

June 2022

Variation of Independent Water Networks Limited's appointment to include Hollowdyke Lane (sewerage), Fernwood, Newark

About this document

Variation of Independent Water Networks Limited's appointment to include Hollowdyke Lane, Fernwood

On 9 December 2021, Ofwat began a [consultation on a proposal](#) to vary Independent Water Networks Limited's ("**Independent Water Networks**") appointment to become the sewerage services provider for a development in Anglian Water Services Limited's ("**Anglian Water**") sewerage services area called Hollowdyke Lane, Fernwood, Newark ("**the Site**").

The consultation ended on 6 January 2022. During the consultation period, we received representations from three organisations, which we considered in making our decision. On 30 May 2022, we granted Independent Water Networks a variation to its existing appointment to enable it to supply 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 Anglian Water to become the appointed 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 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 sewerage services appointee for the Site under the unserved criterion set out in section 7(4)(b) of the Water Industry Act 1991 (“**WIA91**”).

The Site is located within Anglian Water's area of appointment and on the border of Severn Trent Water Limited's ("**Severn Trent**") area of appointment. The variation will result in a consequential variation of Anglian Water's appointment area.

Independent Water Networks initially applied to replace Severn Trent as the water and sewerage company on the Site. This was incorrect since the Site is within Anglian Water's sewerage services area. Independent Water Networks withdrew its sewerage application and we progressed the water application separately, and that variation came into effect on 10 December 2021. Our assessment of the water application and the responses to our consultation can be viewed in the [decision document](#).

Although the Site is within Anglian Water's area of appointment, Independent Water Networks will serve the Site by way of a bulk discharge agreement with Severn Trent, with the bulk discharge from the Site transferred via a connection to Severn Trent. As this was an unusual arrangement, we asked the applicant to explain why it was adopting this approach for the Site.

Independent Water Networks explained that the outfall drainage strategy for the Site was developed in the flood risk assessment carried out during the pre-planning stage. This specified the outfall point which is to the north west of the Site and closest to Severn Trent's network. Therefore, a bulk discharge via a connection to Severn Trent was the most pragmatic arrangement to enable Independent Water Networks to serve the Site. Independent Water Networks confirmed that customers will not be negatively affected by the arrangement.

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.

In its application, Independent Water Networks stated that the Site is greenfield. Aerial photographs show there are no existing properties within the Site's boundary.

Anglian Water provided an assessment report for the Site and a letter dated 26 May 2022, in which it stated that it is satisfied that the Site is unserved.

Having considered the facts of the Site and the report from Anglian Water, we are satisfied that this Site is unserved for sewerage services.

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 proposes to charge customers on the Site charges that are equivalent to the charges of Anglian 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 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 Anglian Water.

2.4 Effect of appointment on 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 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 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 Anglian 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 may be a potential increase of £0.01 on the annual sewerage bills of 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.

After the consultation had closed, Independent Water Networks informed us that the bulk discharge agreement will be with Severn Trent and so Anglian Water will not receive the revenue for the bulk agreement. This does not change our decision to grant this variation since the impact on Anglian Water's customers will be very small given the small size of the development.

Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, the developer, Larkfleet Limited, said that it wanted Independent Water Networks to be the 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 had no comments to make with regard to this consultation and did not have any objections. The points raised in the responses from the Environment Agency and CCW are set out below.

3.1 Environment Agency

The Environment Agency commented on the consultation based on an understanding that the Site would be served by means of a bulk discharge agreement with Anglian Water. After the consultation had closed, Independent Water Networks informed us that the bulk discharge agreement will be with Severn Trent. Independent Water Networks provided revised information regarding the bulk discharge to Severn Trent and capacity in the receiving network. The Environment Agency reviewed the revised information and confirmed that it had no objections to this application.

3.2 CCW

CCW states that in general it expects applicants for a new appointment and/or variation (“**NAV**”) to provide customers with prices, levels of service and service guarantees that match or, ideally, better those of the incumbent. This is particularly true for developments that include domestic housing, as household customers cannot choose or switch supplier.

CCW is disappointed that there will be no direct financial benefit to customers from having Independent Water Networks as their provider of sewerage services, as Independent Water Networks intends to match Anglian Water's charges. 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 Anglian Water's, so overall CCW supports the application.

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 does, but notes that it will offer the standard WaterSure tariff for qualifying customers. CCW states that it is 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 considers that by matching the incumbent's charges Independent Water Networks already benefits from the cross-subsidy the incumbent's customers pay to support its social tariff.

CCW notes our conclusion that, as a result of the variation, Anglian Water's existing customers would see an increase of £0.01 on their annual sewerage bills. CCW appreciates this is negligible, but is unclear whether there will be any significant benefits to the existing customers of Anglian Water. It questions the value of the NAV regime if it cannot deliver benefits to all customers.

Our response

One of our key policies when considering NAV applications 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 sewerage services. This appointment became effective on 31 May 2022.

Appendix 1: Site Maps

Sewerage



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

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

30 May 2022

ADDRESS: HOLLOWDYKE LANE, FERNWOOD, NEWARK, NG24 3JW
OS GRID REFERENCE: 482823, 350076

SCALE: 1:6000
DRAWN BY: MM
DATE: 26/07/2021

0 100 200 m

**HOLLOWDYKE LANE
SEWERAGE SERVICES
INSET MAP 2**

PROJECT: ...



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

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