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

About this document

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On 21 October 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 Anglian Water Services Limited's ("**Anglian Water**") water services area called Eastrea Road in Whittlesey, Cambridgeshire ("**the Site**"). The consultation ended on 18 November 2020. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 24 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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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 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 Anglian 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.

Anglian Water has provided a letter, dated 15 July 2020, confirming that in its view the Site is unserved. This is due to the fact that Anglian 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 Anglian 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 Anglian 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 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.

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 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 Anglian Water's existing customers of £0.001. We therefore consider that granting this variation would have a negligible impact 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 East Midlands, 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 Drinking Water Inspectorate ("DWI"), Environment Agency and the Consumer Council for Water ("CCWater"). We considered these responses before making the decision to vary Independent Water Networks' appointment.

The DWI stated that it had no comments to make with regards to this consultation. The points raised by the Environment Agency and 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 notes that whilst Independent Water Network's application proposes that it will charge customers the same as Anglian Water, CCWater is aware that 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 NAV sites. Hence, any customers who move into the Site before April 2021 will benefit from this price reduction. CCWater supports this reduction, however have stated it is unclear whether Independent Water Networks is planning to continue this discount beyond March 2021, and would be disappointed if the discount is not applied in future years. CCWater also note 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.

CCWater notes that Independent Water Networks has revised its service standards during the application process. Taking account the revised levels of service, CCWater considers that Independent Water Networks generally matches or exceeds the service standards of Anglian Water. 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.

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

CCWater noted our conclusion that Anglian Water's existing customers would see an increase of £0.001 on their water bills as a result of the variation, and while it appreciates this is extremely low, it 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 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.

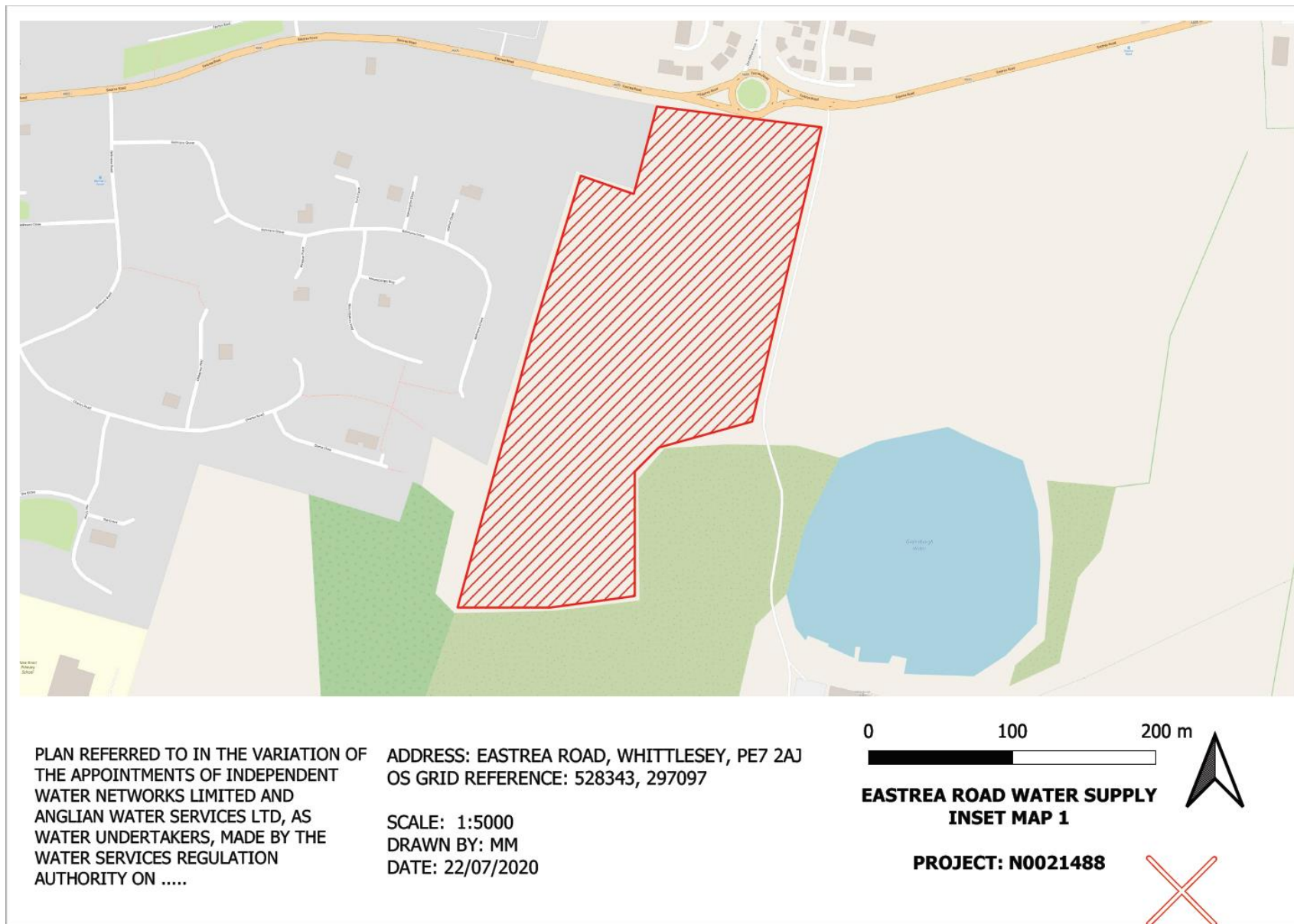
Environment Agency

The Environment Agency's response stated it has no objection to the variation, but asked us to pass on the following comments to Independent Water Network. It reiterated its wishes for all developers and water suppliers to aspire to the 110 l/h/d (water efficiency) optional requirement from part G of the Government (Ministry of Housing, Communities & Local Government) Building regulations for England. It has also asked for Independent Water Networks to hold discussions to ensure supply from the incumbent can be provided without causing deterioration in the Water Framework Directive status of surface and/or groundwater bodies.

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 25 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.**

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