

May 2022

Variation of Independent Water Network's appointment to include Gascoigne West Phase 2

About this document

Variation of Independent Water Networks Limited's appointment to include Gascoigne West Phase 2

On 25 October 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 Northumbrian Water Limited's ("**Northumbrian Water**") water supply area and in Thames Water Utilities Limited's ("**Thames Water**") sewerage services area called Gascoigne West Phase 2 in Barking ("**the Site**").

The consultation ended on 22 November 2021. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 13 May 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/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 Northumbrian Water and Thames 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 Northumbrian Water and a bulk discharge agreement with Thames 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 is applying for a variation based on the unserved criterion. Northumbrian Water has provided a letter, dated 9 September 2020, confirming that, in its view, the Site is served. The Site will not meet the unserved criterion until the developer has permanently disconnected the water services within the boundary.

Thames Water has provided a letter dated 15 December 2020, indicating that the Site is unserved for sewerage, although there are historic connections within the boundary that need to be removed.

The Site is brownfield. It previously contained a housing estate. Independent Water Networks has confirmed that the housing estate has been demolished and residents relocated. Independent Water Networks has provided aerial photographs which illustrate that the buildings that previously occupied the Site have been demolished.

Independent Water Networks has based its application on the basis that all structures within the boundary of the Site would be demolished; all existing supply has now been disconnected.

We have reviewed the facts of this Site, and have taken into account the letters from Northumbrian Water and Thames Water. We are satisfied that the Site meets the unserved criterion.

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 match the charges of Northumbrian Water and Thames 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 Northumbrian Water and Thames 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 Northumbrian Water and Thames Water.

2.4 Effect of appointment on Northumbrian Water's and Thames 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 Northumbrian Water's and Thames 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 Northumbrian Water and Thames 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 Northumbrian Water and Thames 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 may be no impact on the bills of existing customers of Northumbrian Water and Thames Water.

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, Wates Construction 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 Drinking Water Inspectorate (“**DWI**”), the Environment Agency and the Consumer Council for Water (“**CCW**”). We considered all responses before making the decision to vary Independent Water Networks' appointment.

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

3.1 CCW

CCW states that in general it expects applicants for a new appointment and/or variation (“**NAV**”) 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 on the Site from having Independent Water Networks as their provider of water services, as Independent Water Networks intends to match the incumbents' charges, with no general discount. 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 considers that Independent Water Networks' service levels generally match or exceed 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 offers a free leak repair service on customers' external supply pipes.

CCW notes that Independent Water Networks will not be able to offer a social tariff to financially vulnerable customers in the way United Utilities does, although it will offer the standard WaterSure tariff for qualifying customers. CCW states that given its relatively small size and customer base, it may be appropriate for Independent Water Networks 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 expects Independent Water Networks to research the views of its customers on any proposed cross-subsidy before introducing any social tariffs.

CCW notes our conclusion that, as a result of the variation, Northumbrian Water's and Thames Water's existing customers would see no increase on their annual water bill. CCW appreciates this but notes it is unclear as to whether there will be any significant benefits from the arrangement for Northumbrian Water's and Thames Water's existing customers. CCW questions the value of the NAV regime if it cannot deliver benefits to customers.

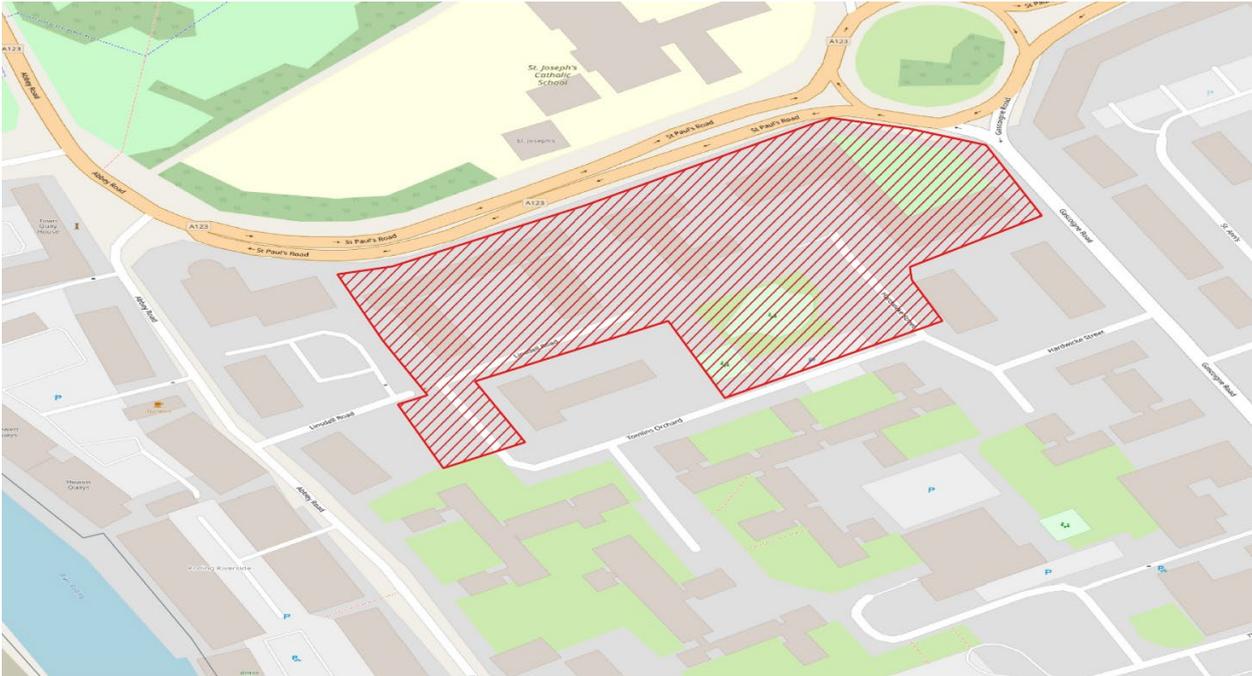
Our response

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.

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 16 May 2022.

Appendix 1: Site Maps

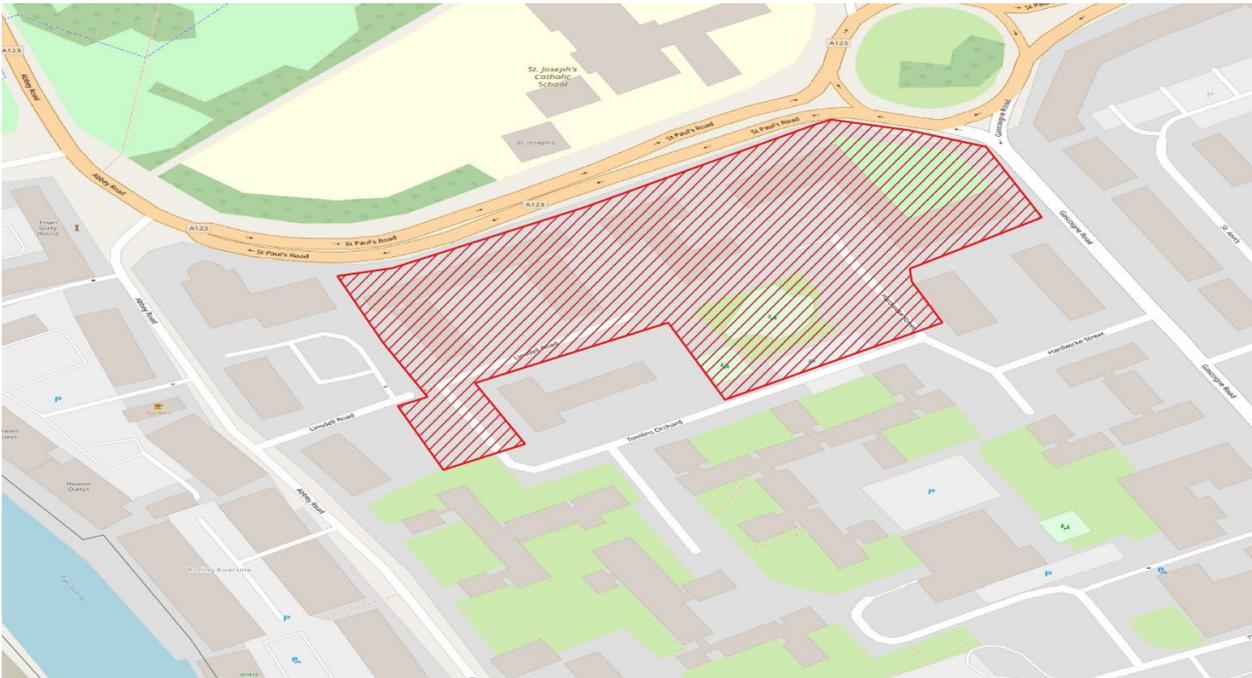


PLAN REFERRED TO IN THE VARIATIONS OF THE APPOINTMENTS OF INDEPENDENT WATER NETWORKS LIMITED AND THAMES WATER UTILITIES LIMITED AS SEWERAGE UNDERTAKER SUPPLIER, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON...

ADDRESS: GASCOIGNE WEST PHASE 2 ABBEY ROAD, BARKING, IG11 7JW
OS GRID REFERENCE: X - 544278 Y - 183704

SCALE: 1:800
DRAWN BY: CP
DATE: 30/07/2021

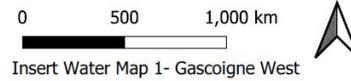
0 500 1,000 km
Insert Sewerage Map 1- Gascoigne West



PLAN REFERRED TO IN THE VARIATIONS
OF THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND
NORTHUMBRIAN WATER UTILITIES
LIMITED AS WATER UNDERTAKER
SUPPLIER, MADE BY THE WATER SERVICES
REGULATION AUTHORITY ON...

ADDRESS: GASCOIGNE WEST PHASE 2 ABBEY
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