

April 2022

Variation of Independent Water Networks Limited's appointment to include Keyfold Farm, Preston

About this document

Variation of Independent Water Networks Limited appointment to include Keyfold Farm, Preston.

On 6 January 2022, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's (“**Independent Water Networks**”) appointment to become the water services provider for a development in United Utilities Water Limited’s (“**United Utilities**”) water supply area called Keyfold Farm, Preston (“**the Site**”).

The consultation ended on 3 February 2022. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 6 April 2022, 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.

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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 United Utilities 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 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 bulk supply agreement with United Utilities.

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.

United Utilities provided a letter, dated 29 April 2021, confirming that, in its view, the Site is unserved. The maps and aerial views confirmed the Site to be greenfield and vacant of any buildings.

Given the information provided by Independent Water Networks and United Utilities, we are satisfied that the Site is unserved.

2.2 Financial viability of the proposal

We will only make an appointment or variation 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 to customers on the Site of United Utilities. It will offer a small discount to customers who are able to opt to pay via e-billing or direct debit.

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 United Utilities. 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 United Utilities.

2.4 Effect of variation on United Utilities' customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the price that United Utilities' 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 United Utilities. 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 United Utilities 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 would be no increase on the annual water bills of United Utilities' existing customers.

This calculation 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, Wain Homes (North West) 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 Drinking Water Inspectorate (“DWI”), the Environment Agency, and the Consumer Council for Water (“CCW”). 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 states that in general it expects NAV appointees to exceed or at least match the incumbent's prices, service levels and service guarantees. This is particularly true for developments that include domestic housing, as household customers cannot choose or switch supplier.

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 United Utilities' charges. However, CCW notes that Independent Water Networks offers discounts to those customers who are able to and opt to take up e-billing or pay by direct debit.

CCW recognised that Independent Water Networks generally matches or exceeds the relevant service levels of United Utilities, so overall CCW supports the application. For example, Independent Water Networks offers greater compensation for low water pressure or failing to read a meter once a year and a free leak repair service on customers' external supply pipes.

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 United Utilities does, although it will offer the standard WaterSure tariff for qualifying customers. Until it can provide a formal social tariff, CCW considers that it is appropriate that Independent Water Networks tailors some of the services it provides. CCW sets out its expectation that Independent Water Networks would offer appropriate, flexible support to any customer in financial difficulty who would otherwise have benefitted from a social tariff and that this should not be at the expense of its other customers. CCW recognises that by matching United Utilities' charges Independent Water Networks already benefits from the cross-subsidy United Utilities' customers pay to support its social tariff.

CCW noted our conclusion that United Utilities' existing customers would not see an increase in their water bills as a result of the variation. Whilst CCW appreciates there will be no increase in bills, it noted that it was unclear whether there will be any significant benefits arising from the arrangement for these customers and questioned the value of the NAV regime if it cannot deliver benefits to all customers.

Our Response

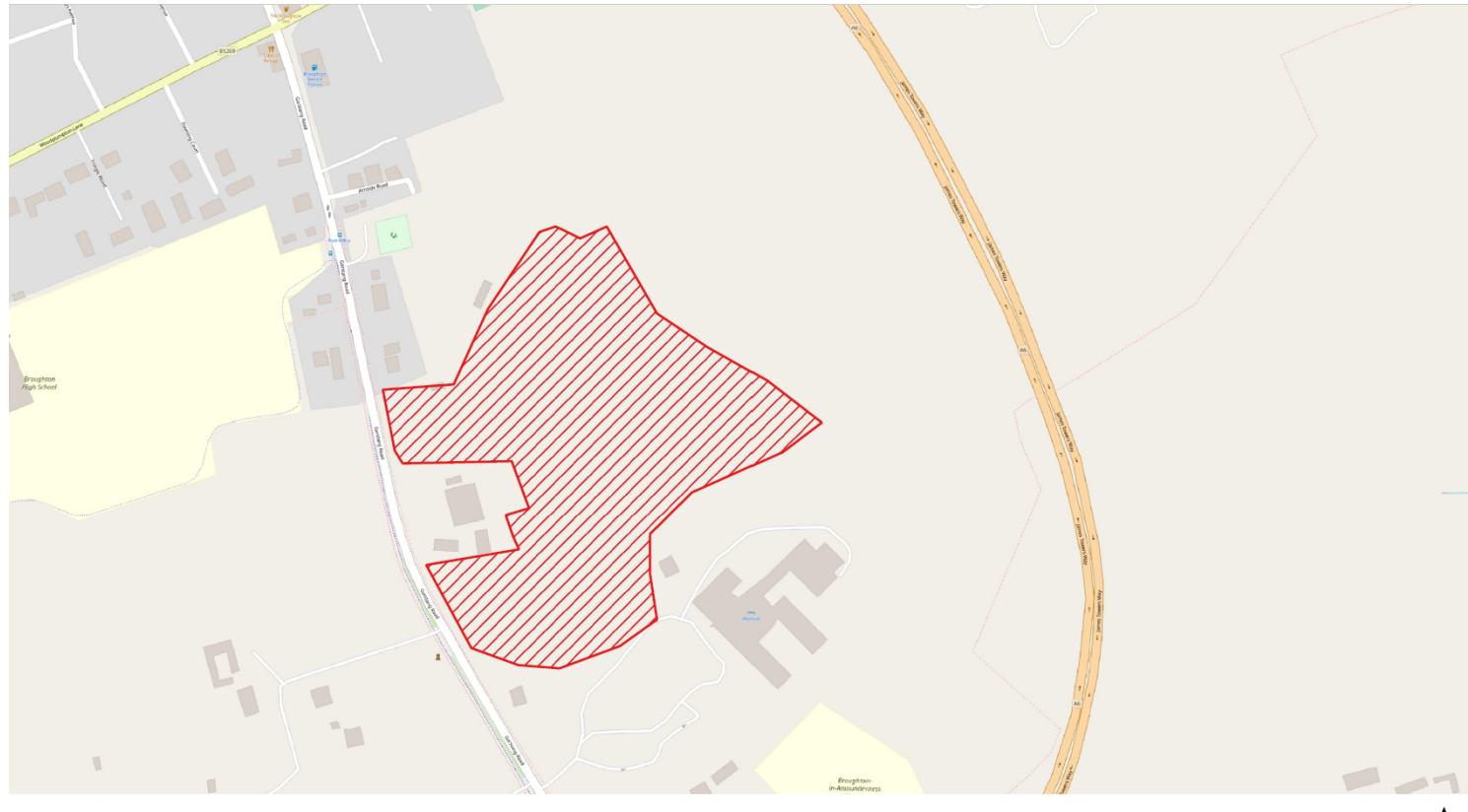
One of our key policies with respect to NAVs is that customers should be no worse off if a NAV is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. We do not require applicants to 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 7 April 2022.

Appendix 1: Site Map



PLAN REFERRED TO IN THE VARIATION OF
THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND UNITED
UTILITIES WATER LIMITED, AS WATER
UNDERTAKERS, MADE BY THE WATER
SERVICES REGULATION AUTHORITY ON ...
06/04/2022

ADDRESS: KEYFOLD FARM, PRESTON, PR3 5DL
OS GRID REFERENCE: 352540, 434778

SCALE: 1:4000
DRAWN BY: CP
DATE: 02/11/2021

KEYFOLD FARM,
WATER SUPPLY
INSET MAP 1

PROJECT: [N0022197] (73726)

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is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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