

December 2020

Variation of Independent Water Networks Limited's appointment to include Harland Way, Cottingham, North Humberside

1. About this document

On 1 October 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 Yorkshire Water Services Limited's ("**Yorkshire Water**") water supply area called Harland Way in Cottingham, North Humberside ("**the site**").

The consultation ended on 29 October 2020. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 26 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 mechanism (“**NAVs**”), 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.

3. 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 bulk supply and 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 is served by the existing appointee.

Yorkshire Water provided a letter, dated 13 March 2020, confirming that, in its view, the site is unserved. Having reviewed the facts of this site, and taking into account the letter from the incumbent we consider the Site to be 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’

Independent Water Networks will offer to match the charges of Yorkshire Water, with a further initial 2.5% discount on its prices for the 2020-21 financial year.

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 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.

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 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 it 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 would not be an impact on the water bills of Yorkshire Water's existing 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.

2.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Persimmon Homes, said that it wanted Independent Water Networks to be the water company for the Site.

4. Responses received to the consultation

We received three responses to our consultation; from the Consumer Council for Water (“**CCW**”), the Drinking Water Inspectorate (“**DWI**”) and the Environment Agency . We considered these responses before making the decision to vary Independent Water Networks' appointment. Both the DWI and the Environment Agency said they had no comments to make on the consultation. The points raised in CCW's response are set out below.

3.1 CCW

CCW stated that in general it expects NAV appointees to exceed or at least match the incumbent's prices, service levels and service guarantees.

Whilst Independent Water Networks' application states that it proposes to charge customers on the same basis as Yorkshire Water, CCW notes that Independent Water Networks intends to continue its voluntary policy of charging 2.5% less than Yorkshire Water'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.

Taking account of the service levels, CCW considers that Independent Water Networks generally matches or exceeds Yorkshire Water's service levels, so overall CCW supports the application. For example, Independent Water Networks offers increased compensation for failures to respond to written complaints or billing queries within its service levels.

CCW noted that Independent Water Networks will not be able to offer a social tariff to financially vulnerable customers in the way Yorkshire 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.

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.

CCW noted our conclusion that Yorkshire 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 Yorkshire Water.

5. 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 27 November 2020.

6. Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND YORKSHIRE WATER SERVICES LTD, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 26 November 2020

ADDRESS: HARLAND WAY, COTTINGHAM, NORTH HUMBERSIDE, HU16 5TA
OS GRID REFERENCE: 459912, 452969

SCALE: 1:4000
DRAWN BY: MM
DATE: 11/03/2020

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**HARLAND WAY
INSET WATER MAP 1**

PROJECT: N0021284



**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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