

13 December 2021

Variation of Independent Water Networks Limited's appointment to include Goscote Lane, Walsall

About this document

Variation of Independent Water Networks Limited's appointment to include Goscote Lane, Walsall

On 28 October 2021, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the sewerage services provider for a development in Severn Trent Water Limited's ("**Severn Trent Water**") sewerage services area called Goscote Lane in Walsall ("**the Site**").

The consultation ended on 25 November 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 9 December 2021, we granted Independent Water Networks a variation to its existing appointment to enable it to supply 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/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 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 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 a bulk discharge 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.

Independent Water Networks has informed Ofwat that the Site is greenfield. Aerial photographs and maps show that there are no existing buildings within the perimeter of the Site's boundary. Severn Trent Water, in a letter dated 3 June 2021, confirmed that, in its view, the Site is unserved for sewerage services.

Having considered the facts of the Site and the letter from Severn Trent Water, we are satisfied that this Site is unserved for sewerage services.

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 proposes to charge customers on the Site charges that are equivalent to the charges of Severn Trent Water.

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 Severn Trent 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 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 charges 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, there will be no increase on the annual sewerage bills of Severn Trent 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, Taylor Wimpey UK Limited, said that it wanted Independent Water Networks to be the sewerage 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 all responses before making the decision to vary Independent Water Networks' appointment.

The DWI had no comments or objections with regard to this consultation. The points raised in the responses from the Environment Agency and CCW are set out below.

3.1 Environment Agency

The Environment Agency advised that it had no objections to the consultation occurring, however it made a number of comments on the proposed variation that it wanted to be passed to Independent Water Networks. The Environment Agency stated that:

1. The applicant should note that any new development needs to conform to the water efficiency statutory standards in the building regulations and/or the good practice standards in the Code for Sustainable Homes.
2. The foul flow from the new development must be connected to the Severn Trent Water's sewer network for full treatment at a wastewater treatment works.
3. Severn Trent Water must ensure that the receiving sewer network and wastewater treatment works has adequate capacity within its permitted Dry Weather Flow (DWF) to take the foul flows from the new development. It noted that all water and sewerage companies are aware of their responsibilities when it comes to permitted DWF compliance and know what they would need to do if the predicted flows were likely to result in the permitted DWF being exceeded.
4. The receiving public sewer should have a design capacity to convey dry and wet weather flows according to the Best Technical Knowledge not Entailing Excessive Cost (BTKNEEC). The new development should have separate foul and surface water drainage to alleviate pressure on the foul or combined system with source control via Sustainable Drainage Systems (SUDS) principles; see <https://www.gov.uk/government/publications/water-companies-environmental-permits-for-storm-overflows-and-emergency-overflows/water-companies-environmental-permits-for-storm-overflows-and-emergency-overflows>.

5. Severn Trent Water must ensure that any existing storm overflows on the receiving sewer network &/or at the wastewater treatment works do not deteriorate in terms of spill frequency &/or load.
6. If the pre-application includes information regarding telemetry, monitoring, maintenance and emergency response on assets within the development, the applicant should report any incidents that could impact on the environment to the EA as soon as practicable via the EA Incident Hotline on 0800 80 70 60.

These comments were passed onto Independent Water Networks, who confirmed they had been noted.

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 that Independent Water Networks already provides water services to the Site, and that it proposes to charge customers on the same basis as Severn Trent Water by matching its sewerage charges. As a result CCW states it is disappointed that there will be no direct financial benefits to customers being served by Independent Water Networks, instead of Severn Trent Water. 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 Severn Trent Water's service standards, and so overall CCW supports this application.

However, CCW notes that due to the relatively small size of its customer base Independent Water Networks does not currently offer its financially vulnerable customers a social tariff in the way that Severn Trent Water does. CCW considers this a dis-benefit of the proposed variation however, it recognised that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers. CCW considered that until it can provide a formal social tariff, it is appropriate for Independent Water Networks to tailor some of the services that it provides. CCW expects Independent Water Networks to offer appropriate flexible support to any individual in financial difficulty who would otherwise benefit from a social tariff. It noted that this should not be at the expense of its other customers. CCW recognises 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 noted our calculation that there will be no increase on the annual sewerage bills of existing Severn Trent 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 existing Severn Trent Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to all customers.

Our response

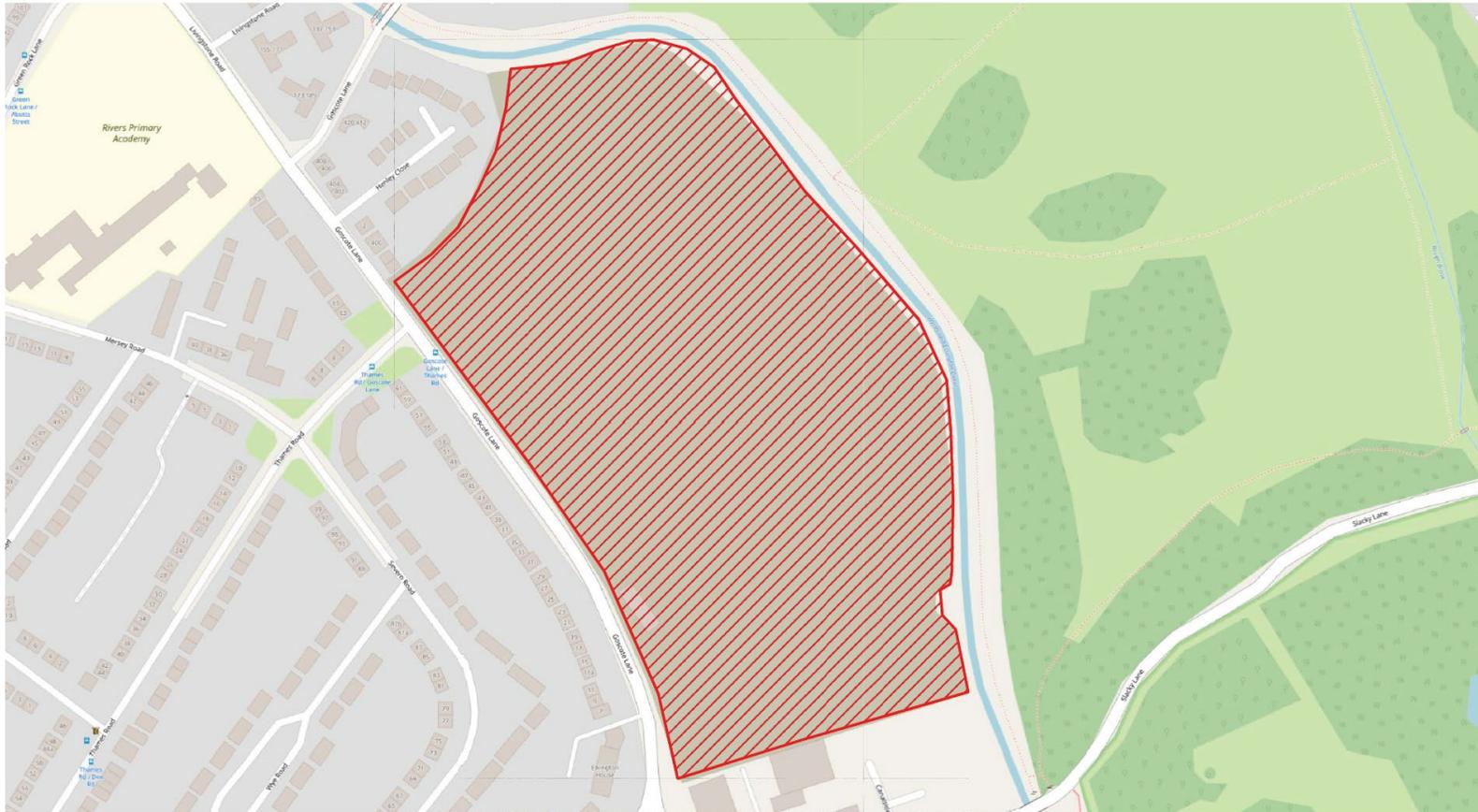
One of our key policies with respect to new appointments and variations is that customers should be no worse off if a variation is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to better the service and price of previous incumbents.

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.

7. 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 sewerage services. This appointment became effective on 10 December 2021.

Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND SEVERN TRENT WATER LIMITED, AS SEWERAGE UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON ... 9 December 2021

ADDRESS: GOSCOTE LANE, WALSALL, WS3 1PQ
OS GRID REFERENCE: 401425, 302308

SCALE: 1:3000
DRAWN BY: MM
DATE: 09/06/2021

0 75 150 m



GOSCOTE LANE

SEWERAGE UNDERTAKERS

INSET MAP 1

PROJECT: ...



**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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