

March 2021

**Variation of Independent Water
Networks Limited's
appointment to include Percy Drive,
Morpeth, Northumberland -
Decision document**

About this document

Variation of Independent Water Networks Limited's appointment to include Percy Drive, Morpeth, Northumberland

On 28 January 2021, Ofwat began a [consultation on a proposal](#) to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water and sewerage services provider for a development in Northumbrian Water Limited's ("**Northumbrian Water**") water supply area called Percy Drive, Morpeth in Northumberland ("**the Site**").

The consultation ended on 25 February 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 4 March 2021, we granted Independent Water Networks a variation to its existing appointment to enable it to supply water and sewerage services to the Site.

This notice gives our reasons for making this variation.

Contents

| | |
|---|----|
| About this document | 1 |
| 1. Introduction | 3 |
| 2. The application | 5 |
| 3. Responses received to the consultation | 7 |
| 4. Conclusion | 9 |
| Appendix 1: Site Maps | 10 |

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 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 Northumbrian Water to become the appointed water and sewerage 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 and sewerage 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 and discharge agreements with Northumbrian 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.

Independent Water Networks has informed Ofwat that the Site is greenfield. Aerial photographs and maps show that there are no existing buildings within the perimeter of the Site. Northumbrian Water in a letter, dated 18 September 2020, confirmed that, in its view, the Site is unserved.

Having considered the facts of the Site and the letter from Northumbrian Water, we are satisfied that this Site is unserved for water and sewerage services.

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 that 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 proposes to charge customers on the Site charges that are equivalent to the charges of Northumbrian 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 Northumbrian 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 Northumbrian Water.

2.4 Effect of appointment on Northumbrian 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 Northumbrian 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 Northumbrian 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 Northumbrian 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 would be no impact on the water bills and a potential £0.01 increase in the sewerage bills of Northumbrian 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 wants Independent Water Networks to be the water and sewerage company for the Site.

3. Responses received to the consultation

We received three responses to our consultation, from the Drinking Water Inspectorate (“**DWI**”), the Environment Agency and the Consumer Council for Water (“**CCW**”).

The DWI and Environment Agency had no comments or objections with regard to this consultation.

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

3.1 CCW

CCW states that in general it expects applicants for a new appointment and/or variation (“**NAV**”) to exceed or at least match the incumbent's prices, service levels and service guarantees. This is particularly true for developments that include domestic housing, as household customers cannot choose or switch supplier.

CCW is disappointed that there is no direct financial benefit to customers from having Independent Water Networks as their provider of water and sewerage services, as Independent Water Networks intends to match the incumbents' charges. However, CCW notes that Independent Water Networks offers discounts to those customers who take up e-billing or pay by direct debit.

CCW considers that Independent Water Networks' service levels generally match or exceed Northumbrian Water's, so overall CCW supports the 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.

CCW notes that Independent Water Networks will not be able to offer a social tariff to financially vulnerable customers in the way Northumbrian 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 sets 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 notes our conclusion that Northumbrian Water's existing customers would see no increase in their water bills as a result of the variation and a small increase of £0.01 on their annual sewerage bill. CCW recognises this increase is negligible 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 Northumbrian Water.

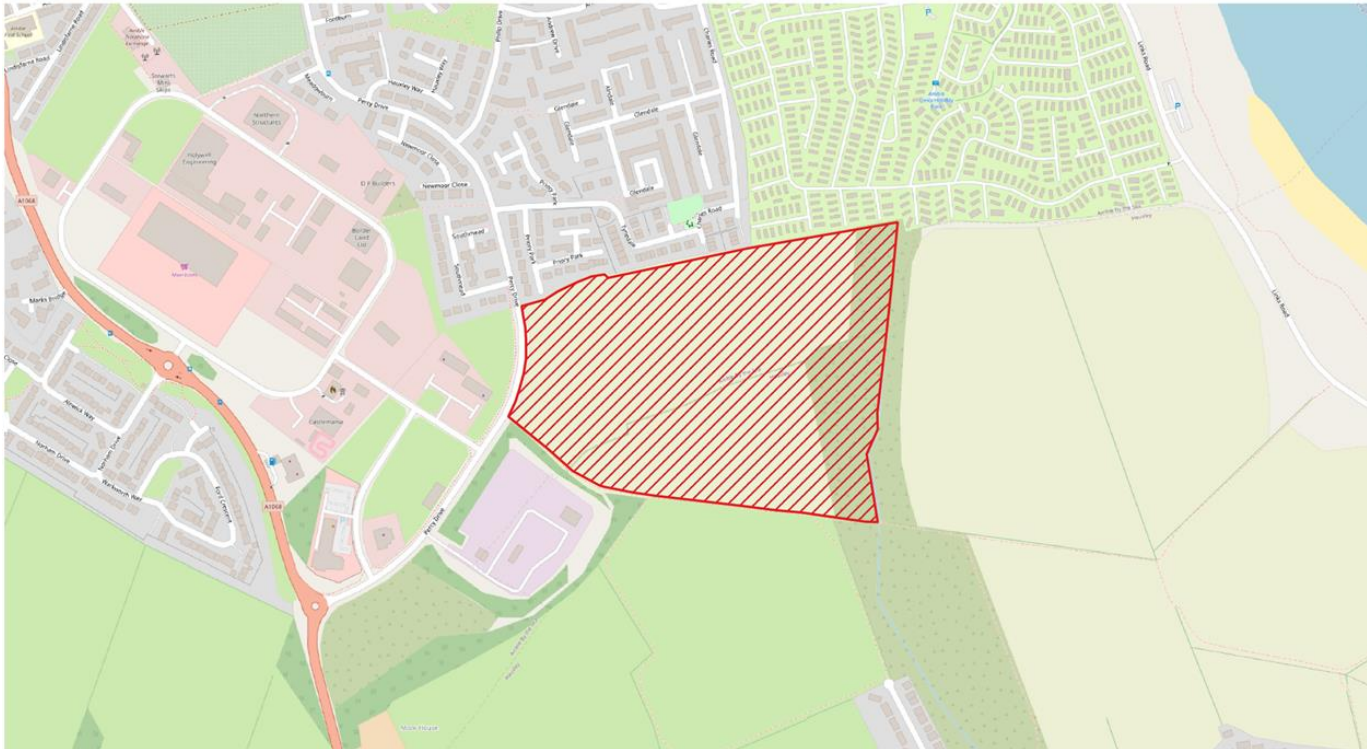
One of our key policies is that customers should be no worse off if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service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

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 and sewerage services. This appointment became effective on 5 March 2021.

Appendix 1: Site Maps

Water



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND NORTHUMBRIAN WATER LIMITED, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON... 5 March 2021

ADDRESS: PERCY DRIVE, AMBLE, MORPETH, NORTHUMBRIA, NE65 0PE
OS GRID REFERENCE: 427241, 603690

SCALE: 1:6000
DRAWN BY: MM
DATE: 19/11/2020

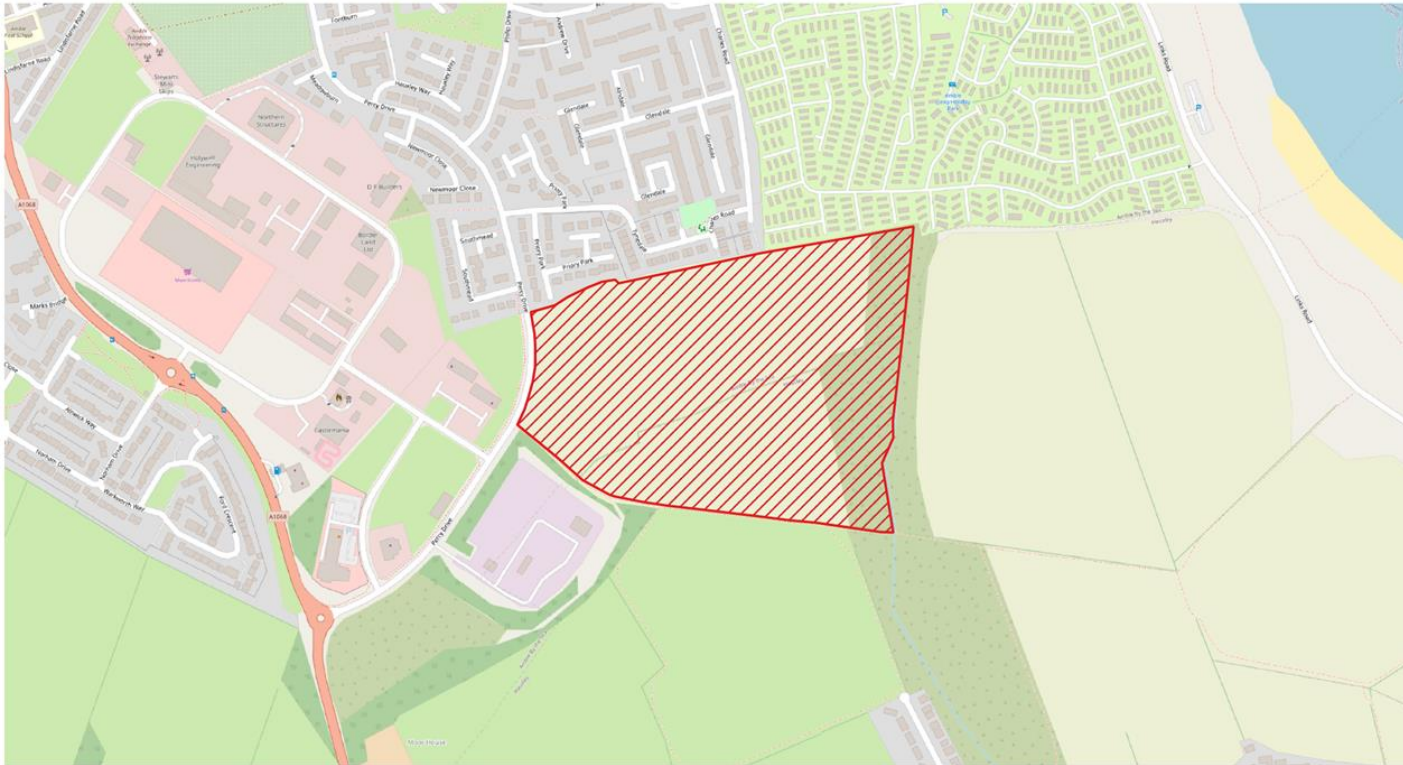
0 100 200 m

**PERCY DRIVE
WATER SUPPLY
INSET MAP 2**

PROJECT: ...



Sewerage



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND NORTHUMBRIAN WATER LIMITED, AS SEWERAGE UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON... 5 March 2021

ADDRESS: PERCY DRIVE, AMBLE, MORPETH, NORTHUMBRIA, NE65 0PE
OS GRID REFERENCE: 427241, 603690

SCALE: 1:6000
DRAWN BY: MM
DATE: 19/11/2020

0 100 200 m

**PERCY DRIVE
SEWERAGE UNDERTAKERS
INSET MAP 2**



PROJECT: ...



**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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