

September 2021

Variation of Independent Water Networks Limited's appointment to include South Field Lane, Tockwith, York

About this document

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On 3 August 2021, 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 Yorkshire Water Services Limited's ("**Yorkshire Water**") water supply area called South Field Lane, Tockwith in York ("**the Site**").

The consultation ended on 31 August 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 13 September 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 ("**NAV**"), 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.

2. The application

Independent Water Networks applied to be the water supply 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 Yorkshire 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.

Yorkshire Water has provided a letter, dated 9 September 2021, confirming that, in its view, the Site is unserved. The Site is greenfield and the aerial photos and maps confirm the Site has no properties within its boundary.

Given the information provided by Independent Water Networks and Yorkshire Water, 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 offer to match the charges to customers on the Site of Yorkshire Water. There is a discount for customers of the Site who opt to pay by direct debit or ebilling.

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 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 will be no impact on the annual 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, Evans Homes (Tockwith) Limited, 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 Drinking Water Inspectorate (“**DWI**”), the Environment Agency and the Consumer Council for Water (“**CCW**”). We considered these responses before making the decision to vary Independent Water Networks' appointment.

The DWI and the Environment Agency had no comments to make with regard to this consultation and did not have any objections. The points raised in CCW's response are set out below.

3.1 CCW

In general, when considering applications for new appointments and variations, CCW expects new appointees to provide consumers with prices, levels of service and service guarantees that match or, ideally, better those of the incumbent water company. This is particularly true for developments that include domestic housing, as household customers are not able to choose their supplier like business customers can.

CCW noted its disappointment that there is no direct financial benefit to customers from having Independent Water Networks as their provider of water services, as Independent Water Networks' intends to match Yorkshire Water's charges. However, CCW notes that Independent Water Networks offers discounts to those customers who are able to and opt to take up e-billing or pay by direct debit.

CCW considers that Independent Water Networks generally matches or exceeds Yorkshire Water's standards, so overall it 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.

However, CCW highlights that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that the incumbent company does, although it 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. Until it can provide a formal social tariff, CCW expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty who would otherwise benefit from a social tariff. This should not be at the expense of its other customers. CCW would expect Independent Water

Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW notes our estimate that there will be no increase in cost to Yorkshire Water's existing customers annual water bills as a result of this variation. Whilst CCW appreciates this fact, it states that it is unclear whether there will be any significant benefits from the arrangement for the existing customers of Yorkshire Water. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

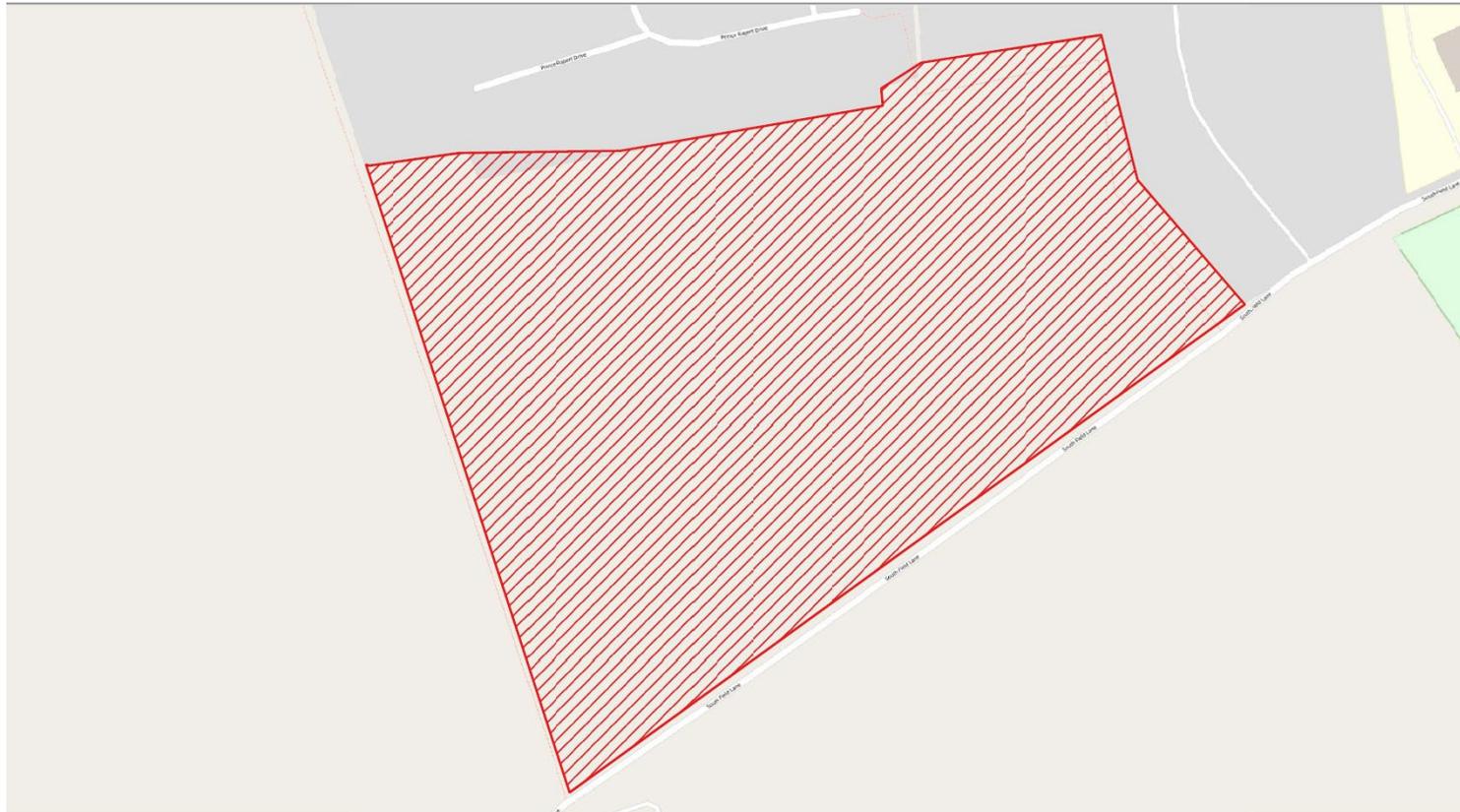
Our Response

One of Ofwat's key policies with respect to NAVs is that customers should be no worse off if a variation is granted. That is, an applicant must ensure its new customers are made no worse off, in terms of charges and services, 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 supply services. This appointment became effective on 14 September 2021.

Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATIONS
OF THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND
YORKSHIRE WATER SERVICES LIMITED,
AS WATER UNDERTAKER, MADE BY THE
WATER SERVICES
REGULATION AUTHORITY ON... 13/09/21

ADDRESS: SOUTH FIELD LANE, TOCKWITH,
YORK, NORTH YORKSHIRE, YO26 7QA
OS GRID REFERENCE: 446481, 451997

SCALE: 1:2000
DRAWN BY: CP
DATE: 29/04/2021

0 50 100 m



SOUTHFIELD LANE WATER SUPPLY

INSET 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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