

Proposal to grant a variation of appointment to Independent Water Networks Limited – Area C, Bristol Road, Gloucester

	Details
Applicant	Independent Water Networks Limited (“ <b>Independent Water Networks</b> ”)
Site Details	Area C, Bristol Road, Gloucester (“ <b>the Site</b> ”)
Services	Water only
Current water Appointee	Severn Trent Water Limited (“ <b>Severn Trent</b> ”)
Proposed supply arrangements	Bulk supply agreement with Severn Trent
Criterion	Unserved
Household Customer	43
Business Customers	0
Developer	Matthew Homes Limited
Estimated Site completion date	28 September 2024
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 company. To also vary the appointment of Severn Trent Water as a water company. Consequently, Independent Water Networks will become the water 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>5 December 2022</b>.</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 <http://www.ofwat.gov.uk/foi/>.

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 [Publication Scheme](#).

# 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](#).

## Unserviced 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 have submitted a map which shows the Site is a greenfield Site on which there are no assets with a clear and unbroken border. Severn Trent have confirmed that there are no buildings on the Site that are served by its network.

Given the information provided by Independent Water Networks and Severn Trent, we are satisfied that the Site may be considered unserved.

## Price

Independent Water Networks will match the incumbent's charges and will offer a 2.5% discount against the charges set by Severn Trent to customers on the Site for the 2022-23 charging year. This discount is to be reviewed annually. There are also savings to those opting to pay by Direct Debit or via e-billing.

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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.

## 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 Severn Trent were to be the customers' water company.

## Stakeholder engagement

We take the view of the Environment Agency<sup>2</sup>, the Drinking Water Inspectorate ("**DWI**"), and the Consumer Council for Water ("**CCW**") into account before progressing to formal consultation on an application.

The Environment Agency informed us that it is content for us to consult on this application.

The DWI is satisfied that Independent Water Networks understands the obligations under the Water Industry Act 1991 (as amended), the Water Supply (Water Quality) Regulations 2016 (as amended) and the Water Industry (Suppliers' Information) Direction 2021. The DWI therefore raises no comments or objections to Ofwat proceeding to consultation and decision for applications submitted by Independent Water Networks.

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

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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.

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/or 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 Severn Trent'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 Severn Trent 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 no annual increase on the water and sewerage bills of existing Severn Trent Water's 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.

Therefore, we consider that granting this variation to Independent Water Networks would have no 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 or 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.

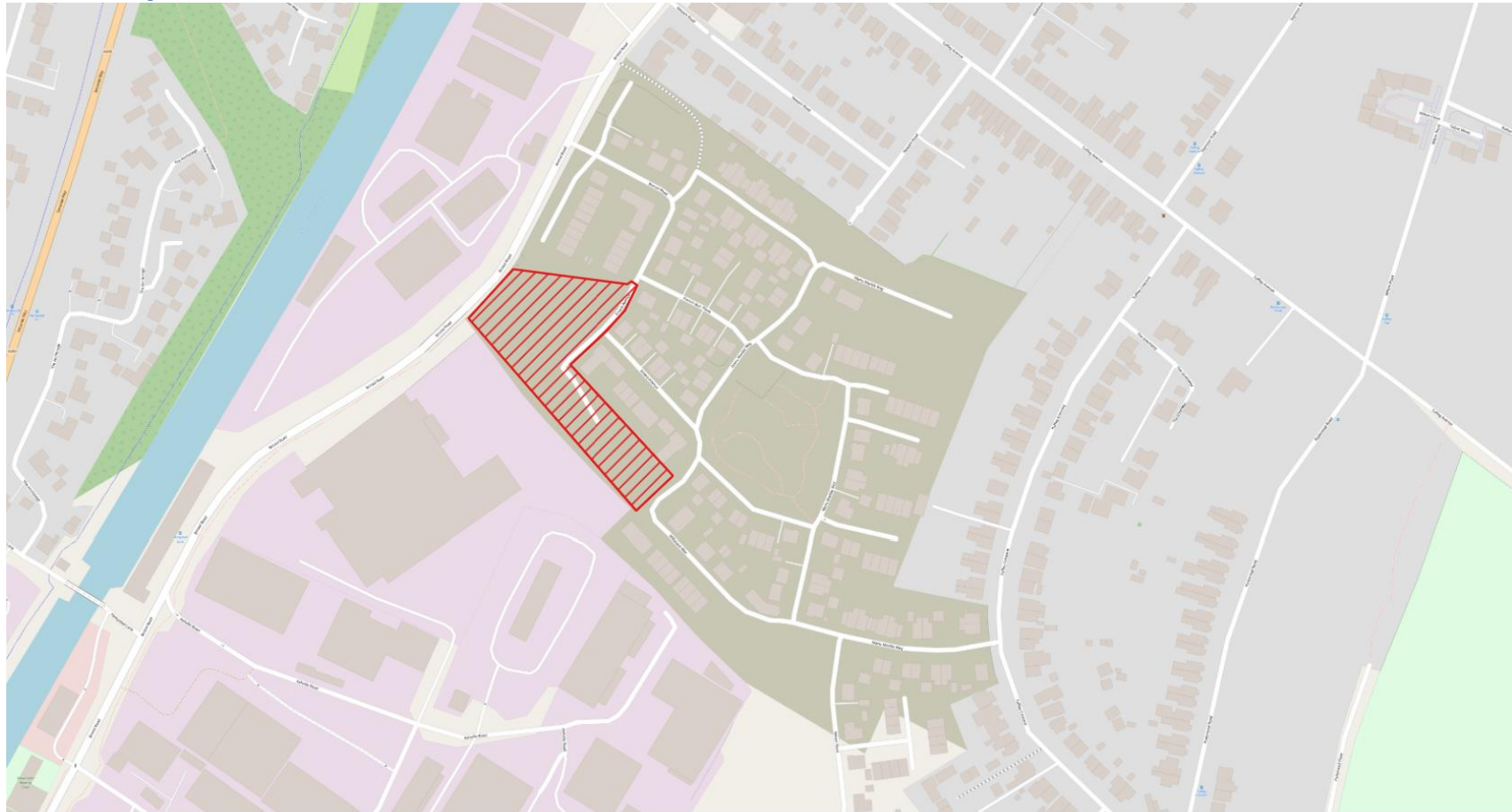
On this basis, we are currently satisfied that Independent Water Networks would be able to finance its functions if the variation is granted.

## 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 Severn Trent.

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.

### 3. 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 ...

ADDRESS: AREA C, BRISTOL ROAD, GLOUCESTER, GLOUCESTERSHIRE, GL2 5BX  
OS GRID REFERENCE: 382199, 216527

SCALE: 1:5000  
DRAWN BY: AM  
DATE: 28/09/2022

0 75 150 m  
AREA C, BRISTOL ROAD  
WATER SUPPLY  
INSET MAP 1

PROJECT: N0023276 74270