14 December 2021

Variation of Independent Water Network Limited's appointment to include Granby Farm, Harrogate

Ofwat

About this document

Variation of Independent Water Networks Limited's appointment to include Granby Farm, Harrogate

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 water supplier for a development in Yorkshire Water Services Limited's ("**Yorkshire Water**") water supply area called Granby Farm, Harrogate in North Yorkshire ("**the Site**").

The consultation ended on 25 November 2021. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 7 December 2021, we granted Independent Water Networks a variation to its existing appointment to enable it to supply water 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 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 a bulk supply 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 25 August 2020, confirming that, in its view, the Site is unserved. Due to the length of time since this letter was issued, an additional letter was provided dated 3 November 2021 confirming that in Yorkshire Water's view the Site remains unserved.

The Site is greenfield and maps and aerial photos confirm that there are no properties within the Site's boundary. Having reviewed the facts of this Site, and considering Yorkshire Water's letters, 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 proposes to charge customers for water services on the same basis as Yorkshire 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 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 should be no potential impact on the annual water 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, Redrow Homes, said that it wanted Independent Water Networks to be the water company for the Site.

3. Responses received to the consultation

We received responses to our consultation from four organisations: the Consumer Council for Water ("**CCW**"), the Drinking Water Inspectorate ("**DWI**"), Harrogate Borough Council and the Environment Agency. We considered these responses before making the decision to vary Independent Water Networks' appointment.

The DWI, Harrogate Borough Council 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 incumbent's prices, service levels and service guarantees.

CCW noted that is it disappointed that there will be no direct financial benefits to customers being served by Independent Water Networks, instead of Yorkshire Water since Independent Water Networks will charge customers on the same basis as Yorkshire 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 Yorkshire 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 noted that due to its small size Independent Water Networks does not currently offer its financially vulnerable customers a social tariff in the way that Yorkshire Water does. It noted that Independent Water Networks will, however, offer the standard WaterSure tariff for qualifying customers. CCW considers this a dis-benefit of the proposed variation. It stated that until Independent Water Networks can provide a formal social tariff, it is appropriate for Independent Water Networks to tailor some of its services. CCW stated that it expects Independent Water Networks to offer appropriate and flexible support to customers in financial difficulty who would otherwise benefit from a social tariff. CCW considered that such support should not be at the expense of its other customers. CCW recognised that by matching Yorkshire Water's charges Independent Water Networks already benefits from the cross-subsidy Yorkshire Water's customers pay to support its social tariff.

CCW noted our calculation that there will be no increase on the annual water bills of existing Yorkshire 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 Yorkshire Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to all customers.

Our response

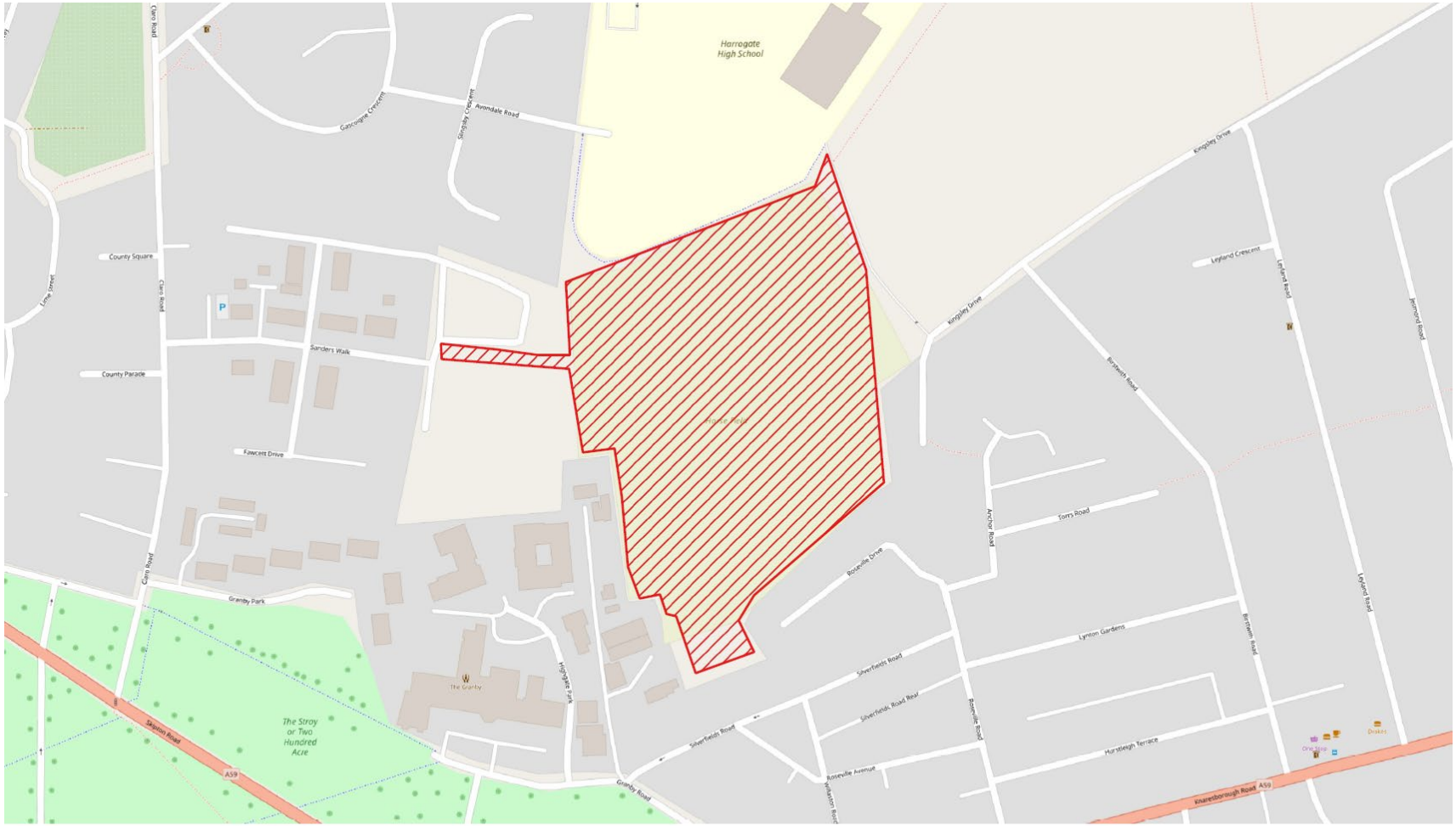
One of our key policies with respect to new appointments and variations is that customers should be no worse off if a variation is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. 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.

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 8 December 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 UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON....
7 December 2021

ADDRESS: GRANBY FARM, HARROGATE, NORTH YORKSHIRE,HG1 4ST
OS GRID REFERENCE: 431532, 455850

SCALE: 1:3000
DRAWN BY: CS
DATE: 02/03/2021

0 50 100 m

INSET WATER GRANBY FARM

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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