

June 2021

Variation of Independent Water Networks Limited's appointment to include Coronation Square, Leyton, London

About this document

Variation of Independent Water Networks Limited's appointment to include Coronation Square, Leyton, London

On 28 August 2020, 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 Thames Water Utilities Limited's ("**Thames Water**") water supply area and sewerage services area called Coronation Square in Leyton, London ("**the Site**").

During the consultation period, we received representations from three organisations, which we considered in making our decision.

On 22 February 2021 Independent Water Networks asked for the Site's area and the number of premises to be served by this variation to be reduced from that presented in its original application and consulted on, from 750 household customers and nine business customers, to 429 household customers and five business customers. We considered whether that affected our assessment of the application and proposal to grant the variation.

On 15 April 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.

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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 and 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 Thames 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 agreement with Thames Water.

2.1 Unserved status of the site

To qualify under the unserved criterion, an applicant must show that at the time the variation is made, none of the premises in the proposed area of appointment is served by the existing appointee.

Independent Water Networks is applying for a variation based on the unserved criterion. Thames Water has provided a letter, dated 4 June 2019, confirming that in its view the Site is unserved. We also reconfirmed with Independent Water Networks in 2021 that the Site remained unserved, prior to the variation being granted.

Having considered the facts of the Site, the maps and the letter from Thames Water, we are satisfied that this 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 of Thames Water at the Site.

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 Thames 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 Thames Water.

2.4 Effect of appointment on Thames 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 Thames 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 Thames 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 Thames 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 had initially calculated that if we grant the site to Independent Water Networks, there may be a potential impact on the bills of Thames Water's customers which is a £0.003 increase on the water bills, and 0.008 in wastewater charges. Following on from Independent Water Networks advising us that the size of the Site was to be reduced, we recalculated these figures and found that the water bills faced a potential increase of £0.005, and a potential increase of 0.002 on the wastewater charges. We therefore, consider that granting this variation to Independent Water Networks would have a very small financial 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.

2.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, Taylor Wimpey said that it wanted 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 Environment Agency, the Drinking Water Inspectorate (“**DWI**”) and the Consumer Council for Water (“**CCW**”). The DWI stated that it had no comments to make regarding this consultation. The points raised in the responses by the Environment Agency and CCW are set out below.

Since being notified of the reduction in Site size, we have confirmed with all consultees that their views and responses are not affected in any way.

3.1 Environment Agency

The Environment Agency stated it had a number of outstanding queries with Independent Water Networks from before the consultation about the capacity in Thames Water's sewerage network to accommodate the Site and the plans for the managing wastewater on the Site. Following Independent Water Network providing further information to the Environment Agency to address these questions, the Environment Agency confirmed it was happy for Ofwat to proceed to a decision.

3.2 CCW

CCW stated that in general it expects new appointments and variation appointees to match or ideally better the incumbent's prices, service levels and service guarantees.

CCW noted its disappointment that there is no direct financial benefit to customers from having Independent Water Networks as their water and wastewater services provider as it proposes to charge customers on the same basis as Thames Water. CCW did however recognise that Independent Water Networks offers discounts to customers who take up e-billing or pay by direct debit.

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

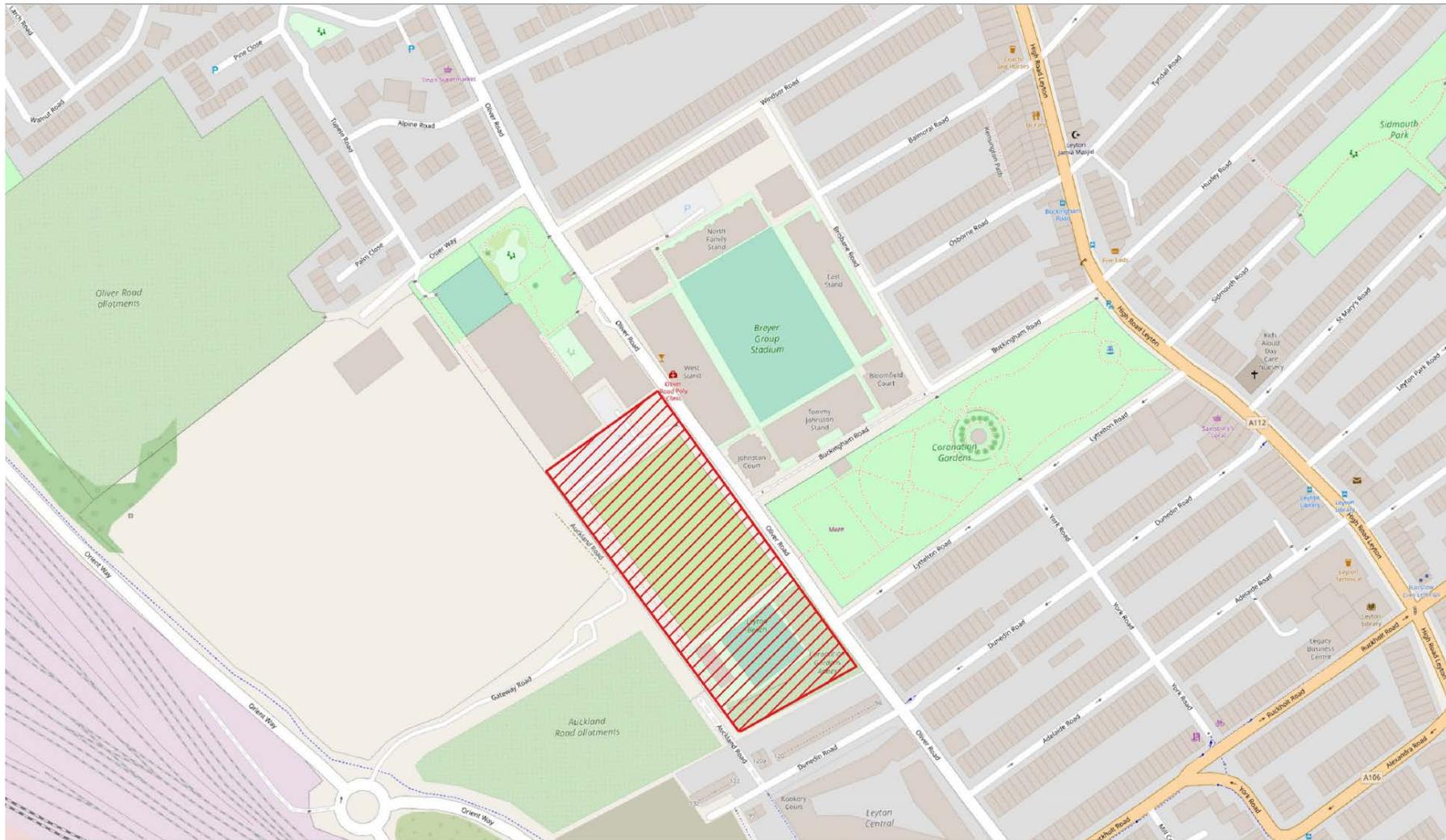
CCW noted our conclusion that Thames Water's existing customers would see a small increase in their water and wastewater bills as a result of the variation. However, CCW questions the value of the new appointment and variation regime if it cannot deliver benefits to customers. It notes that there is no evidence of significant benefits to the existing customers of Thames Water.

CCW stated it 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 will only match the charges of Thames Water. However, in this application, it recognises that Independent Water Networks generally matches or exceeds the service standards of Thames Water; therefore, overall, CCW support this application.

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 16 April 2021.

Appendix 1: Site Maps



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND THAMES WATER UTILITIES LIMITED, AS SEWERAGE UNDERTAKERS MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 14 April 2021

ADDRESS: CORONATION SQUARE PHASE 1, LEYTON, LONDON, E10 5JY
OS GRID REFERENCE: 537783, 186366

SCALE: 1:3000
DRAWN BY: CS
DATE: 17/01/2020

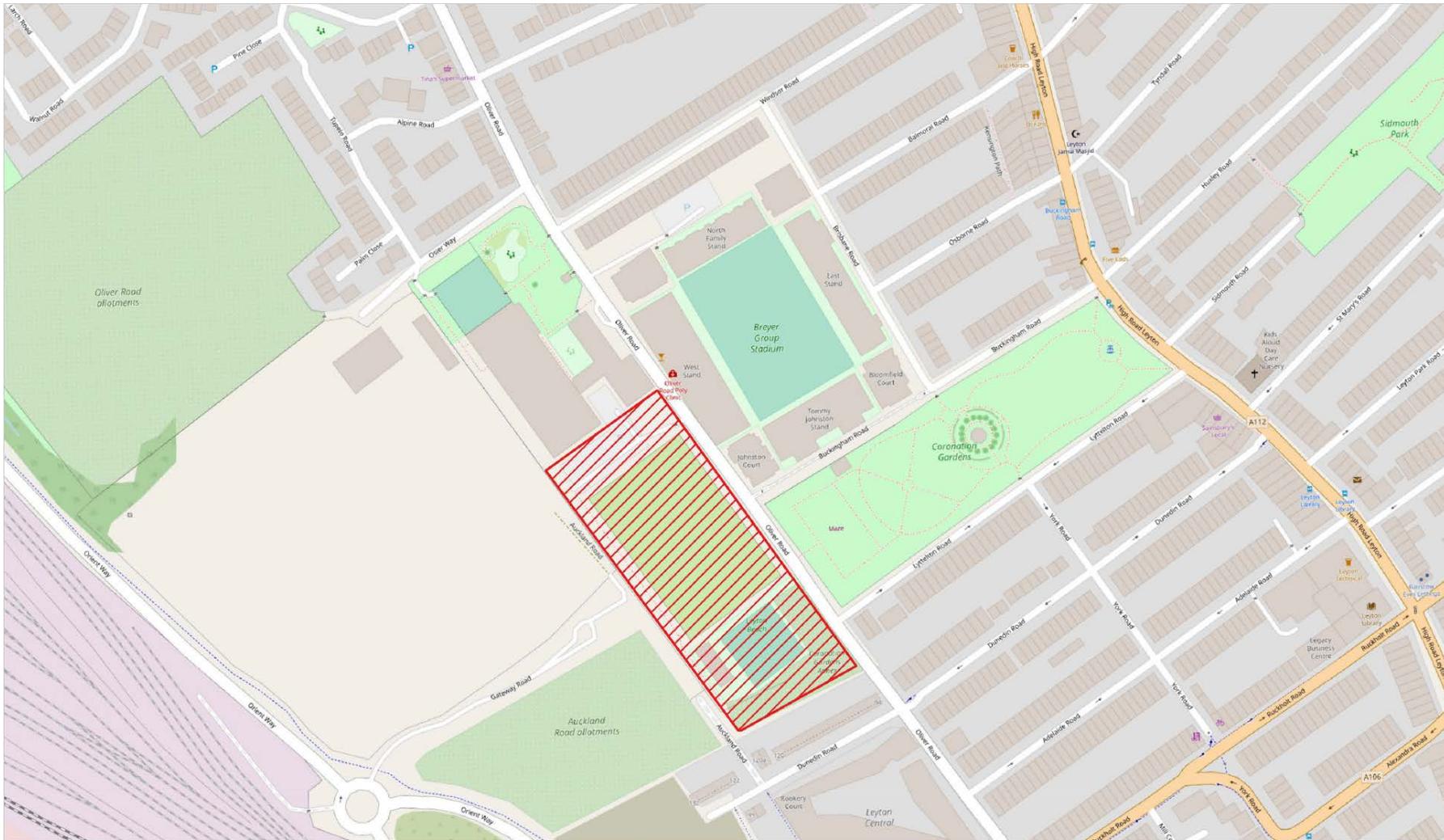
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CORONATION SQUARE INSET SEWERAGE MAP 1



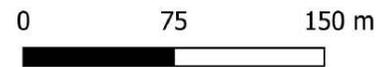
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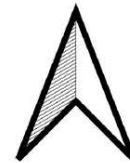
PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND THAMES WATER UTILITIES LIMITED, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 14 April 2021

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OS GRID REFERENCE: 537783, 186366

SCALE: 1:3000
DRAWN BY: CS
DATE: 17/01/2020



CORONATION SQUARE 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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