

April 2021

Variation of Independent Water Networks Limited's appointment to include Lea Castle in Cookley, Kidderminster

About this document

Variation of Independent Water Networks Limited's appointment to include Lea Castle in Cookley, Kidderminster.

On 10 November 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 Severn Trent Water Limited's ("**Severn Trent Water**") water supply area called Lea Castle in Cookley, Kidderminster ("**the Site**").

The consultation ended on 8 December 2020. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 29 March 2021, 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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1. 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 Severn Trent 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 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 a bulk supply agreement with Severn Trent 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.

Severn Trent Water has provided a letter dated 12 October 2020, in which it states that the Site is unserved. On 18 February 2021 we received an amended map to reflect that there are no properties within the boundary currently being served by Severn Trent Water.

Having reviewed the facts of this Site, and with reference to the letter from the incumbent, 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 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 match the charges to customers on the Site which Severn Trent Water would have charged, 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 Severn Trent 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 Severn Trent Water.

2.4 Effect of appointment on Severn Trent 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 Severn Trent 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 Severn Trent 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 Severn Trent 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 Severn Trent Water's existing customers of an increase 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, Vistry Partnerships, said that it wanted 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.

The Environment Agency and DWI advised that they did not have any comments to make on the consultation.

CCW provided substantive comments and we considered them before deciding to vary Independent Water Networks' appointment. The points raised in CCW's response are set out and addressed below.

3.1 CCW

CCW stated that in general it expects NAV appointments 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 that whilst Independent Water Networks proposes to charge customers on the same basis as Severn Trent Water it is aware that it has continued its 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 would be disappointed if this discount is not applied in future years beyond March 2021. 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 is pleased that the service standards provided by Independent Water Networks generally exceeds most of Severn Trent Water's service standards. Therefore, overall CCW supports this application. For example, Independent Water Networks offers greater compensation for a number of service failures, some additional service guarantees and more frequent billing.

However, CCW noted that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that Severn Trent Water does. It noted that it 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.

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 Severn Trent Water.

Whilst CCW appreciated that there is a very small increase on water bills for Severn Trent Water's existing customers as a result of this variation, it notes it is unclear whether there will be any significant benefits for these customers from this arrangement. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

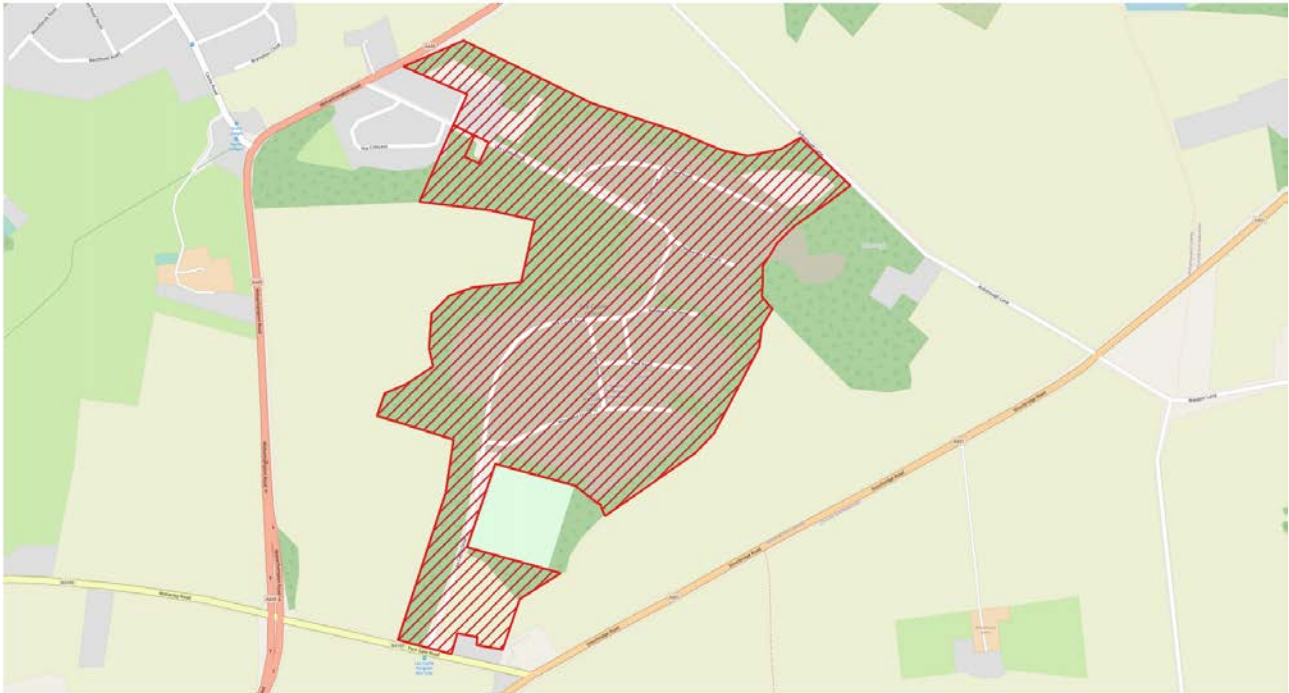
One of the key policy principles Ofwat considers when assessing NAV applications is that customers overall should overall be no worse off (in terms of the price and service they receive) than if they had been supplied by the existing appointee. This requirement has been met by Independent Water Networks in its proposal to improve the levels of service and match the pricing set by Severn Trent 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 30 March 2021.

Appendix 1: Site Map

Water Boundary



PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND SEVERN TRENT WATER LTD, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON ...

ADDRESS: LEA CASTLE, COOKLEY, KIDDERMINSTER, DY10 3PU
OS GRID REFERENCE: 385033, 278660

SCALE: 1:13000
DRAWN BY: MM
DATE: 18/02/2021


29/03/2021

0 100 200 m



**LEA CASTLE
WATER SUPPLY
INSET MAP 1**

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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