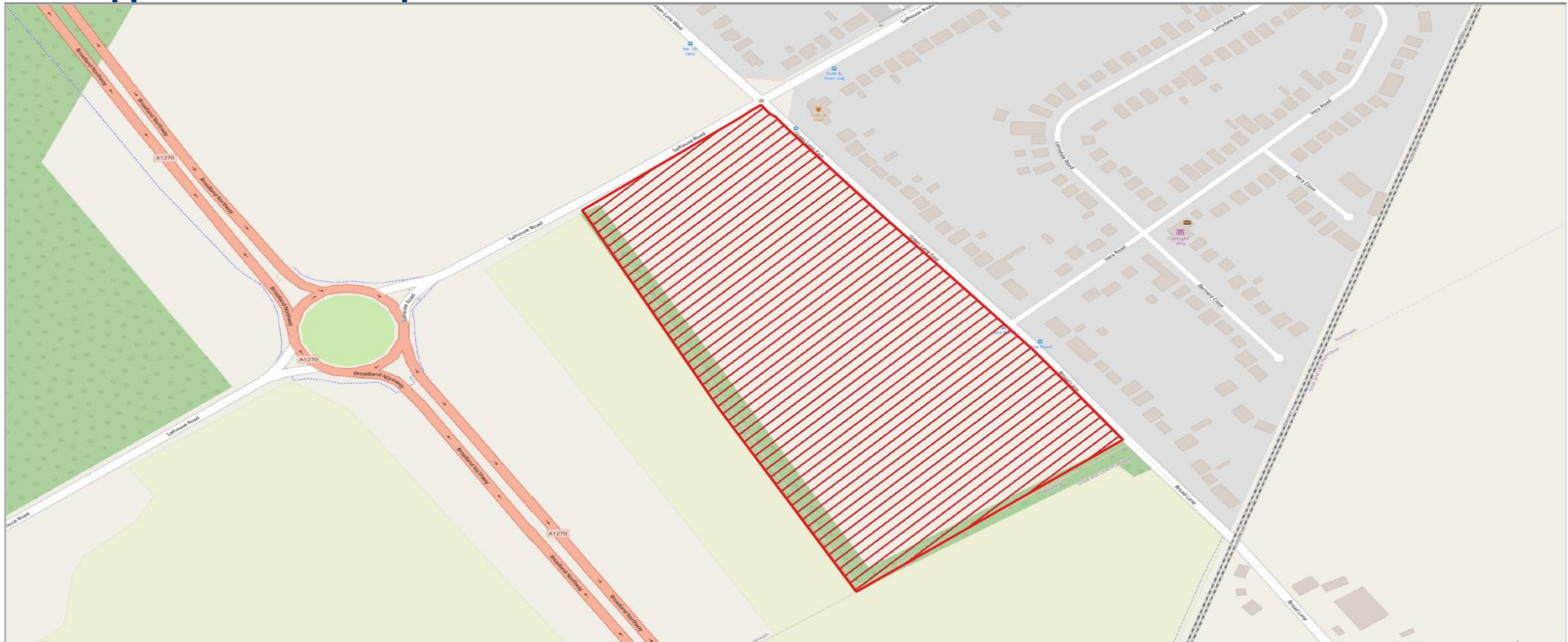
CCW noted our conclusion that Anglian Water's existing customers would see no increase in their water bills as a result of the variation but questions the value of the NAV regime if it cannot deliver benefits to these customers.

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 new 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 to supply water. This variation became effective on 13 November 2020.

## Appendix 1: Site Map



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 12/11/20

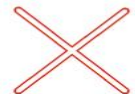
ADDRESS: GREEN LANE EAST, RACKHEATH, NORWICH, NORFOLK, NR13 6QH  
OS GRID REFERENCE: 628525, 312254

SCALE: 1:6000  
DRAWN BY: EA  
DATE: 10/06/2020

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**GREEN LANE EAST WATER SUPPLY  
INSET MAP 1**

**PROJECT: N0021425**



**Ofwat (The Water Services Regulation Authority)  
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