

May 2022

Variation of Independent Water Networks Limited's appointment to include Land off Barkbythorpe Road, Thorpebury, Leicester

About this document

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On 8 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 Severn Trent Water Limited's ("**Severn Trent**") water supply area and sewerage services area called Land off Barkbythorpe Road, Thorpebury, Leicester ("**the Site**").

The consultation ended on 6 December 2021. During the consultation period, we received representations from four organisations, which we considered in making our decision. On 4 April 2022 this proposal was amended by Independent Water Networks to become a water only proposal. We revisited our assessment in light of these changes and notified stakeholders who had responded to the consultation of the changes to confirm whether it would change their previous response. The responses are summarised in section 3 of this document.

On 13 May 2022, we granted Independent Water Networks a variation to its existing appointment to enable it to supply water services only 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 Severn Trent 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 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 agreement with Severn Trent.

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.

Severn Trent provided a letter dated 12 August 2021, confirming that, in its view, the Site is unserved. The Site is greenfield with no properties within the boundary. Maps and aerial views confirmed this. Severn Trent provided further confirmation that the Site remained unserved on 22 April 2022.

Given the information provided by Independent Water Networks and Severn Trent, 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 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 to match the charges to customers on the Site of Severn Trent. 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 Severn Trent. 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.

2.4 Effect of variation on Severn Trent'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 Severn Trent'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. 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 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 potential £0.01 increase on the annual water bills of Severn Trent'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, David Wilson Homes, said that it wanted Independent Water Networks to be the water company for the Site.

3. Responses received to the consultation

We received four responses to our consultation; from the Consumer Council for Water ("**CCW**"), the Environment Agency, the local authority Charnwood District Council and the Drinking Water Inspectorate ("**DWI**"). We considered these responses before making the decision to vary Independent Water Networks' appointment. The points raised in the response are set out below.

The Environment Agency, Charnwood District Council and DWI had no comments to make with regard to this consultation and did not have any objections.

3.1 CCW

CCW stated that in general it expects NAV appointments and variations 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, as Independent Water Networks' intention is to match Severn Trent'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.

CCW agreed with our overall assessment that customers will be no worse off in terms of the levels of service that they will receive from Independent Water Networks, than if they are served by Severn Trent. CCW states that the service standards provided by Independent Water Networks generally match or exceed the service standards of Severn Trent, and therefore, overall CCW 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 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 does. However, CCW noted that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers. CCW stated that this is a dis-benefit of this proposed variation. CCW stated that until Independent Water Networks can provide a formal social tariff, it is appropriate that it tailors some of the services 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 said that it recognises that by matching Severn Trent's charges, Independent Water Networks already benefits from the cross-subsidiary Severn Trent's customers pay to support its social tariffs.

CCW noted our calculation and that there would be an increase of £0.01 on the annual bills of Severn Trent's existing water customers. Whilst it appreciated that the increase is "negligible", it also said it was unclear whether there will be any significant benefits from the arrangement for Severn Trent's customers. CCW therefore questions the value of the NAV regime if it cannot deliver benefits to 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 16 May 2022.

Appendix 1: Site Maps

Water Boundary



PLAN REFERRED TO IN THE VARIATIONS OF
THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND SEVERN
TRENT WATER LTD, AS WATER
UNDERTAKERS, MADE BY THE WATER
SERVICES REGULATION AUTHORITY ON ...

13/05/2022

ADDRESS: LAND OFF BARKBYTHORPE ROAD,
THORPEBURY, LE5 1BQ
OS GRID REFERENCE: 462797, 308293

SCALE: 1:8000
DRAWN BY: MM
DATE: 27/08/2021

0 100 200 m



**LAND OFF BARKBYTHORPE ROAD
WATER SUPPLY
INSET MAP 1**



PROJECT: N0022534 (73854)



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