

May 2022

Variation of Independent Water Networks Limited's appointment to include Long Lawford, Rugby

About this document

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On 22 February 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 supplier for a development in Severn Trent Water Limited's ("**Severn Trent Water**") water supply area and sewerage services area called Long Lawford in Rugby, Warwickshire ("**the Site**").

The consultation ended on 22 March 2022. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 26 April 2022 Independent Water Networks to become a water only proposal, that is removing the application to serve the Site for sewerage services. We revisited our assessment in light of these changes and notified stakeholders who had responded to the consultation of the change to confirm whether it would change their previous response. The responses are summarised in section 3 of this document.

On 23 May 2022 we granted Independent Water Networks a variation to its existing appointment to enable it to supply water 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 Severn Trent Water 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 supplier appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”). Independent Water Network will serve the Site by way of a bulk supply agreement with Severn Trent 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.

Severn Trent Water has provided a letter, dated 4 August 2021, confirming that, in its view, the Site is unserved. The Site is a greenfield site, there are no existing properties within the Site's boundary.

Given the information provided by Severn Trent Water and having reviewed the facts of this Site, we are satisfied that the Site may be considered 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 match charges to customers on the Site to those of Severn Trent 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 Severn Trent 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 Severn Trent Water.

2.4 Effect of variation on Severn Trent 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 Severn Trent 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 Severn Trent 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 Severn Trent 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 impact on the bills of Severn Trent 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, Bloor Homes 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, namely from the Consumer Council for Water (“**CCW**”), the Drinking Water Inspectorate (“**DWI**”) and the Environment Agency. We considered these responses before making the decision to vary Independent Water Networks' appointment.

The DWI and the Environment Agency confirmed that they had no comments on the application. The points raised in CCW's response are set out below.

3.1 CCW

CCW stated that in general it expects new appointments and variation appointees to match or ideally better the incumbent's prices, service levels and service guarantees. This is particularly true for developments that include domestic housing, as household customers do not currently have the ability to choose or switch supplier like business customers can.

CCW noted that it is disappointed that there will be no direct financial benefits to customers being served by Independent Water Networks instead of Severn Trent Water, since Independent Water Networks will charge customers on the Site on the same basis as Severn Trent Water. However, CCW recognises that Independent Water Networks offers discounts to customers who are able to and opt to take up e-billing or direct debit payments.

CCW recognises that Independent Water Networks generally matches or exceeds Severn Trent Water's service standards, and so overall CCW supports this application. For example, Independent Water Networks offers higher compensation for low water pressure or for failing to read a meter once a year and it also offers 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 Severn Trent Water does. However, CCW recognised that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers. CCW considered that until it can provide a formal social tariff, it is appropriate that Independent Water Networks tailors some of its services. 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 states that by matching Severn Trent Water's charges Independent Water Networks already benefits from the cross-subsidy Severn Trent Water's customers pay to support its social tariff.

CCW noted our calculation that there should be no impact on the annual water bills of existing Severn Trent Water customers as a result of the variation. CCW stated it considers that it is unclear if there will be any significant benefits arising from this arrangement for existing Severn Trent Water customers. CCW questions the value of the NAV regime if it cannot deliver benefits to all customers.

Our response

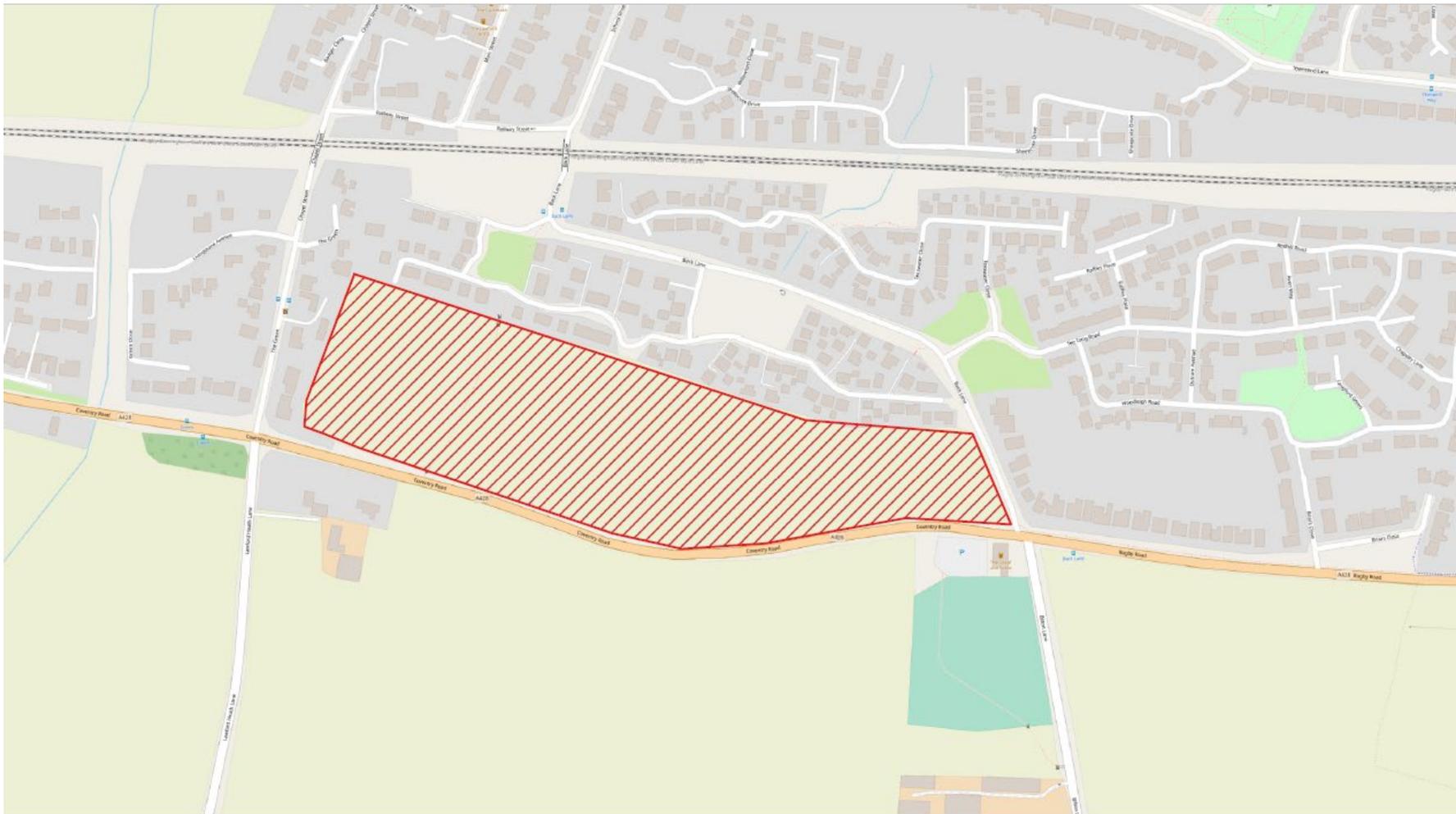
One of our key policies with respect to new appointments and variations is that customers should be no worse off if a variation is granted. That is, an applicant must ensure its new customers are made no worse off in terms of charges and service than if they had been supplied by the previous appointee. 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 24 May 2022.

Appendix 1: Site Map



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

23 May 2022

ADDRESS: LONG LAWFORD, RUGBY, CV23 9BW OS
GRID REFERENCE: 447529, 275549

SCALE: 1:4000
DRAWN BY: CP
DATE: 22/10/2022

0 100 200 m

**LONG LAWFORD WATER SUPPLY
INSET MAP 1**



Appendix 2: Variation

WATER SERVICES REGULATION AUTHORITY
WATER INDUSTRY ACT 1991, SECTIONS 6 TO 9

Variation of the Appointments of Independent Water Networks Limited, and Severn Trent Water Limited as Water Undertakers

Made on 23 May 2022

Coming into effect on 24 May 2022

1. Independent Water Networks Limited ("Independent Water Networks"), and Severn Trent Water Limited ("Severn Trent Water") hold Appointments as water undertakers for their respective areas ("the Appointments").¹ The areas to which the Appointments of Independent Water Networks and Severn Trent Water as water undertakers relate ("Water Supply Area ") are set out in their Instruments of Appointment.
2. The site called Long Lawford, in Rugby, which is shown edged in red on the plan attached to this variation, ("the Site") is within Severn Trent Water's Water Supply Area. The Site is being developed by Bloor Homes Limited.
3. Independent Water Networks has applied under section 7(4)(b) of the Water Industry Act 1991 ("the Act") for a variation of its Appointment as a water undertaker to include the Site and for a consequential variation of Severn Trent Water's Appointment to exclude the Site.
4. On 27 June 1995, the Secretary of State for the Environment and the Secretary of State for Wales acting jointly and pursuant to sections 6(1) and 7(2) of the Act authorised the Director General of Water Services² to make variations such as those contained in paragraph 5 below. After public consultation, as required by section 8 of the Act, the Water Services Regulation Authority has decided that it should grant Independent Water Networks' application.
5. Therefore, as provided by sections 7(2) and 7(4)(b) of the Act, and with the agreement of Bloor Homes Limited, the Water Services Regulation Authority **varies**–
 - (a) the Appointment of Independent Water Networks as a water undertaker so that the Site is included in Independent Water Networks' Water Supply Area; and

¹ Severn Trent Water's original Appointment as a water undertaker was made by the Secretary of State for the Environment under sections 11 and 14 of the Water Act 1989, now replaced by sections 6 and 11 of the Water Industry Act 1991. Independent Water Networks' original Appointment was made by the Water Services Regulation Authority under sections 6 and 11 of the Water Industry Act 1991.

² With effect from 1 April 2006 the functions of the Director General of Water Services were transferred to the Water Services Regulation Authority in accordance with section 36 of, and Schedule 3 to, the Water Act 2003.

(b) the Appointment of Severn Trent Water as a water undertaker so that the Site is excluded from Severn Trent Water's Water Supply Area.

Signed for and on behalf of the Water Services Regulation Authority

A handwritten signature in black ink, appearing to read 'Sally Irgin', is written over a light grey rectangular background.

Sally Irgin
Director of Enforcement

**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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