

March 2021

Variation of Independent Water Networks Limited's appointment to include Tunstall Farm, Hartlepool

About this document

Variation of Independent Water Networks Limited's appointment to include Tunstall Farm, Hartlepool.

On 7 December 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 Tunstall Farm in Hartlepool ("**the Site**").

The consultation ended on 4 January 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 18 February 2021, 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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1. 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 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 Limited 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.

2. The application

Independent Water Networks applied to be the water services 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 agreement with Anglian Water.

2.1 Unserved status of the site criterion

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 provided a letter, dated 28 September 2020, confirming that there are no properties within the proposed boundary served by it. We have reviewed the facts of the Site and aerial view photos showing there are no properties located on the Site.

Given the information provided by the applicant and the incumbent company, we are satisfied that the Site is 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 will not materially impact the financial viability of Independent Water Networks, 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 match Anglian Water's water charges, it will not offer a discount.

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 Limited and that overall customers will be 'no worse off' being served by Independent Water Networks instead of by Anglian Water.

2.4 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 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 it to serve the Site, with the revenues it 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 water bills of Anglian Water's existing customers of £0.001.

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, Storey Homes Limited, said that it wants Independent Water Networks to be the water company for the Site.

3. 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. The DWI did not have any comments to make on the consultation. The points raised in the Environment Agency and CCW's responses are set out below.

3.1 The Environment Agency

The Environment Agency did not have further comments to make on the consultation other than to highlight an awareness that the Site sits within an area of restricted water available for licencing and should Independent Water Networks wish to undertake its own abstraction in the future it may not be possible. Independent Water Networks understands and acknowledged the comment.

3.2 CCW

CCW stated that in general it expects NAV appointments and variations to provide customers with prices, levels of service and service guarantees that match, or ideally, better those of the incumbent company, particularly for developments that include domestic housing, as household customers do not currently have the facility to choose or switch supplier, unlike business customers.

CCW noted Independent Water Networks' voluntary general policy of charging 2.5% less than the incumbents' volumetric charges for the 2020-21 charging year at its NAV sites. It stated that it is unclear whether Independent Water Networks plans to continue this discount beyond March 2021 and noted it will be disappointed if the discount is not applied in future years. CCW also noted that Independent Water Networks offers discounts to customers who are able to and opt to take up e-billing or pay by direct debit.

CCW agreed with our overall assessment that customers will be no worse off in terms of the levels of service that they will receive from Independent Water Networks, than if they are served by Anglian Water. CCW noted that the service standards provided by Independent Water Networks generally exceed most of the service standards of Anglian Water, and therefore, overall it supports this application. For example Independent Water Networks offers greater 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.

However, CCW noted that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that the incumbent companies do. It noted that the applicant will however, offer the standard WaterSure tariff for qualifying customers who find themselves in financial difficulty. CCW agreed that, given its relatively small size and customer base, it may be appropriate for Independent Water Networks to tailor some of its services. CCW noted that until Independent Water Networks can provide a formal social tariff, it expects Independent Water Networks to offer appropriate and flexible support to customers in financial difficulty who would otherwise benefit from a social tariff. CCW considered that such support should not be at the expense of its other customers. CCW expects Independent Water Networks to research its customers' views on any proposed cross-subsidy before introducing any social tariffs.

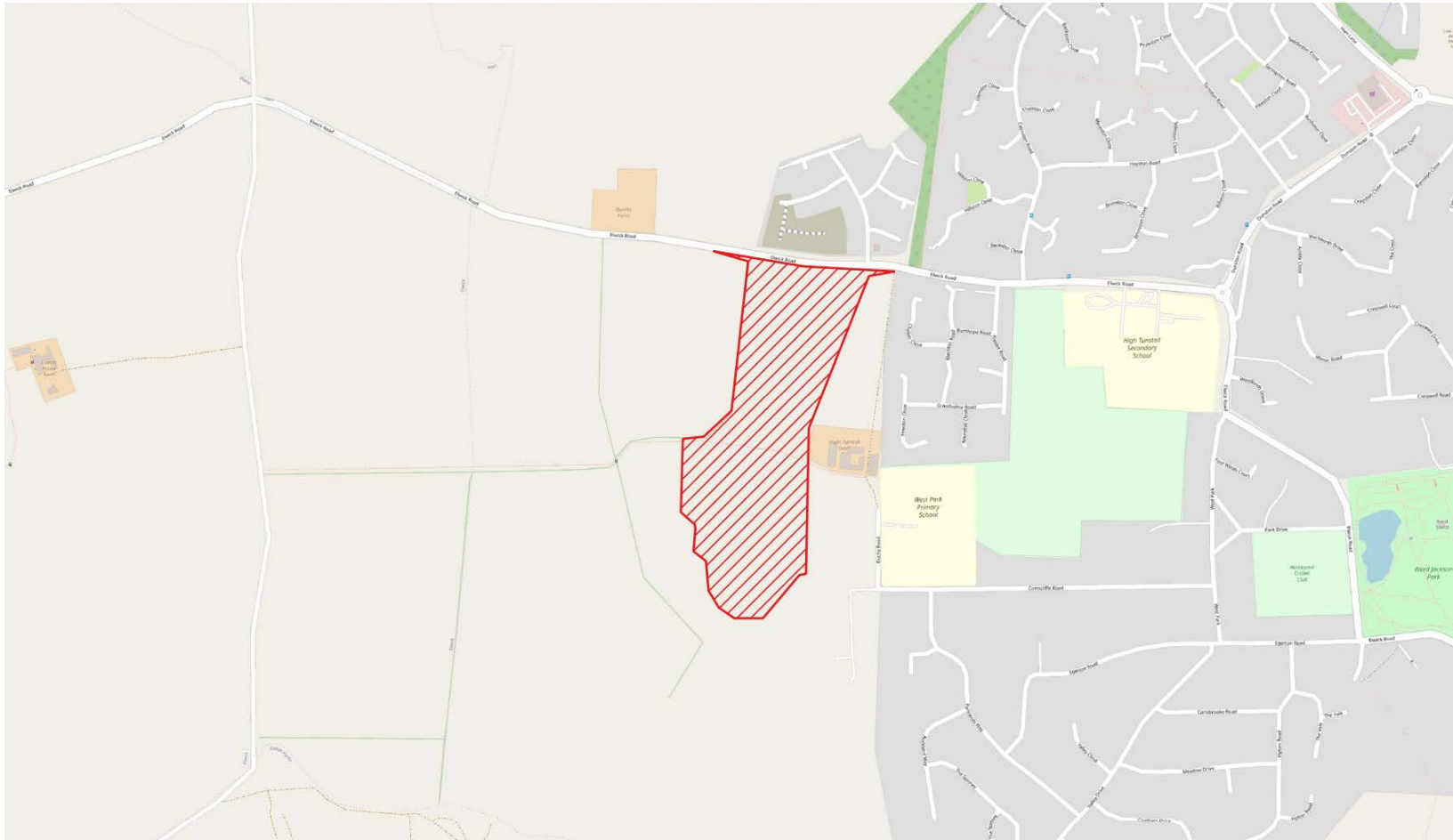
Whilst CCW appreciated that an increase of £0.001 on the water bills of Anglian Water's existing customers, when the Site is build out, is very low, it said it was unclear whether there will be any significant benefits from the arrangement for Anglian Water's customers. CCW therefore questions the value of the NAV regime if it cannot deliver benefits to customers.

One of the key policy principles Ofwat considers when assessing NAV applications is that customers overall should overall be no worse off (in terms of the price and service they receive) than if they had been supplied by the existing appointee. This requirement has been met by Independent Water Networks in its proposal to improve the levels of service and match the pricing set by Anglian Water. Our assessment does not require applicants to better the service and price of the existing appointee.

4. 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 19 February 2021.

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 UNDERTAKER, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 18 February 2021

ADDRESS: TUNSTALL FARM, HARTLEPOOL, TS26 0LH
OS GRID REFERENCE: 447910, 532665

SCALE: 1:8000
DRAWN BY: CS
DATE: 02/10/2020

0 100 200 m



TUNSTALL FARM INSET WATER
MAP 1

**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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