

October 2021

Variation of Independent Water Networks' appointment to include Phase 2, Willow Lane in Beverley

About this document

Variation of Independent Water Networks' appointment to include Phase 2, Willow Lane in Beverley

On 29 July 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 Yorkshire Water Services Limited's ("**Yorkshire Water**") water supply area and sewerage services area called Phase 2, Willow Lane in Beverley ("**the Site**").

The consultation ended on 26 August 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 16 September 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 new appointment.

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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/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 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(b) of the Water Industry Act 1991 (“WIA91”). Independent Water Networks will serve the Site by way of a bulk supply agreement and a bulk discharge agreement with Yorkshire 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.

Yorkshire Water provided a letter dated, 28 October 2020, confirming that in its view, the Site is unserved. The Site is greenfield and aerial maps show that there are no existing buildings within the parameter of the Site. On 7 October 2021, Independent Water Networks confirmed that the Site remains unserved.

Given the information provided by Independent Water Networks and Yorkshire Water, we are satisfied that the Site may be considered 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’

Customers on the Site will be no worse off being served by Independent Water Networks rather than Yorkshire Water, as Independent Water Networks proposes to match its customer charges on the Site to Yorkshire Water's charges.

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 may a potential increase of £0.01 on the annual water bills and a potential increase of £0.02 on the annual sewerage bills, of existing Yorkshire Water 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, Barratt Homes 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 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 had no comments to make with regard to this consultation and did not have any objections. The points raised in CCW and the Environment Agency's responses are set out below.

3.1 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 say that this is particularly true for developments that include domestic housing, as household customers do not currently have the facility to choose or switch supplier like business customers can.

CCW noted that is it disappointed that there will be no direct financial benefits to customers from being served by Independent Water Networks instead of Yorkshire Water since Independent Water Networks will charge customers on the same basis as Yorkshire Water. CCW note that under this arrangement customers will be no worse off in terms of the amount they pay, but nor will they be any better off than if Yorkshire Water served them. However, CCW also recognises that Independent Water Networks offers discounts to customers who are able to and opt to take up e-billing or direct debit payments.

CCW noted that Independent Water Networks generally matches or exceeds Yorkshire Water service standards, and so overall CCW supports this application, agreeing with our assessment that customers will not be worse being served by Independent Water Networks on the Site. 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 Yorkshire Water can. CCW recognised that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers, who find themselves in financial difficulty. CCW considered 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, however, CCW expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty, especially those who would otherwise benefit

from a social tariff. It noted 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 calculation of a potential increase of £0.01 on the annual water bills and a potential increase of £0.02 on the annual sewerage bills of existing Yorkshire Water customers as a result of the variation. Whilst CCW appreciates that this would have a negligible impact on bills, it considers that it is unclear if there will be any significant benefits arising from this arrangement for existing Yorkshire Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to customers and consider that the incumbents existing customers should also receive some benefit from the new arrangement.

Our response

One of our key policies with respect to new appointments and variations 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 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.

3.2 Environment Agency

The Environment Agency advised that it is supportive of the application in principle, but raised the following points and queries:

- As Independent Water Networks will be using a bulk discharge agreement with Yorkshire Water, Yorkshire Water should ensure that its sewer network and wastewater treatment works have sufficient capacity in its Dry Weather Flow permit to receive and treat the flows from the Site. There should be no deterioration of receiving networks from the increase in flows from the Site.
- It is presumed that Beverley wastewater treatment works would receive the Site's discharge flows. It stated that that works currently has no dry weather flow compliance concerns. It stated it is important that the additional flows from the Site does not impact this.
- It noted that in section 6.2.1 of the Section 8 notice Independent Water Networks had provided to the Environment Agency for its application it had answered 'yes' to confirm that there was downstream network capacity, but that in the comments/evidence section below this, Independent Water Networks had stated that the relevant report does not confirm the ability of the receiving network to take additional flows and Independent Water Networks had asked Yorkshire Water for clarity on the network capacity. The Environment Agency asked for confirmation that Yorkshire Water's network has the capacity to take flows from the Site.

In response to the Environment Agency's consultation response, Independent Water Networks shared an extract from the Point of Discharge information, given by Yorkshire Water for the Site confirming that the Beverley wastewater treatment work has capacity to receive the sewerage flows from the Site.

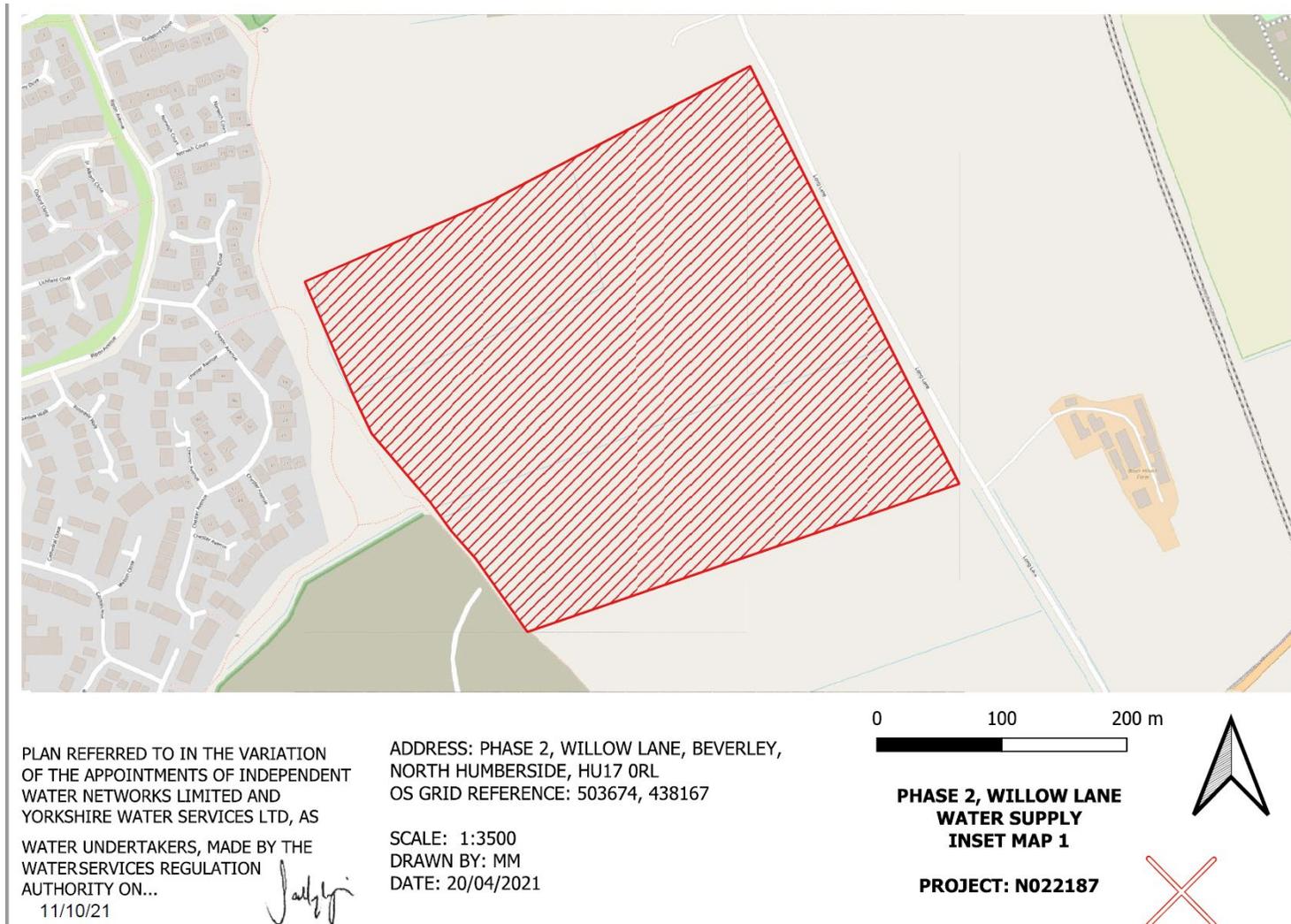
The Environment Agency confirmed on 13 September 2021, that it is happy with the information given and for Ofwat to grant this variation.

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 17 September 2021.

Appendix 1: Site Maps

Water supply boundary map



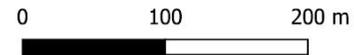
Sewerage services boundary map



PLAN REFERRED TO IN THE VARIATION
OF THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND
YORKSHIRE WATER SERVICES LTD, AS
SEWERAGE UNDERTAKERS, MADE BY THE
WATER SERVICES REGULATION
AUTHORITY ON...
11/10/21

ADDRESS: PHASE 2, WILLOW LANE, BEVERLEY,
NORTH HUMBERSIDE, HU17 0RL
OS GRID REFERENCE: 503674, 438167

SCALE: 1:3500
DRAWN BY: MM
DATE: 20/04/2021



**PHASE 2, WILLOW LANE
SEWERAGE SERVICES
INSET MAP 1**

PROJECT: N022187



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is a non-ministerial government department.
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