

April 2022

# **Variation of Independent Water Networks Limited's appointment to include Rampton Road, Cottenham Cambridgeshire**

## About this document

# Variation of Independent Water Networks Limited's appointment to include Rampton Road, Cottenham, Cambridgeshire

On 15 March 2022, 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 South Staffordshire Water Plc's ("**South Staffordshire Water**") water supply area and Anglian Water Services Limited's ("**Anglian Water**") sewerage services area called Rampton Road in Cottenham, Cambridgeshire ("**the Site**").

The consultation ended on 11 April 2022. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 25 April 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, specified by Parliament and set out in primary legislation, allows one company to replace the current company as the provider of water and 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 South Staffordshire Water and 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 bulk supply agreement with South Staffordshire Water 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.

Anglian Water and South Staffordshire Water have provided letters, dated 30 November 2021 and 28 October 2021 respectively, confirming that, in their view, the Site is unserved.

Having reviewed the facts of this Site and taking into account the letters from Anglian Water and South Staffordshire 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 offer equivalent charges to those of South Staffordshire Water and Anglian Water customers at the Site.

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 South Staffordshire Water and 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 South Staffordshire Water and Anglian Water.

## **2.4 Effect of appointment on South Staffordshire Water and 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 South Staffordshire Water and 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 South Staffordshire Water and 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 South Staffordshire Water and Anglian Water might have expected to receive in revenue from serving the Site directly, were they to serve the Site, with the revenues they 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 impact on the bills of South Staffordshire Water and Anglian 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, Tilia Homes 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 Environment Agency, 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 Environment Agency and DWI had no comments to make with regard to this consultation and did not have any objections. The points raised CCW's response are set out below.

#### 3.1 CCW

In general, CCW expects that new appointments and variations (“**NAVs**”) should bring benefits to customers on the proposed NAV site, such as matching or improving the pricing, levels of service or 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 the charges of Anglian Water and South Staffordshire Water. However, CCW acknowledges that Independent Water Networks currently offers a discount of 2.5% against incumbents' charges and offer discounts to those of its customers who are able and opt to take up e-billing or pay by direct debit. CCW also notes that Independent Water Networks generally matches or exceeds the service standards of Anglian Water and South Staffordshire Water. CCW overall supports the application as customers will be no worse off in terms of the level of service they will receive or the price they will pay.

CCW notes that due to the relatively small size of its customer base, Independent Water Networks does not currently offer a social tariff to financially vulnerable customers in the way Anglian Water and South Staffordshire Water do, but it will offer the standard WaterSure tariff for qualifying customers. CCW states that until Independent Water Networks can provide a formal social tariff, it is appropriate for it to tailor some of the services that 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 notes that by matching Anglian Water and South Staffordshire Water charges Independent Water Networks already benefits from the cross-subsidy that Anglian Water and South Staffordshire Water's customers pay to support their social tariffs.

CCW notes our conclusion that, as a result of the variation, Anglian Water and South Staffordshire Water's existing customers would see no increase in their annual water and sewerage bills. However, it notes that it is unclear whether there will be any significant

benefits to the existing customers of Anglian Water and South Staffordshire Water and questions the value of the NAV regime if it cannot deliver benefits to all customers.

### **Our response**

One of our key policies 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.

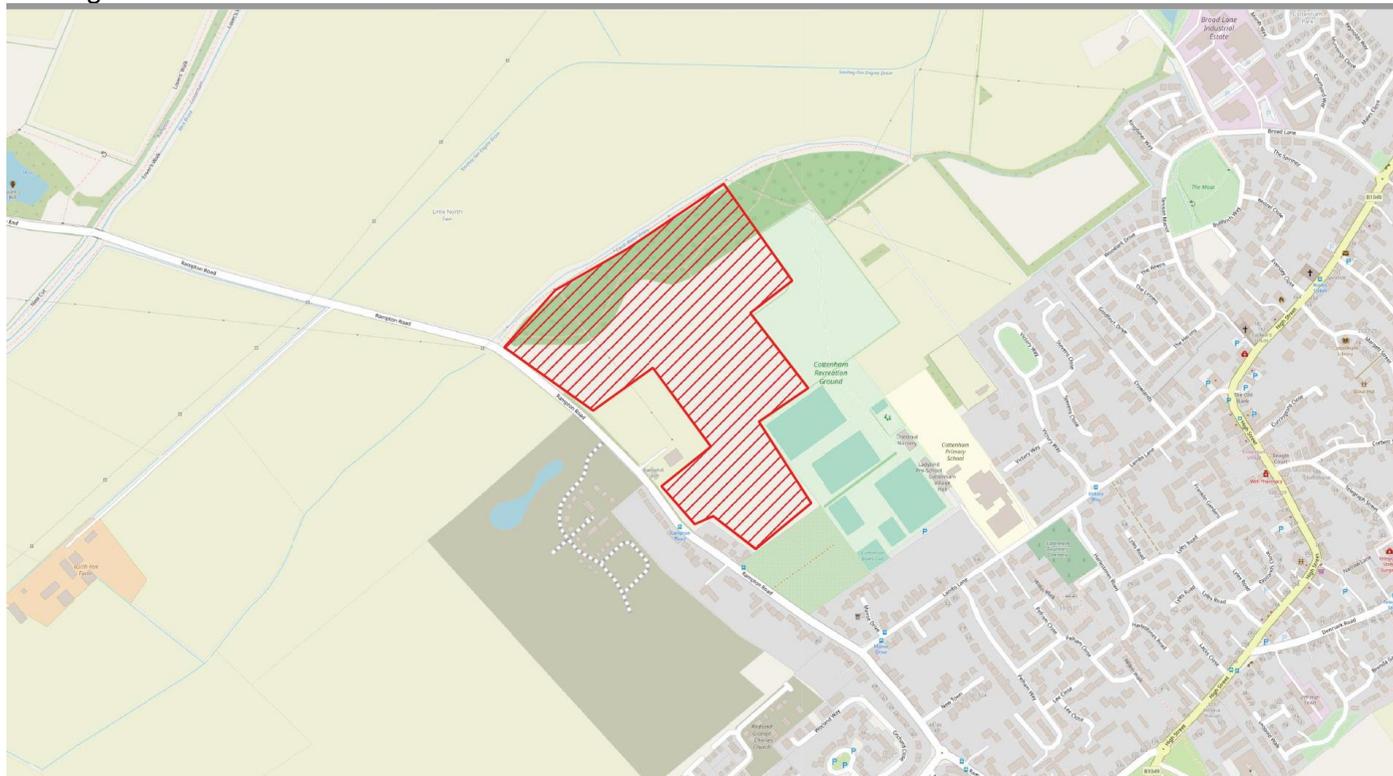
Vulnerable customers may not be aware of the social tariff that would be available to them if they were served by the incumbent rather than by the applicant. It is the responsibility of the Independent Water Networks to identify and protect vulnerable customers on the Site. Although the applicant does 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 26 April 2022.

## Appendix 1: Site Maps

### Sewerage



PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND ANGLIAN WATER SERVICES LIMITED, AS SEWERAGE UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON ... 25/04/22

ADDRESS: Rampton Road, Cottenham, CB24 8TJ  
OS GRID REFERENCE: X: 544113 Y: 267552

SCALE: 1:12000  
DRAWN BY: LR  
DATE: 10/01/2022

0 100 200 m

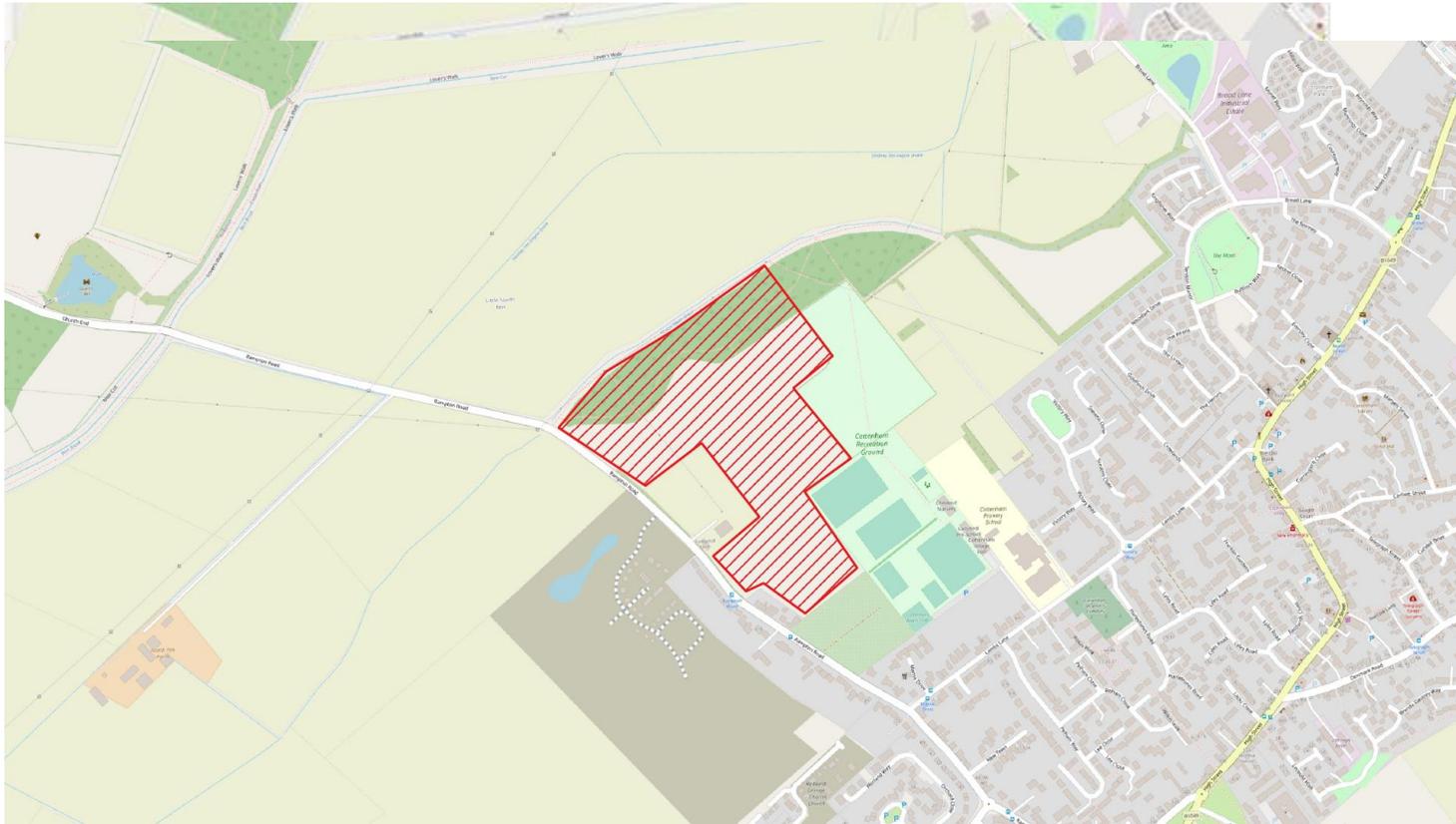


**Rampton Road**  
**SEWERAGE SUPPLY**  
**INSET MAP 2**

**PROJECT: N0022736 / 73962**



Water



0 100 200 m



PLAN REFERRED TO IN THE VARIATION OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND SOUTH STAFFORDSHIRE WATER PLC, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON 25/04/22

ADDRESS: Rampton Road, Cottenham, CB24 8TJ  
OS GRID REFERENCE: X: 544113 Y: 267552  
SCALE: 1:8000  
DRAWN BY: LR  
DATE: 18/01/2022

**Rampton Road  
WATER SUPPLY  
INSET MAP 2  
PROJECT: N0022736 / 73962**

**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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