

Proposal to grant a variation of appointment to Independent Water Networks Limited

	Details
Applicant	Independent Water Networks Limited (“ <b>Independent Water Networks</b> ”)
Site Details	The Fairways (Phase 2), Archerfield Drive, Arcot, Cramlington, Northumberland (“ <b>the Site</b> ”)
Services	Water and Sewerage
Current water/sewerage appointee	Water and Sewerage Appointee: Northumbrian Water Limited (“ <b>Northumbrian Water</b> ”)
Proposed supply arrangements	Bulk supply and discharge agreement with Northumbrian Water
Criterion	Unserved
Household Customer	1,190
Business Customers	0
Developer	Persimmon Homes Limited
Estimated Site completion date	03/2034
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 Northumbrian 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>9 June 2023</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

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.

Northumbrian Water has provided a letter, dated 24 November 2022, confirming that, in its view, the Site is unserved. The aerial maps also show that there are no existing buildings on the Site.

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

## Price

Independent Water Networks proposes to at least match the charges to customers on the Site to those of Northumbrian Water. It will offer a 2.5% discount this financial year which will be reviewed annually. It will also offer a small discount to those who pay by direct debit and take up 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

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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.

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 Northumbrian Water were to be the customers' water and sewerage 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 is pleased to note that Independent Water Networks continues to offer its customers a 2.5% discount on water charges against incumbents' charges. 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 services it provides, until it can offer a formal social tariff, ensuring customers are provided with appropriate flexible support where needed. CCW welcomes Independent Water Networks' commitment to offer any of its customers in financial difficulty the same level of assistance as provided by the relevant incumbent company.

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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.

CCW notes that it is important for the NAV regime to have wider benefits for all customers, including those of incumbents, particularly as the number of sites in each incumbent area increases. Both Ofwat and CCW expect NAV companies and incumbent companies to work together to ensure the arrangements on the site and bulk charges are reflective of the impact on an incumbent's existing customers.

## 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 Northumbrian Water's existing customer base may face.

The incumbent's bulk charges to the NAV should closely relate to the services the NAV provides to its end customers. We published our final guidance on bulk charges in January 2021 ([Bulk charges for new appointees - guidance on our approach and expectations](#)), following a consultation on our approach and a consultation on a draft version of our guidance in November 2020.

Our approach to regulating bulk charges was informed by a report we commissioned to explore whether incumbents' practices when setting bulk charges for NAVs were driving benefits for customers, the environment and wider society. The report confirmed that incumbents were setting bulk charges with reference to our May 2018 guidance, [a new approach to bulk charges for new appointees](#). This guidance introduced the principle that bulk charges for new appointees should be set to reflect the relevant wholesale tariff(s) and deduct costs that the incumbent would no longer incur if a new appointee supplied the site instead.

The relevant wholesale tariff(s) is the total incumbent's wholesale charges that reflects the new appointee's end customer base on the site.

Therefore, if the incumbent's bulk charges are set at the correct level and adjusted to ensure that they remain cost reflective, we consider that granting this variation to Independent Water Networks would have no financial impact on the bills of the incumbent's customers and could have potential benefits for customers. There are also potential spill-over benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win sites.

## Ability to finance and properly carry out its functions

## Proposal to grant a variation of appointment to Independent Water Networks Limited

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 and sewerage 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**") dated 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 Northumbrian 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.

### 3. Site maps

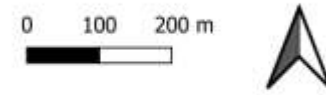
#### Water



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

ADDRESS: PHASE 2 THE FAIRWAYS, ARCHERFIELD DRIVE, ARCOT, CRAMLINGTON, NORTHUMBRLAND, NE23 8BB  
OS GRID REFERENCE: 424953, 576217

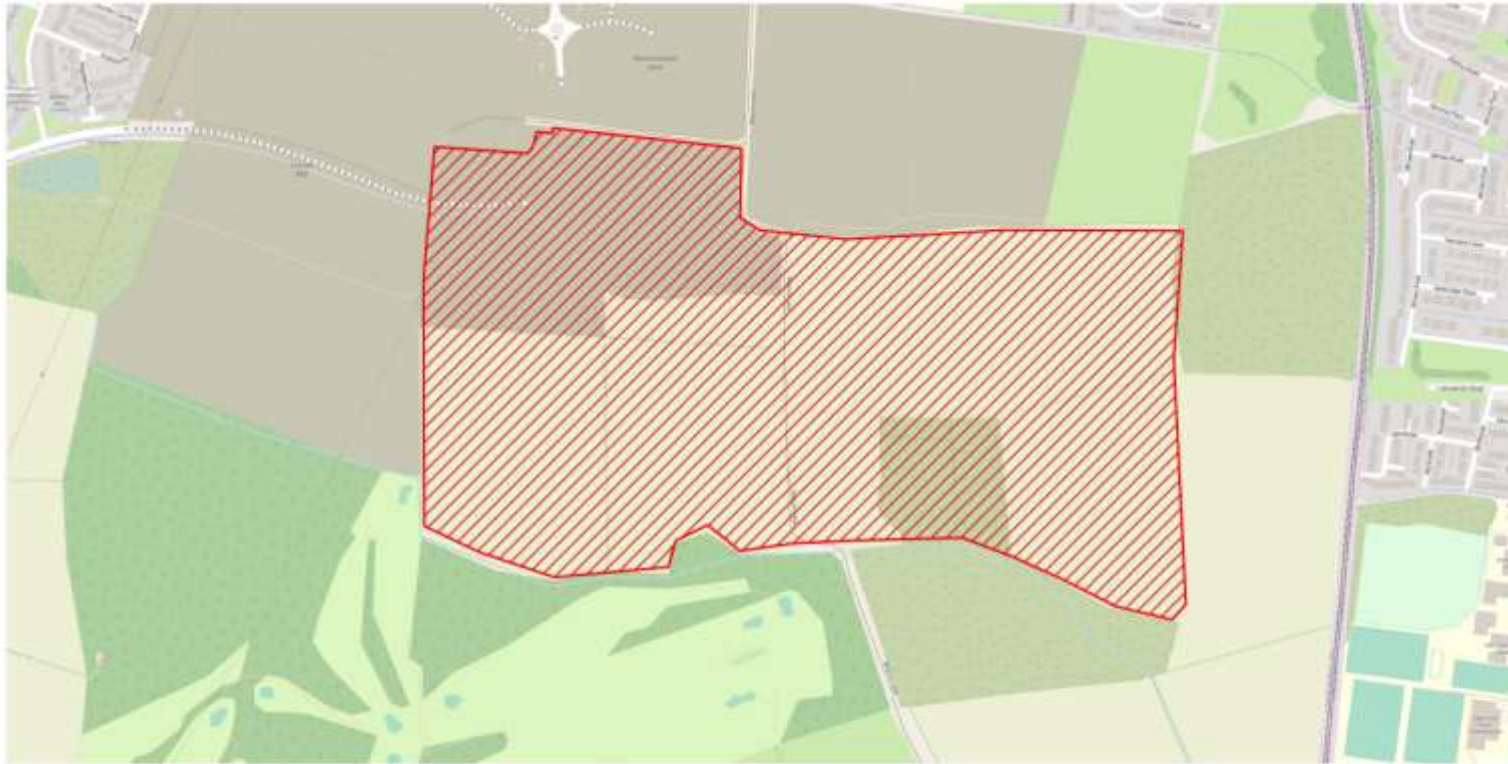
SCALE: 1:7000  
DRAWN BY: SC  
DATE: 22/03/2023



**THE FAIRWAYS (PHASE 2)  
INSET WATER BOUNDARY MAP 1**



Sewerage



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

ADDRESS : PHASE 2 THE FAIRWAYS,  
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DATE: 22/03/2023

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**THE FAIRWAYS (PHASE 2)  
INSET SEWERAGE BOUNDARY MAP 1**