

About this document

Variation of Independent Water Networks Limited's appointment to include Hollowdyke Lane, Fernwood

On 11 October 2021, Ofwat began a [consultation on a proposal](#) to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the water supply and sewerage services provider for a development in Severn Trent Water Limited's ("**Severn Trent Water**") water supply area and sewerage services area called Hollowdyke Lane, Fernwood, Newark ("**the Site**").

The consultation ended on 10 November 2021. During the consultation period, we received responses from three organisations, which we considered in making our decision.

However, the Environment Agency's response to the consultation highlighted inconsistencies between additional information supplied to it by the applicant and the information the applicant submitted to Ofwat with its application. We discussed this with Independent Water Networks and requested clarification. Independent Water Networks informed us that it had made an error in its application. It explained that the Site is on the border between two incumbent companies, and it had applied to replace the incorrect incumbent for sewerage services. The incumbent company for sewerage services is Anglian Water Services Limited ("**Anglian Water**") and not Severn Trent Water. On 24 November 2021 Independent Water Networks formally withdrew its application to become the sewerage services provider for this development.

Independent Water Networks' application to become the water company for the Site was submitted correctly. We received responses to the consultation and they did not raise any objections. Therefore, on 9 December 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.

Contents

About this document.....	1
1. Introduction	3
2. The application	5
3. Responses received to the consultation	7
4. Conclusion	9
Appendix 1: Site Map.....	10

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 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 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 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.

The application states that the Site is greenfield. Aerial photographs show there are no existing buildings on the Site. Severn Trent Water provided a letter, dated 20 July 2021, confirming that, in its view, the Site is unserved.

Having reviewed the facts of the Site, and taking into account the letter from Severn Trent Water, we consider the Site to be 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 Severn Trent Water.

Regarding 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 Independent Water Networks'. 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, we estimate there would be no increase on the annual water bills of existing Severn Trent 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, the developer, Larkfleet Group 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 Environment Agency, the Drinking Water Inspectorate (“**DWI**”) and the Consumer Council for Water (“**CCW**”). 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 the responses from CCW and the Environment Agency are set out below.

3.1 CCW

CCW states that in general it expects applicants for a new appointment and/or variation (“**NAV**”) to provide customers with prices, levels of service and service guarantees that match or, ideally, better those of the incumbent. This is particularly true for developments that include domestic housing, as household customers cannot choose or switch supplier.

CCW noted that Independent Water Networks proposes to charge customers on the same basis as Severn Trent Water. It is disappointed that there will be no direct financial benefits to customers on the Site from having Independent Water Networks as their water provider. However, CCW notes that Independent Water Networks offers discounts to those customers who can and opt to take up e-billing or pay by direct debit.

CCW considers that Independent Water Networks generally matches or exceeds Severn Trent Water’s levels of service. By way of example, it noted that Independent Water Networks offers greater compensation for low water pressure or for failing to read a meter once a year. Independent Water Networks also offers a free leak repair service on customer’s external supply pipes.

However, CCW noted that due to its relatively small customer base, Independent Water Networks will not be able to offer its financially vulnerable customers a social tariff in the way that Severn Trent Water does, although it will offer the standard Water Sure tariff. CCW considers this to be a dis-benefit of the proposed variation. Until Independent water Networks is able to provide a social tariff it is appropriate for it to tailor some of its services. CCW expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty, who would otherwise benefit from a social tariff which should not be at the expense of other customers. CCW considers that by matching the incumbent’s charges Independent Water Networks already benefits from the cross-subsidy the incumbent’s customers pay to support its social tariff.

CCW notes our estimate that there will be no cost to Severn Trent Water's customers as a result of the variation. But it notes that it is unclear whether there will be any significant benefits for these customers from the arrangement. CCW questions the value of the NAV regime if it cannot deliver benefits for all customers.

Our response to CCW's comments

One of our key policies when considering NAV applications, is that customers should be no worse off if a new appointment and 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.

Vulnerable customers may not be aware of the social tariff that would be available to them if they were served by the incumbent rather than by the applicant. It is the responsibility of the applicant to identify and protect vulnerable customers on the Site. Although the applicant does not offer a social tariff, it should ensure customers will be no worse off.

3.2 Environment Agency

The Environment Agency's response stated that it was supportive of the application in principle but that it required further information before it would be happy for it to be granted. The Environment Agency said it had received a "NAV assessment report" from Independent Water Networks in relation to the Site that was inconsistent with previous information submitted to Ofwat with this application. The report refers to a Site with 840 domestic dwellings, whereas this application is for 350 connections. The Environment Agency requested that we raise this inconsistency with Independent Water Networks and obtain an explanation or a corrected "NAV assessment report".

In an email dated 19 November 2021, Independent Water Networks stated that the Site is part of a multi-phase development and the "NAV assessment report" was prepared for the developer to ensure the network can accept the further growth planned in future phases of development. The current application from Independent Water Networks is for the 350 connections within the boundary shown in Appendix 1.

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 10 December 2021.

Appendix 1: Site Map

Water Boundary



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

9 December 2021

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OS GRID REFERENCE: 482823, 350076

SCALE: 1:6000
DRAWN BY: MM
DATE: 26/07/2021

0 100 200 m



**HOLLOWDYKE LANE
WATER SUPPLY
INSET MAP 2**

PROJECT: ...

