

Proposal to grant a variation of appointment to Independent Water Networks Limited – Lower Essex Street, Birmingham

	Details
Applicant	Independent Water Networks Limited (“ Independent Water Networks ”)
Site Details	Lower Essex Street, Birmingham (“ the Site ”)
Services	Water and Sewerage
Current water & sewerage appointee	Severn Trent Water Limited (“ Severn Trent Water ”)
Proposed supply arrangements	Bulk supply and discharge agreements with Severn Trent Water
Criterion	Unserved
Household Customer	628
Business Customers	2
Developer	Galliard Construction Limited
Estimated Site completion date	August 2028
Summary of consultation	<p>A statutory consultation made under section 8(3) of the Water Industry Act 1991 (“WIA91”) to grant Independent Water Networks a variation to its appointment as a water and sewerage company.</p> <p>To also vary the appointment of Severn Trent Water as a water and sewerage company. Consequently, Independent Water Networks will become the water and sewerage company for the Site.</p>
Deadline for submissions	<p>Representations or objections to this consultation should be sent by email to Licensing@ofwat.gov.uk or in writing and sent to the NAV licensing team, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA.</p> <p>Responses must be received by Ofwat no later than 17.00 hours on 13 November 2023.</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 http://www.ofwat.gov.uk/foi/.</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 Publication Scheme.</p>	

1. Our assessment of this application

Our approach

The new appointment and variation mechanism set out in primary legislation¹, 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](#).

The 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 9 September 2022, confirming that, in its view the Site is served and that there are buildings within the Site boundary. Independent Water Networks has confirmed that the Site developer will be using three of the four existing connections as a temporary building supply to the Site. Independent Water Networks is waiting for confirmation that the buildings have been demolished and three of the four connections have been switched to temporary building supplies, with the fourth connection being permanently disconnected.

Independent Water Networks is aware that we need updated confirmation from Severn Trent Water confirming that the Site is unserved before the variation can be granted.

Given the information provided by Independent Water Networks and we expect the Site to be unserved once all the current connections have been disconnected. We will not be able to grant the application until the final confirmation of this has been received from Independent Water Networks and Severn Trent Water.

¹ 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.

upon receipt of updated confirmation from Severn Trent Water, we consider that the Site will be unserved by the time the variation is granted.

Price

Independent Water Networks proposes to match the charges to customers on the Site to those of Severn Trent Water. It currently offers a discount of 2.5% against incumbent companies' charges for the 2023–24 charging year; this discount will be reviewed annually. It also offers discounts for customer who take up or opt in e-billing or paying by direct debit.

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 Water were to be the customers' water and sewerage company.

Stakeholder engagement

We take the view of the Environment Agency², 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 new appointments and variations (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

² 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.

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 recognise 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 consider 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 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. CCW expects 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 Severn Trent 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.

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 spillover 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

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 Severn Trent Water.

We are currently minded to grant the variation under the unserved criterion, subject to satisfactory confirmation of the disconnection of the existing premises. 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 SEVERN TRENT WATER LIMITED, AS WATER UNDERTAKERS, MADE BY THE WATER SERVICES REGULATION AUTHORITY ON ...

ADDRESS: LOWER ESSEX STREET, BIRMINGHAM, B5 6SD
OS GRID REFERENCE: 407244, 286050

SCALE: 1:1600
DRAWN BY: SC
DATE: 29/08/2023



**LOWER ESSEX STREET
INSET WATER BOUNDARY MAP 1**

Sewerage



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

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**LOWER ESSEX STREET
INSET SEWERAGE BOUNDARY MAP 1**