

May 2022

Variation of Independent Water Network Limited's appointment to include Shaftmoor Lane, Birmingham

About this document

Variation of Independent Water Networks Limited's appointment to include Shaftmoor Lane, Birmingham

On 4 November 2021, Ofwat began a [consultation](#) on a proposal to vary Independent Water Networks Limited's ("Independent Water Networks") appointment to become the water supply and sewerage services provider for a development in Severn Trent Water Limited's ("Severn Trent Water") water supply area and sewerage services area called Shaftmoor Lane in Birmingham ("the Site").

The consultation ended on 3 December 2021. During the consultation period, we received responses from three organisations, which we considered in making our decision. On 3 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 Severn Trent 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 and discharge agreements 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 27 July 2021, confirming that there is a water distribution pipe running through the Site, but no sewerage assets within the Site boundary; it concluded that the Site was unserved.

Having reviewed the facts of the Site, and taking into account the letter from Severn Trent 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 match the charges 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 Independent Water Networks’. 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 appointment 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, we estimate there would be no increase on the annual water or sewerage bills of existing Severn Trent Water 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, Barratt Homes West Midlands, 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, the 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 DWI had no comments to make with regard to the consultation. The points raised in the responses from the Environment Agency and CCW are set out below. **The Environment Agency**

In the Environment Agency's response to the public consultation, it stated that it was supportive of the application in principle but requested further information from Independent Water Networks before we make a final decision on the application. The Environment Agency's main concern was in regard to the bulk discharge agreement between Independent water Networks and Severn Trent Water, the Environment Agency and in particular sought confirmation that Severn Trent Water had confirmed that there was sufficient capacity in its network and sewage treatment works to take the flows from the Site. The Environment Agency also provided some comments it asked to be passed to Independent Water Networks to note, setting out its expectations regarding water efficiency and sewer and asset design standards to be met on the Site and that Severn Trent Water must ensure that flows from the Site do not result in a worsening of spill frequency or volumes at storm overflows..

Independent Water Networks confirmed that it had taken on board the general comments made by the Environment Agency. Following some discussions between Severn Trent Water and Independent Water Networks, further evidence was provided to the Environment Agency which demonstrated the network and sewage capacity would be able to cope with the additional flows which this development would introduce to Severn Trent Water's network. The Environment Agency confirmed in an email to us dated 27 April 2022 that it was satisfied with the information provided, and had no further objections to this variation being granted.

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. CCW says that this is particularly true for developments that include domestic housing, as household

customers do not currently have the facility to choose or switch supplier like business customers can.

CCW noted its disappointment that there will be no direct financial benefits to customers on the Site from having Independent Water Networks as their water and sewerage provider as Independent Water Networks proposes to charge customers on the same basis as Severn Trent Water. CCW noted that under this arrangement customers will be no worse off in terms of the amount they pay, but nor will they be any better off than if Severn Trent Water served them. However, CCW also 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 noted that Independent Water Networks generally matches or exceeds Severn Trent Water's service standards, and so overall CCW supports this application, agreeing with our assessment that customers will not be worse being served by Independent Water Networks on the Site. 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.

However, 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 Water does. CCW recognised that Independent Water Networks will offer the standard WaterSure tariff for qualifying customers, who find themselves in financial difficulty. CCW considers this a dis-benefit of the proposed variation. CCW stated 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 expects Independent Water Networks to offer appropriate flexible support to any individual 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 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 notes our conclusion that, as a result of the variation, Severn Trent Water's existing customers would not see an increase in their annual water bills. However, it is unclear whether there will be any significant benefits from the arrangement for the existing customers of Severn Trent Water. CCW questions the value of the NAV regime if it cannot deliver benefits to all customers.

Our response to CCW's comments

One of our key policies when considering NAV applications, is that customers should be no worse off if a new appointment and 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 and sewerage services. This appointment became effective on 4 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 LIMITED AS WATER
UNDERTAKER, MADE BY THE WATER
SERVICES REGULATION AUTHORITY ON...

3 May 2022

J. J. G.

Sewerage Boundary



PLAN REFERRED TO IN THE VARIATIONS
OF THE APPOINTMENTS OF INDEPENDENT
WATER NETWORKS LIMITED AND SEVERN

TRENT WATER LIMITED AS SEWERAGE
UNDERTAKER, MADE BY THE WATER
SERVICES REGULATION AUTHORITY ON...

3 May 2022

ADDRESS: SHAFTMOOR LANE, BIRMINGHAM
B28 8SN

OS GRID REFERENCE: 401710, 342870

SCALE: 1:4000
DRAWN BY: CP
DATE: 30/06/2021

INSERT SEWERAGE MAP 1- SHAFTMOOR LANE

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

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