March 2022

Variation of Independent Water Networks Limited's appointment to include Graze Hill, Ravensden, Bedfordshire

Ofwat

About this document

Variation of Independent Water Networks Limited's appointment to include Graze Hill, Ravensden, Bedfordshire

On 29 November 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 Anglian Water Services Limited's ("**Anglian Water**") water supply area and sewerage services area called Graze Hill in Ravensden, Bedfordshire ("**the Site**").

The consultation ended on 29 December 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 17 January 2022, 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 ("**NAV**"), 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 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 and 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 supply and bulk discharge agreement with Anglian 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 provided a letter from Anglian Water, dated 14 September 2021, confirming that, in Anglian Water's view, the Site was unserved. Given the information provided by Independent Water Networks 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'

Independent Water Networks will offer match the charges to customers on the Site of Anglian Water. It will offer a discount to customer who opt to pay via direct debit or e-billing.

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 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 Anglian Water.

2.4 Effect of appointment on 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 Anglian 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 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 Anglian 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 water bills and no increase on the annual sewerage bills of Anglian Water's 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, Mulberry Property Developments Limited, 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 Environment Agency and the Drinking Water Inspectorate ("**DWI**"). We considered these responses before making the decision to vary Independent Water Networks' appointment.

The Environment Agency and DWI had no comments to make with regard to this consultation and did not have any objections. The points raised in CCW's response are set out below.

3.1 CCW

CCW stated 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 company, particularly for developments that include domestic housing, as household customers do not currently have the facility to choose or switch supplier, unlike business customers.

CCW is disappointed that there is no direct financial benefit to customers from having Independent Water Networks as their provider of water and sewerage services, as Independent Water Networks intends to match Anglian Water's charges. However, CCW did note that Independent Water Networks' offers discounts to customers who are able to and opt to take up e-billing or pay by direct debit.

However, CCW noted that, due to the relatively small size of its customer base, Independent Water Networks does not offer its financially vulnerable customers a social tariff in the way that Anglian Water does. It noted that Independent Water Networks will, however, offer the standard WaterSure tariff for qualifying customers. CCW stated that until it can provide a formal social tariff, it is appropriate for Independent Water Networks to tailor some of its services. CCW 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 noted that by matching Anglian Water's charges Independent Water Networks already benefits from the cross-subsidy Anglian Water's customers pay to support its social tariff.

CCW agreed with our overall assessment that customers will be no worse off in terms of the levels of service that that they will receive from Independent Water Networks, than if they were to be served by Anglian Water. CCW notes that Independent Water Networks generally matches or exceeds the service standards of Anglian Water and so, overall, it supports this application. 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.

CCW noted our calculation and that there would be no impact on the annual water and sewerage bills of Anglian Water's existing customers. Whilst it appreciated that there would be no increase, it also said it was unclear whether there will be any significant benefits from the arrangement for Anglian Water's customers. CCW therefore questions the value of the NAV regime if it cannot deliver benefits to all customers.

Our response

One of the key policy principles Ofwat considers when assessing NAV applications is that customers overall should overall be no worse off (in terms of the price and service they receive) than if they had been supplied by the existing appointee. This requirement has been met by Independent Water Networks in its proposal to improve the levels of service and match the pricing set by Anglian Water. Our assessment does not require applicants to better the service and price of the existing appointee.

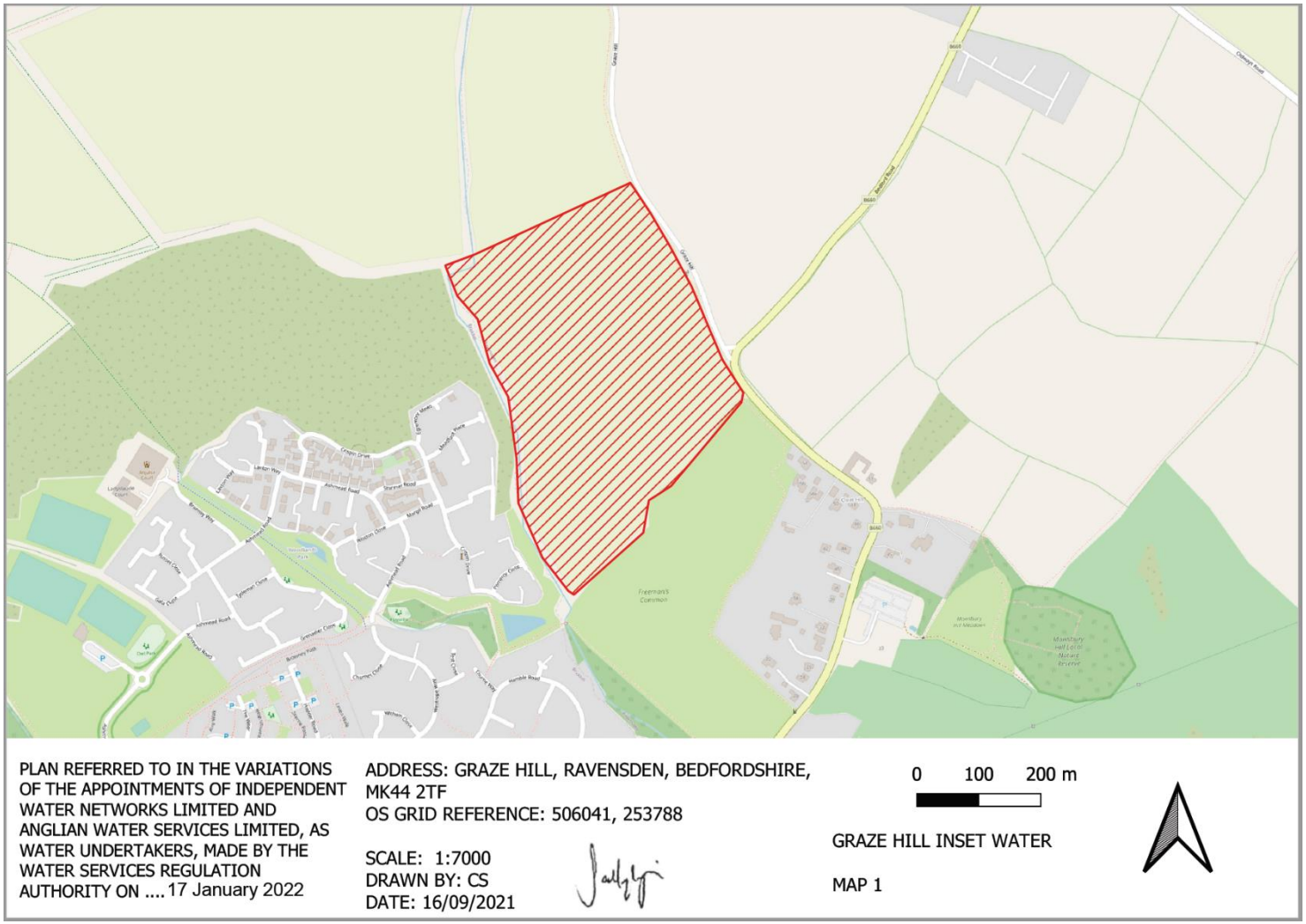
Vulnerable customers may not be aware of the social tariff that would be available to them if they were served by the incumbent rather than by the applicant. It is the responsibility of the applicant to identify and protect vulnerable customers on the Site. Although the applicant does not offer a social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

4. Conclusion

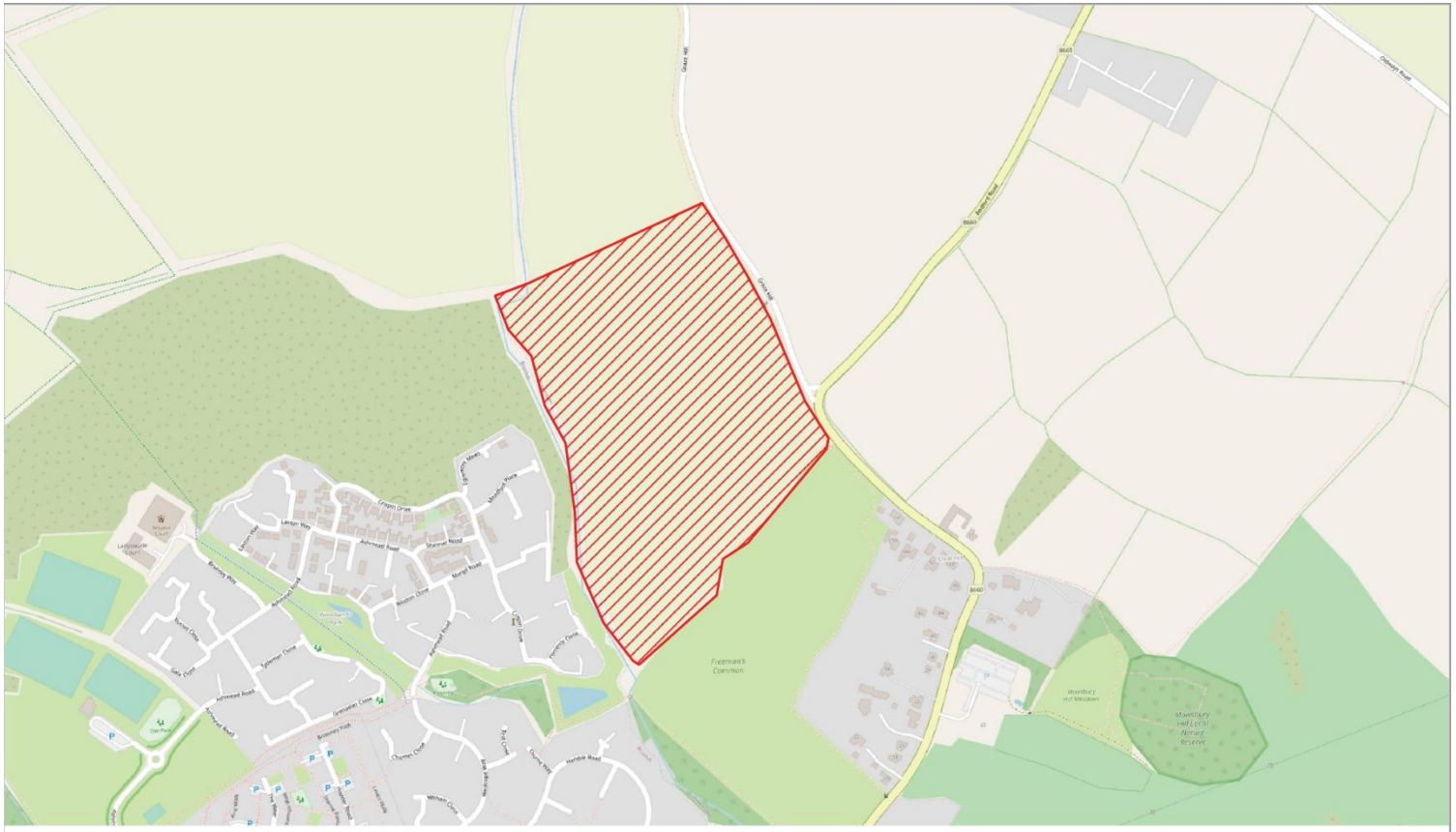
Having assessed Independent Water Networks' application and having taken account of the responses we received to our consultation, we decided to grant a variation to Independent Water Networks' area of appointment to allow it to serve the Site for water and sewerage services. This appointment became effective on 18 January 2022.

Appendix 1: Site Maps

Water Boundary



Sewerage Boundary



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