

November 2021

# **Variation of Independent Water Network Limited's appointment to include Manor Way, Stanford-le-Hope, Essex**

## About this document

# Variation of Independent Water Network Limited's appointment to include Manor Way, Stanford-le-Hope, Essex

On 22 September 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 and Anglian Water Services Limited's ("**Anglian Water**") sewerage services area, called Manor Way, Stanford-le-Hope in Essex ("**the Site**").

The consultation ended on 20 October 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 2 November 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 Northumbrian Water and Anglian 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 supply and sewerage services appointee for the Site under the unserved criterion set out in section 7(4)(a)(b) of the Water Industry Act 1991 (“**WIA91**”). Independent Water Networks will serve the site by way of bulk supply and bulk discharge agreements with Northumbrian Water and Anglian Water respectively..

### 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.

Northumbrian Water and Anglian Water have provided letters, dated 31 August 2021 and 18 June 2021, confirming that, in their view, the Site is unserved.. A desk survey shows that the Site is greenfield land and there are no existing properties within the Site boundary.

Given the information provided by Independent Water Networks, Northumbrian Water and Anglian 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’

Customers on the Site will be no worse off being served by Independent Water Networks rather than Northumbrian Water and Anglian Water as Independent Water Networks proposes to match its customer charges on the Site to those of the incumbents.

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 and Anglian 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 and Anglian Water.

## **2.4 Effect of appointment on Northumbrian and Anglian 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 Northumbrian Water and Anglian Water's existing customer bases 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 and Anglian 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 and Anglian Water might have expected to receive in revenue from serving the Site directly, were they to serve the Site, with the revenues they might expect from the proposed arrangement with Independent Water Networks.

In this case, we estimate there will be no increase on the annual water and sewerage bills of existing Northumbrian Water and Anglian Water customers.

This estimate 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, Ilke Homes (North Yorkshire), 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**”), Drinking Water Inspectorate (“**DWI**”) and the Environment Agency. We considered these responses before making the decision to vary Independent Water Networks' appointment. The points raised in the response are set out below.

The DWI and the Environment Agency confirmed that they had no comments on the application. The points raised in CCW's response 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 prices, service levels and service guarantee of Northumbrian Water and Anglian Water.

CCW noted that is it disappointed that there will be no direct financial benefits to customers being served by Independent Water Networks, instead of by Northumbrian Water and Anglian Water since Independent Water Networks will charge customers on the same basis as the incumbents. However, CCW 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 recognises that Independent Water Networks generally matches or exceeds Northumbrian Water and Anglian Water's service standards, and so overall CCW supports this application. For example, Independent Water Networks offers higher compensation for low water pressure or for failing to read a meter once a year and it also offers a free leak repair service on customers external supply pipes.

However, CCW notes that Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that the incumbent companies can. However, 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 that there will be no increase on the annual water or sewerage bills of existing Northumbrian Water and Anglian Water customers as a result of the variation. CCW stated that whilst it appreciates that this will not impact on bills, it considers that it is

unclear if there will be any significant benefits arising from this arrangement for Northumbrian Water and Anglian Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

### **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.

## 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 3 November 2021.

## Appendix 1: Site Maps

### Water:



PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND ESSEX & SUFFOLK WATER (NORTHUMBRIAN WATER

LIMITED), AS WATER UNDERTAKERS MADE BY THE WATER SERVICES REGULATION AUTHORITY ON...  
2 November 2021

ADDRESS: MANOR WAY, STANFORD LE HOPE, ESSEX, SS17 0PH  
OS GRID REFERENCE: 568276, 182804

SCALE: 1:3000  
DRAWN BY: CP  
DATE: 01/07/2021

0 75 150 m



INSERT WATER MAP 1- MANOR WAY



## Sewerage



PLAN REFERRED TO IN THE VARIATIONS  
OF THE APPOINTMENTS OF INDEPENDENT  
WATER NETWORKS LIMITED AND

ANGLIAN WATER SERVICES LIMITED AS  
SEWERAGE UNDERTAKERS, MADE BY THE

WATER SERVICES REGULATION  
AUTHORITY ON... 2 November 2021

ADDRESS: MANOR WAY, STANFORD LE HOPE,  
ESSEX, SS17 0PH

OS GRID REFERENCE: 568276, 182804

SCALE: 1:3000  
DRAWN BY: CP  
DATE: 01/07/2021

0 75 150 m



INSERT SEWERAGE MAP 1- MANOR WAY

**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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