

Proposal to grant a variation of appointment to Independent Water Networks Limited to include the Site, Old Barnstaple Road, Ilfracombe, Devon

|  | Details  |
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| Applicant  | Independent Water Networks Limited (“ <b>Independent Water Networks</b> ”)   |
| Site Details   | Old Barnstaple Road, Ilfracombe, Devon (“ <b>the Site</b> ”)   |
| Services   | Water and sewerage   |
| Current water and sewerage appointee   | South West Water Limited (“ <b>South West Water</b> ”)   |
| Proposed supply arrangements   | Bulk supply agreement and bulk discharge agreement with South West Water   |
| Criterion  | Unserved   |
| Household Customer   | 347  |
| Business Customers   | 3  |
| Developer  | Inox Property Limited  |
| Estimated Site completion date   | June 2028  |
| Summary of consultation  | A statutory consultation made under section 8(3) of the Water Industry Act 1991 (“ <b>WIA91</b> ”) to grant Independent Water Networks a variation to its appointment as a water and sewerage company. To also vary the appointment of South West Water as a water and sewerage company. Consequently, Independent Water Networks will become the water and sewerage company for the Site. |
| Deadline for submissions   | <p>Representations or objections to this consultation should be sent by email to <a href="mailto:Licensing@ofwat.gov.uk">Licensing@ofwat.gov.uk</a> or in writing and sent to the NAV licensing team, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA.</p> <p>Reponses must be received by Ofwat no later than <b>17.00</b> hours on <b>17 November 2022</b>.</p>                     |
| <p>Further information about how to make representations or objections, including information on the treatment of confidential information, can be obtained from Ofwat at the above address or at <a href="http://www.ofwat.gov.uk/foi/">http://www.ofwat.gov.uk/foi/</a>.</p> <p>Ofwat will only use the information you have provided for the purpose of this consultation. We will retain your information in accordance with Ofwat’s retention schedule and will not share with third parties unless we have a legal obligation to do so. For further information please see Ofwat’s Privacy Policy in our <a href="#">Publication Scheme</a>.</p> |  |

# 1. Our assessment of this application

## Our approach

The new appointment and variation mechanism set out in primary legislation<sup>1</sup>, provides an opportunity for entry and expansion into the water and sewerage sectors by allowing one company to replace the existing appointee 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 appointees to expand their businesses.

You can find further details of our approach to assessing applications for New Appointments and Variations ("NAVs") [here](#).

## Unserved status of the Site

Independent Water Networks is applying for a variation based on the unserved criterion. 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.

The Site is brownfield, and satellite images confirm the Site area has existing properties within the Site boundary. South West Water have provided a letter, each for water and sewerage, dated 20 January 2022. The Site letter for sewerage services confirms the Site as unserved, however, the letter for water services confirms the Site as served.

Independent Water Networks have confirmed that it will provide updated Site served letters for water and sewerage services confirming all existing connections will have been disconnected and any existing buildings will be demolished as part of the Site development work.

Having reviewed the facts of this Site and taking into account the letters from South West Water for water and sewerage services, we consider the Site will be unserved once the demolition is complete. We will ask that Independent Water Networks and South West Water to confirm that all existing buildings have been demolished and disconnected before the variation is granted.

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<sup>1</sup> The legal framework for new appointments is set out in the WIA91. Section 7 of the WIA91 sets out the criteria by which an appointment or variation may be made. Section 8 sets out the procedure for making that appointment or variation.

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## Price

Independent Water Networks proposes to match or better the charges to customers on the Site to those of South West Water. Independent Water Networks currently offers a discount of 2.5% against the incumbents' charges. This discount is reviewed every 12 months. It will also offer a saving to those opting to pay by Direct Debit or via e-billing.

## Levels of service

Every appointee is required under its licence conditions to publish and make available the Core Customer Information for its household customers. We have assessed Independent Water Network's proposed Customer Code of Practice, and our view is that it is of an appropriate standard. Our view is that customers on the Site would be no worse off in relation to the scope of Independent Water Networks' proposed Customer Code of Practice than they would be if South West Water were to be the customers' water and sewerage company.

## Stakeholder engagement

We take the view of the Environment Agency into account before progressing to formal consultation on an application for a new appointment. The Environment Agency informed us that it has no objection to the consultation occurring; however, it provided comments for Independent Water Networks to note. It highlighted Independent Water Network's will need to check that South West Water can accept the sewage load and still be compliant with their permit(s) and to ensure the Site follows the SUDS guidance, advising there should be no deterioration to water quality. In addition, it advised Independent Water Network's indicated that water meters will be fitted to all properties to enable detection of water leaks, however, it suggested, as part of the proposal water saving measures, South West Water should also include drought water restrictions within its drought plans.

We no longer contact the Drinking Water Inspectorate before progressing to formal consultation on an application, following its confirmation that it considers our notification at the consultation stage sufficient<sup>2</sup>.

As part of the application process Ofwat has engaged with CCW. CCW's position is that new appointments and variations ("**NAVs**") should bring benefits to customers on the proposed NAV site. CCW expects NAV Appointees to provide consumers with prices, levels of service or service guarantees that match or, ideally, better those of incumbent water and sewerage companies. CCW has stated that it is satisfied that Independent Water Networks as an established NAV Appointee, offers customers on its NAV site prices and levels of service

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<sup>2</sup> The Environment Agency as well as the Drinking Water Inspectorate will also be formally consulted on the proposals, as they are on the list of organisations which must be formally consulted as set out in section 8(4)(b) of WIA91.

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which match or better those offered by the incumbent water and sewerage companies which would otherwise serve the site. CCW agrees with Ofwat's assessment that customers on the site will be no worse off if served by Independent Water Networks and so, overall, supports the proposed variation of appointment.

CCW recognises that due to the small size of Independent Water Networks customer base, it does not currently offer its financial vulnerable customers a social tariff in the way that the incumbent companies do but does offer the standard WaterSure tariff for qualifying customers. CCW considers that it is appropriate for Independent Water Networks to tailor the services it provides, until it can offer a formal social tariff, ensuring customers are provided with appropriate flexible support where needed.

CCW has also considered the impact on an incumbent's existing customers when a NAV site is approved. It notes that in many cases, there is a potential cost on the annual water and sewerage bills of these customers. While this cost is negligible on an individual site basis, CCW is unclear of the wider benefits of the NAV regime for incumbents' customers, particularly as the number of sites in each incumbent area increases and the cumulative cost rises.'

## **Impact on existing customers**

In considering whether customers will be no worse off, we also considered the potential effects of this variation on the prices that South West 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. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try to quantify the possible effect in an easily understandable way.

We have assessed the potential magnitude of this impact by comparing how much South West 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.

We estimate a potential £0.01 annual increase on the water bills of existing South West Water customers and a potential £0.02 annual increase on the sewerage bills of existing South West Water customers if we grant this variation to Independent Water Networks. This is once the Site is fully built out.

This estimate does not take into account the potential spill-over benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win sites.

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Therefore, we consider that granting this variation to Independent Water Networks would have a small financial impact on customers' bills and could have potential benefits for customers.

## **Ability to finance and properly carry out its functions**

We have a statutory duty to ensure that efficient appointees can finance the proper carrying out of their functions. When a company applies for a new appointment or variation, it must satisfy us that it is able to carry out all of the duties and obligations associated with being an appointed water and sewerage company.

We have considered the financial position of Independent Water Networks in relation to providing water services to the Site, and we are satisfied the company demonstrates sufficient financial viability.

Independent Water Networks has an unlimited Keepwell agreement from its owner Brookfield Utilities UK Limited ("**BUUK**") in July 2013.

Independent Water Networks has confirmed that this agreement is still in place and will cover this proposed new site. BUUK continues to hold an investment grade credit rating with Moody's.

On this basis, we are currently satisfied that Independent Water Networks would be able to finance its functions if the variation is granted.

## 2. Conclusion and next steps

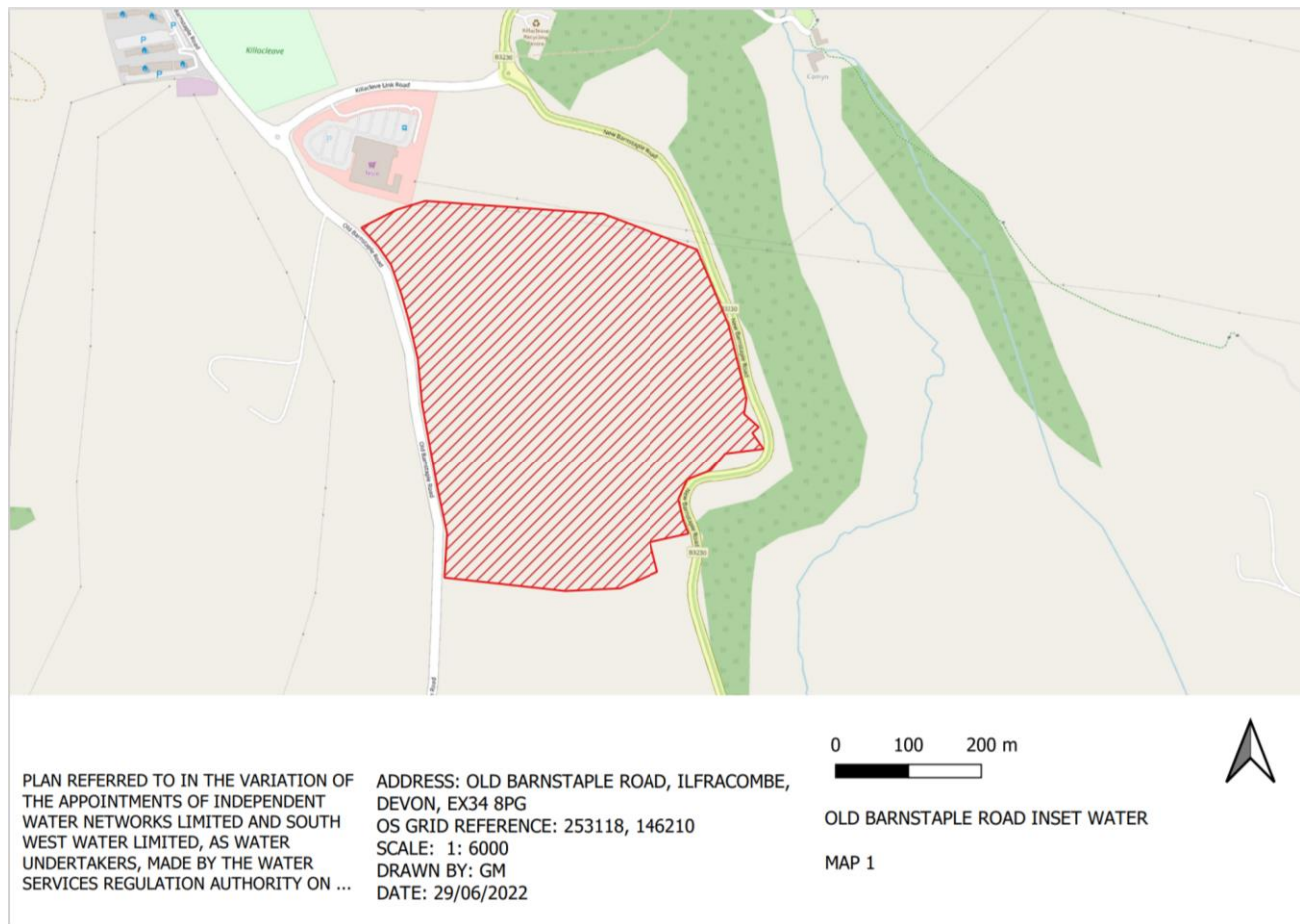
In assessing Independent Water Networks application, we have considered the general benefits of new appointments and variations. Our view is that our two key policy principles would be met in this case, as customers would be no worse off, and Independent Water Networks would be able to finance, and carry out, its functions. We have also considered the effects of granting the proposed variation on the existing customers of South West Water.

We are currently minded to grant the variation under the unserved criterion. Subject to considering any representations submitted during the consultation period in response to this consultation notice, Ofwat will decide whether or not to grant the variation of appointment set out above.

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### 3. Site maps

#### Water boundary



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## Sewerage boundary

