

Water today, water tomorrow

**Guidance on applying for a
water supply licence
Version 3**

Contents

1. Introduction and outline	2
2. The licence application process	5
3. Assessment criteria	16
4. Information required for assessment	21
5. Compliance with a water supply licence	27
6. Glossary of terms	29
Appendix 1: Summary of the water supply licence application process	33
Appendix 2: Notice of application for a water supply licence	40
Appendix 3: Notice of application to vary a retail licence	41
Appendix 4: Certificate of adequacy	42
Appendix 5: Business plans – guidance to applicants and sponsors	43

1. Introduction and outline

1.1 Background

The Water Industry Act 1991 (WIA91) permits a company that holds a water supply licence (licensee) to have access to an appointed water company's supply system to enable the licensee to supply water to its customers at eligible premises. Prospective licensees have to obtain a water supply licence before they can supply water through an appointed water company's supply system in competition with the appointed water company. Prospective licensees can apply for one of the following:

- A **retail licence** – a water supply licence that authorises the holder to use an appointed water company's supply system for the purpose of supplying water to the premises of its customers (the retail authorisation). A retail licence therefore permits the supplier to purchase a wholesale supply of water from an appointed water company and to retail it to its customers at eligible premises.
- A **combined licence** – a water supply licence that gives the holder the supplementary authorisation in addition to the retail authorisation. The supplementary authorisation allows the holder to introduce water into an appointed water company's supply system by means of which any particular supply of water to the premises under the licensee's retail authorisation is to take place.

A licensee may apply for a variation to its licence. A retail licensee may apply for a variation so that its licence also gives the supplementary authorisation. A combined licensee may apply for a variation so that its licence gives only the retail authorisation.

Water supply licences apply to the supply of potable water and/or non-potable water.

Section 17A(3) WIA91 sets out the following three requirements which must be satisfied in relation to each of the premises supplied by a licensee:

- the customer's premises are not household premises¹;
- when the licensee first enters into an undertaking with a customer to give the supply, the total quantity of water estimated to be supplied to the premises

¹ See section 17C WIA91.

annually by the licensee is not less than 5 megalitres (MI)² in relation to premises supplied with water using the supply system of an appointed water company operating wholly or mainly in England and not less than 50 MI in relation to premises supplied with water using the supply system of an appointed water company operating wholly or mainly in Wales (the threshold requirement)³; and

- the premises are not being supplied by another licensee (but may be supplied by a licensee and one or more appointed water companies).

1.2 Purpose of this guidance

This guidance is statutory guidance under the Water Supply Licence (Application) Regulations 2005 (SI 2005/1638) (the Application Regulations). It should be read alongside the Application Regulations.

This guidance sets out:

- the process of applying for a water supply licence;
- the form and manner of applications;
- the information and documents we will require from an applicant; and
- the criteria we will apply when assessing licence applications.

It covers applications for a:

- retail licence;
- combined licence;
- variation of a retail licence to add the supplementary authorisation; and
- variation of a combined licence to remove the supplementary authorisation.

Other documents that should be read alongside this guidance include the WIA91, the regulations, orders and other documents made under it, and the following documents:

- Standard Conditions of Water Supply Licences;
- guidance on eligibility;
- guidance on access codes;
- guidance on strategic supplies; and
- customer transfer protocol.

² 5 million litres, or 5,000 cubic metres (m³).

³ See section 17D WIA91.

These documents are available in the water supply licensing (WSL) area of our website.

1.3 Structure of this guidance

The rest of this guidance is structured as follows.

- Chapter 2 and appendix 1 set out the licence application process.
- Chapter 3 sets out the criteria we will use to assess an application.
- Chapter 4 sets out the information that applicants will be required to submit as part of their application.
- Chapter 5 explains how a licensee should comply with its water supply licence.
- Chapter 6 explains some of the terms used in the WSL regime.
- Appendix 2 sets out the particulars to be contained in a notice of application for a water supply licence, as prescribed by the Application Regulations.
- Appendix 3 sets out the particulars to be contained in a notice of application for variation of a retail licence to a combined licence, as prescribed by the Application Regulations.
- Appendix 4 contains a copy of the certificate of adequacy.
- Appendix 5 contains guidance to applicants and sponsors on the format and content of a business plan and accompanying verification statements.

This document sets out our understanding of provisions of the WIA91 and of relevant regulations and orders made under it. It is not a substitute for the WIA91 or the regulations and orders made under the WIA91, or for any other legal provision. This document should be read in conjunction with those legal instruments and England and Wales case law. Anyone in doubt about how they may be affected should seek legal advice.

2. The licence application process

A company that wishes to supply water to customers at eligible premises must apply for a water supply licence. This chapter outlines the steps involved in the application process.

2.1 Pre-application stage

We recommend that prospective applicants contact us to discuss the application process and the information we will require before a formal application is made. This provides an early opportunity for all parties to raise any significant issues of concern and allow these to be addressed. It also gives applicants the opportunity to discuss and clarify any queries they have before submitting formal applications. We do not intend to make any public statement about these discussions.

Applicants for combined licences should note that, under section 24 of the Water Resources Act 1991, abstraction of water from any source of supply without an abstraction licence is an offence. We do not require potential combined water supply licensees to have obtained an abstraction licence before they are granted a water supply licence. However, we recommend that they seek advice from the Environment Agency before they commence the water supply licence application process. More information is available on the Environment Agency's website at www.environment-agency.gov.uk. The Environment Agency can also be contacted through its customer contact centre on 08708 506506.

Prospective applicants for a retail or combined water supply licence should refer to the WSL area of our website, www.ofwat.gov.uk. This area is designed to be an initial source of information for prospective licensees. It includes instructions on how to request further information and a standard application form.

2.2 Application submission – general

The WIA91 and the Application Regulations provide for us to process applications for water supply licences. Formal licence applications⁴ must be made in writing to us and contain the information set out in chapter 4. Although our aim is to keep the information requirements to a minimum, we must have enough information to allow

⁴ All references to a 'formal application' in this guidance should be taken to mean a 'valid application' for the purposes of the Application Regulations.

us to assess whether the applicant has the appropriate skills and competencies required of a licensee.

Applicants must make clear whether the information submitted as part of their application should be treated as confidential and be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, among other things, with obligations of confidence. In view of this, it would be helpful if applicants could explain to us why they regard the information they have provided as confidential.

We will only accept formal applications, that is, those that are complete and contain all the required information. When we are satisfied that a formal application has been received, we will give the applicant written notice. We are required to send this notice as soon as reasonably practicable after we have decided that a formal application has been made. The written notice will signal the start of the assessment process. We will not commence the process until we have all the necessary information to make our assessment.

All applicants (except those applying for a variation of a combined licence to a retail licence) must publish a notice of application within 10 working days of the day on which we notify them that a valid application has been made,⁵ and tell us they have done so. Applicants should publish the notice on their own website (if they have one), or in such other way as they consider appropriate for bringing it to the attention of interested parties. That notice must contain specified particulars.⁶ The particulars to be contained in the notice are prescribed in the Application Regulations and are reproduced in appendices 2 and 3. The notice must state the type of licence, or variation to an existing licence, that the applicant wishes to obtain and must invite responses in writing, to be directed to us, within 20 working days of the notice having been published on our website.

We are required to publish a copy of the notice of application on our website, on or as soon as reasonably practicable after the day on which the applicant publishes the notice. We will co-ordinate with the applicant to ensure that, as far as possible, publication is at the same time. Interested parties will be able to subscribe to our website to receive updates on licence applications. If the applicant does not publish the required notice, we will not proceed further with the application.

We will consider third party responses to the notice when assessing a licence application. Ordinarily, we expect to send copies of those third party responses to

⁵ See Application Regulations, Regulation 5(3).

⁶ See Application Regulations, Regulation 5(4) and Schedule 2.

the applicant. If the responses raise any substantial concerns, we will attempt to resolve these in discussion with the applicant. We do not normally expect to consult further with those third parties that make representations on an application.

As part of the assessment of an application, we must consider whether the applicant has the appropriate level of competency in a number of key areas. These areas include management and finance, and whether the applicant is aware of the technical ability required to hold the type of water supply licence requested. This assessment will be criteria-based (see chapter 3) and will be made on the information provided by the applicant (see chapter 4). Other bodies, in particular the Drinking Water Inspectorate (DWI), will play an important role in this assessment.

The working relationship between Ofwat and the DWI, in respect of all relevant matters, is set out in a Memorandum of Understanding. This is available on our website. The Memorandum of Understanding is intended to be a high-level document outlining how we will work together and does not refer specifically to the licence application process.

2.3 Fees

An applicant must pay a fee to have its application assessed. The application fee is intended broadly to cover the average costs associated with processing each type of application. We will charge a flat fee for each separate type of application, irrespective of its complexity. These fees are prescribed in the Application Regulations:

- retail licence – £2,000;
- combined licence – £2,500;
- variation of a retail licence to add the supplementary authorisation – £1,350;
or
- variation of a combined licence to remove the supplementary authorisation – £550.

The fees are intended to cover only our costs of processing applications. They do not include any provision for the ongoing costs of regulating licensees, or for any assessment made by the DWI. The DWI will continue to be funded directly from public funds for the foreseeable future. This is consistent with the treatment of the DWI's costs related to appointed water companies.

The level of fees will be reviewed from time to time to ensure they continue to reflect the average costs of assessing applications.

The revenue from licence application fees will be paid into the Consolidated Fund (that is, the Exchequer). Payment should be made to Ofwat by cheque or, preferably, by electronic transfer. Receipts will be issued on request.

An application will not be processed until the appropriate fee has been paid.

2.4 Granting a licence

We expect the formal application process to take up to 60 working days, including the statutory 20 working day consultation period. The process may take longer should we require further clarification or information from the applicant. An application for variation from a combined to a retail licence may take less time. We would expect that, with experience, we might reduce these timescales. Appendix 1 sets out the process we will follow for each type of licence application.

We expect the process for obtaining a retail licence to be slightly more straightforward than that for obtaining a combined licence. Retail and combined licence applicants will have to demonstrate financial and managerial competency. Combined licence applicants seeking to introduce water into an appointed water company's supply system will also need to satisfy the DWI and us that they have sufficient technical expertise and understanding of the regulatory regime governing water supply. The technical requirements for prospective retail licensees will be less extensive. However, they will have certain responsibilities and will need to satisfy the DWI and us that they are aware of these.

Applicants for both combined and retail licences will be responsible for ensuring that their water is wholesome at the point of supply. Both will therefore need to demonstrate to the DWI that they understand water supply and quality issues, and that they are aware of the legislation and guidance that affects their work.

The DWI will assess licensees' technical competence at two stages. The first stage will be a mainly paper-based assessment that will form part of the licence application process. The second stage, for combined licensees only, will be a detailed technical assessment at the time when a licensee proposes to input treated water into an appointed water company's potable supply system.

Before advising us that the applicant is suitable to be granted a licence, the DWI will want to be sure that:

- both retail and combined licence applicants have adequate knowledge of relevant water quality legislation and guidance, and other documents outlining the responsibilities of water suppliers; and
- a combined licence applicant is aware of the level of competency it will need to demonstrate before it is allowed to input treated water into the potable public network.

As with our assessment of financial and managerial capability, the assessment process that the DWI follows will vary from case to case. The DWI will take into account the previous experience and qualifications of the applicant's directors, managers and sub-contractors. It also expects to invite most combined licence applicants for an interview, at which they will have the chance to demonstrate their awareness of the relevant issues. It may also invite retail applicants for an interview.

Under section 17F(7) WIA91, as soon as practicable after granting a licence or varying a licence, we are required to serve a copy of the licence or the licence as varied on the licensee. We must also serve a copy on the Secretary of State, the Welsh Government, the DWI, the Environment Agency, the Consumer Council for Water (CCWater), each relevant appointed water company and all other licensees. We will retain a copy of the licence or variation of the licence in our library.

When a licence is granted, we will issue a press notice. We will also maintain a Register of Licensees on our website.

2.5 Action after granting a licence

Once a retail applicant has been granted its licence, it is able to supply water to customers, subject to it entering into an access agreement with the relevant appointed water company for retail supply. Once a combined applicant has been granted its licence, however, it must go through a further stage of assessment before it can introduce potable water into an appointed water company's supply system. In addition, a combined licence holder wishing to abstract water will require an abstraction licence from the Environment Agency.

Standard Licence Condition 13⁷, which applies only to combined licensees, prohibits the introduction of potable water into the public supply system until the DWI is satisfied with the technical competency of the licensee in respect of the relevant

⁷ The Standard Licence Conditions are available at:
<http://collections.europarchive.org/tna/20080727101330/http://www.defra.gov.uk/environment/water/industry/wa03regs/licenceconditions-section17h.pdf>.

regulatory requirements⁸. This assessment does not form part of the licence application process and will be carried out separately by the DWI as and when a licensee wishes to start introducing potable water into the public supply system.

More details can be found at:

<http://dwi.defra.gov.uk/stakeholders/competition/index.htm>.

In carrying out detailed checks, the DWI will ensure that combined licensees are subject to the same level of regulation as appointed water companies. This approach will minimise the risk of impairment of the quality of the potable water within the public supply system. This detailed assessment will need to be carried out each time a licensee wants to use a new source or treatment works for potable water. It need not be replicated at the licence application stage.

2.6 Suspending or refusing a licence application

We may suspend the licence application process under certain circumstances. Examples would be where the applicant has not provided sufficient details to the DWI, or if the applicant needs to take action following representations received by us during the 20 working day notice period. We will tell the applicant why the application process is suspended and invite it to remedy the defects. The onus is on the applicant to provide the necessary additional material and we will not continue to consider the application until this is received. If the defects are remedied successfully, the application and timetable will resume from the point at which it stopped.

Suspending a licence application is not the same as refusing an application. We may refuse an application if for any reason the applicant has not demonstrated that it is suitable to be granted a licence. Examples of situations in which we consider it may be appropriate for us to refuse an application are given below.

- We may refuse a licence if the applicant has failed consistently to provide the required information.
- We may refuse a licence if, following suspension, an applicant does not respond to a request for additional material within a specified time, which will usually be about 20 working days, or explain why it needs more time to provide the material.

⁸ See sections 67 (Standards of wholesomeness), 68 (Duties with respect to water quality) and 69 (Regulations for preserving water quality) WIA91; Water Supply (Water Quality) Regulations 2000 (SI 2000/3184, amended by SI 2001/2885, SI 2002/2469, SI 2005/2035, SI 2007/2734 and SI 2010/991) in England; and the Water Supply (Water Quality) Regulations 2010 (SI 2010/994, amended by SI 2011/14) in Wales.

- We may refuse a licence if the applicant does not demonstrate to us or the DWI that it is suitable to be granted a licence. For example, if:
 - there is concern about the ability of the applicant to fulfil regulatory or an appointed water company’s requirements;
 - the applicant is not aware of its responsibilities or the potential consequences of its actions;
 - the applicant does not have a viable business plan;
 - key personnel are shown to be unsuitable; or
 - the applicant has previously had a licence revoked or application refused and cannot show that it has taken steps to address the reasons for the original revocation or refusal.
- We may refuse a licence if we consider that information supplied is false, misleading or incomplete.

This is not an exhaustive list of reasons for refusal.

Section 17F(4) WIA91 provides that if we propose to refuse an application, we must notify the applicant:

- stating that we propose to refuse the application;
- stating the reasons why we propose to refuse the application; and
- specifying the time within which representations or objections to the proposed refusal may be made.

We must consider any representations or objections which are duly made and not withdrawn. The applicant will have the opportunity to make representations or to submit the necessary additional information to us within a specified time, normally 10 working days.

If we refuse an application, we will give our reasons for refusal.

An applicant that has had an application refused is not prohibited from making another application.

2.7 Disputes

As outlined above, interested parties will have the opportunity to make representations on a licence application during the statutory 20 working day period for responses. We will consider all representations that are made and not withdrawn.

If we propose to refuse a licence, we will give the applicant an opportunity to make representations (see section 2.6).

Once a licence is granted, the licensee will have to agree access terms with appointed water companies before it can start supplying customers. If these parties are unable to reach agreement on access terms, they will be able to use our determinations procedure.

2.8 Application for a variation of a licence

A licensee can apply for a variation of its licence if it wants to alter the activities it is permitted to carry out. If it wishes to introduce water into an appointed water company's supply system for the purpose of supplying retail customers, a retail licensee may apply for a variation so that its licence also gives the supplementary authorisation. A combined licensee may apply for a variation so that its licence gives only the retail authorisation if it no longer wishes to introduce water into an appointed water company's supply system.

We will require applicants for a variation to submit the information required for the type of licence that they are seeking. In general, however, the applicant will not need to resubmit information that was submitted in the initial application unless that original information has changed (in which case that information must be updated).

If we decide to grant a variation, we will serve a copy of the licence as varied on the relevant persons (see section 2.4). In the case of a variation from a retail licence to a combined licence, we will also issue a press notice. If we propose to reject an application for a variation of a licence, we will follow the procedure set out in section 2.6.

i) From combined licence to retail licence

Combined licensees applying for a variation that will give only the retail authorisation will already have demonstrated to us that they are capable of carrying out retail activities. A licensee may want to vary its licence from a combined licence to a retail licence if it wants only to retail water to its customers' premises (and in doing so will have fewer responsibilities). We will not require applicants to resubmit information unless there has been any change from the original application, and will not in most cases require the applicant to submit a business plan. Applicants will have demonstrated to us as part of the original application that they have the necessary skills and resources to meet the obligations in their licence conditions, and confirmed in their annual certificate of adequacy that they continue to do so. The licensee must

notify us if there has been any change in its situation since the certificate of adequacy was submitted prior to the application to vary its licence.

Licensees applying for a variation from combined to retail will be required to provide information relating to the arrangements for ensuring continuity of supply to existing customers. As a result, we may need to consult the licensee's existing customers and relevant appointed water companies and consider any representations made. However, licensees requesting a variation are not required to publish a notice of application, and the 20 working day consultation period will not be required in these circumstances. If we decide to grant or reject a variation, the procedures set out in sections 2.4 or 2.6 will apply.

We expect that the process for assessing an application for a variation of a combined licence to a retail licence will be shorter than the process for assessing other applications. Appendix 1 shows a flow chart for this process.

ii) From retail licence to combined licence

Retail licensees applying for a variation of the licence to give also the supplementary authorisation would, if successful, be taking on additional responsibilities. We will therefore require applicants for such a variation to satisfy the same requirements as if they were applying for a combined licence. The applicant should submit a full business plan, whether or not the information in the plan has changed since the original application for the retail licence. The business plan should be accompanied by the appropriate verification statements, as set out in chapter 4.

We will not require applicants to resubmit general particulars submitted in support of their original application for the retail licence, unless that information has changed.

Licensees applying for a variation from a retail licence to a combined licence must publish a notice of the application as set out in section 2.2. The particulars that must be contained in the notice are prescribed in the Application Regulations and are reproduced in appendix 3. Publication of the notice will allow interested parties to make representations or objections.

When applying for a variation of a retail licence to add the supplementary authorisation, the DWI will advise us as to the suitability of the applicant from a technical perspective. The two-stage process detailed in sections 2.4 and 2.5 will apply before a successful applicant can begin introducing potable water into the public supply system.

2.9 Certificate of adequacy

Once a licence has been granted, licensees will be subject to minimal levels of monitoring by us. However, Standard Licence Condition 3 provides that the licensee must submit a certificate to us each year, certifying that it continues to have adequate financial, managerial, technical and operational resources to carry out the activities authorised by its licence.

No later than 1 April in each year, the certificate of adequacy must be made in the prescribed manner and in the form determined by us. The certificate should be accompanied or supplemented by any verification reports that we may reasonably require. Appendix 4 contains a copy of the certificate of adequacy.

Standard Licence Condition 3 also provides that the licensee must notify us immediately if at any time it becomes aware that it is or will be unable to certify as to the matters set out in the certificate. It must also notify us if it becomes aware of any actual or potential change of circumstance which would or could prevent it from being able to submit a certificate of adequacy if the obligation to do so fell at that time. This would apply, for example, if the licensee became aware that it no longer had sufficient resources to enable it to meet its obligations for the following 12-month period.

Actual or potential changes of circumstance which we would expect the licensee to make us aware include major financial changes (for example, default on its debt) or loss of key personnel.

2.10 Revocation of a water supply licence

Licensees should have regard to Standard Licence Conditions 10, 11 and 12. These conditions set out the circumstances in which the licence may be revoked by us or the Secretary of State.

2.11 Offence of supplying false information

Under section 207 WIA91 it is an offence for any person (which includes a company), in making a licence application, to make any statement that he knows to be false in a material particular, or recklessly to make any statement that is false in a material particular.

Individuals working for a company guilty of providing false information may also be guilty of the same offence. Under section 210 WIA91, any director, manager, secretary or other similar officer of a company (or any person purporting to act in any such capacity) is guilty of providing false information if the offence is proved to have been committed with their consent or connivance, or to be attributable to any neglect on their part.

3. Assessment criteria

This chapter outlines the criteria against which we will assess completed applications. Each application will be considered on its own merits.

Our intention is that the application process should be thorough but not overly burdensome. The requirements as set out in this guidance should ensure that prospective licensees know they must prove they are fully competent in all areas before we will grant a licence.

We have not set prescriptive criteria that we will require applicants to fulfil before we will grant a licence. The requirements set out below aim to ensure that any company granted a licence is competent to be a licensee, while recognising that detailed operational issues are best resolved in discussions between appointed water companies and licensees.

We believe that this approach will give confidence to appointed water companies, customers and other licensees that any company granted a licence has the capacity to be a licensee.

3.1 Company details

In assessing the suitability of an applicant to hold a water supply licence, we will consider whether the applicant has previously had an application refused and/or a licence revoked and whether the reasons for that refusal or revocation are relevant to the current application. We will also take into account whether any directors or managers of the applicant have been associated with companies that have had licences refused or revoked.

Procedural and statutory requirements need to be checked before an application can proceed, to ensure that:

- the application fee has been paid;
- the applicant is a limited company; and
- the applicant is not an appointed water company under the WIA91. It may, however, be an associate of an appointed water company, although certain restrictions will apply to its operations.

3.2 Financial stability and managerial competency

As part of the application process, we will need to assess applicants' financial and managerial capability to carry out the activities authorised by the type of licence for which they are applying. Applicants for a variation of a retail licence to a combined licence will need to show that they have the financial and managerial resources to carry out the additional activities authorised by a combined licence.

In assessing the applicant's suitability, we will consider whether:

- it has sufficient financial resources to carry out the activities proposed in its business plan;
- it has the capacity to raise new funds in the future;
- it has made provision to finance obligations required under the WIA91, including insurance and security arrangements (see appendix 4 for details);
- its managers, directors, advisers and sub-contractors have the necessary skills, qualifications and experience to enable the applicant to carry out its functions;
- it has adequate knowledge and understanding of the duties of licensees, including:
 - the duties of licensees under the WIA91;
 - the Standard Conditions of Water Supply Licences;
 - the security issues involved in being a water supplier;
- it has put systems and procedures in place to:
 - comply with its duties under the WIA91;
 - comply with the Standard Conditions of Water Supply Licences;
 - comply with the guidance issued by us under the WIA91, such as guidance on eligibility and the customer transfer protocol;
 - communicate emergencies and details of special consumers⁹ to the relevant appointed water company;
 - comply with relevant appointed water companies' existing operational standards¹⁰; and
- it consents to any specific licence conditions that we are considering in that particular case.

We have not set prescriptive criteria for assessing these points. We will judge whether an applicant has demonstrated that it has appropriate awareness of the

⁹ A 'special consumer' is a person or member of a class of persons who regularly requires water urgently on medical or other grounds. These consumers are defined in Standard Licence Condition 5.

¹⁰ Relevant operational standards with which licensees will need to comply are set out in appointed water companies' access codes. Applicants should refer to the latest available version of the access code for the appointed water company or companies in whose area they aim to operate.

legal framework and of the responsibilities of a licensee. As set out in section 4.2, we will make use of sponsors' expertise in evaluating whether the applicant has the financial and managerial capability to be a licensee.

3.3 Technical competencies

All licensees will need to be aware of their duties and responsibilities as water suppliers. The level of awareness needed will be higher for combined licensees. Retail licensees will not be able to introduce water into the public supply system, so will not need the same level of technical knowledge as combined licensees. However, they will need to have an overall understanding of water supply and water quality issues, and a good understanding of the particular issues that will affect their activities.

The DWI will assess whether an applicant has appropriate awareness of the requirements for the type of licence applied for, and will advise us on its assessment of the applicant's competency. This advice will inform our decision on whether to grant a licence. The DWI will make a detailed assessment of a combined licensee's technical competency when the licensee proposes to introduce water into an appointed water company's supply system (see section 2.5).

3.3.1 Prospective combined licensees

An applicant for a combined licence, or an applicant seeking a variation of a retail licence to include the supplementary authorisation, will be required to demonstrate at the application stage that it is aware of its responsibilities with regard to the introduction of water into the public supply system, and that it has the resources to meet them. The applicant will not need to prove at the application stage that it has the ability to comply with these requirements, as this will be covered by the DWI's second stage assessment.

Responsibilities of which the applicant should be aware include but are not limited to:

- those detailed in the relevant DWI information direction(s) made under section 208 WIA91;
- the implications of sections 18, 19, 67-70, 86, 202 and 208 of WIA91 and the associated Water Supply (Water Quality) Regulations¹¹;
- the implications of the Water Supply (Water Fittings) Regulations¹²;

¹¹ Water Supply (Water Quality) Regulations 2000 (SI 2000/1384, amended by SI 2001/2885, SI 2002/2469, SI 2005/2035, SI 2007/2734 and SI 2010/991) in England; and the Water Supply (Water Quality) Regulations 2010 (SI 2010/994, amended by SI 2011/14) in Wales.

- the technical competency required to operate and manage a water treatment works capable of treating its source water, if applicable; and
- the need for continual water quality monitoring (in particular for new sources), if applicable.

Applicants will also need to satisfy the DWI that they have adequate knowledge of the following:

- the role of the DWI;
- the regulatory requirement to provide wholesome water;
- the definition of water unfit for human consumption;
- the penalties for supplying water unfit for human consumption;
- drinking water safety plans¹³;
- the requirement to meet the existing operational standards of appointed water companies;
- the potential impact of mixing waters of different quality;
- treatment processes;
- approved products and processes¹⁴;
- the likely impact of their activities on the hydraulics of the supply system and resulting water quality issues;
- the circumstances in which they are required to notify appointed water companies, for example those identified in the Water Undertakers (Information) Direction 2004; and
- the relevant security and emergency measures required¹⁵. Licensees may sub-contract the implementation of these plans, but will need an understanding of the situations that can arise and of the potential need for appointed water companies to communicate directly with the licensee's customers.

3.3.2 Prospective retail licensees

Applicants for a retail licence will need to have an overall understanding of water supply and water quality issues, to ensure that licensees' work does not have a detrimental effect on the appointed water company's supply system. They will also

¹² The Water Supply (Water Fittings) Regulations 1999 (SI 1999/1148, amended by SI 1999/1506 and SI 2005/2035).

¹³ See DWI Information Letter 06/2004 for more information.

¹⁴ 'List of approved products and processes', DWI, December 2004 (amended February 2005), or latest version.

¹⁵ The necessary security and emergency arrangements with which licensees will need to comply are set out in appointed water companies' access codes. Applicants should refer to the latest available version of the access code for the appointed water company or companies in whose area they aim to operate. They should also be aware that they will need to comply with the Security and Emergency Measures (Licensed Water Suppliers) Direction 2006.

need to be aware of the role of the DWI and of their responsibilities under the relevant sections of the WIA91 and regulations, including:

- the regulatory requirement to provide wholesome water;
- the definition of water unfit for human consumption;
- the penalties for supplying water unfit for human consumption;
- the circumstances in which they are required to notify appointed water companies, for example those identified in the Water Undertakers (Information) Direction 2004,
- the relevant security and emergency measures required. Licensees may subcontract the implementation of these plans, but will need an understanding of the situations that can arise and of the potential need for appointed water companies to communicate directly with the licensee's customers.

3.4 Variation from a combined licence to a retail licence

Combined licensees applying for a variation that will give only the retail authorisation will already have demonstrated to us that they are capable of carrying out retail activities, so their knowledge of the issues set out in section 3.3.2 will not need to be reassessed. They will, however, need to demonstrate:

- that they have made arrangements for ensuring continuity of supply to their customers; and
- if appropriate, that they have discussed with relevant persons how to address strategic supply implications.¹⁶

¹⁶ See Water Act 2003: Strategic supplies guidance (December 2005): http://www.ofwat.gov.uk/competition/wsl/gud_pro_stratsuppguid.pdf.

4. Information required for assessment

This chapter sets out the information applicants will be required to submit in support of an application.

An application for a licence must be made in writing to us, dated and signed on behalf of the applicant. It must contain the following:

- general particulars (see section 4.1);
- information demonstrating financial stability and managerial competency (see section 4.2); and
- information demonstrating understanding of the required technical competencies (see section 4.3).

The application will be assessed against the criteria set out in chapter 3 above.

4.1 General particulars

The applicant must provide the following, unless it is applying for a variation to a licence and the information has not changed since the original application:

- the registered name, number and office of the applicant;
- details of the corporate structure of the group of which the applicant is a part, including a copy of the organisation structure;
- particulars of any relationships the applicant has with existing appointed water companies or licensees;
- the name of the person dealing with the application, his or her position, telephone, fax numbers and email address;
- whether the application is for a retail licence, a combined licence or a variation of a licence;
- the date when the applicant wishes the licence or variation to take effect;
- the names and addresses of the applicant's directors and Managing Director or Chief Executive Officer;
- details of any of those persons' unspent criminal convictions¹⁷;
- a declaration to the effect that all directors of the applicant are fit and proper persons;

¹⁷ Under the Rehabilitation of Offenders Act 1974, criminal convictions can become spent or ignored after a rehabilitation period. The rehabilitation period varies depending on the sentence or order imposed by the court. Custodial sentences of more than two and half years can never become spent. Lesser sentences become spent after fixed periods from the date of conviction.

- details of any unspent corporate criminal convictions against the applicant and any parent, holding or associate company;
- a declaration as to whether any director or manager of the applicant has previously been a director or manager of a company that has previously had a water supply licence revoked; and
- an electronic version of the draft notice of application (where applicable) for our website.

4.2 Financial stability and managerial competency

Applicants will need to demonstrate that they have the financial and managerial capability to be granted a licence.

The applicant should provide the following items, unless it is applying for a variation to a licence and the information has not changed since the original application.

- The preceding three years' audited statutory accounts and annual reports, if available.
- For all applicants apart from those applying for a variation from a combined to a retail licence, a business plan and accompanying verification statements. The business plan should include information on the applicant's strategy, finances and management, including CVs for key personnel, and should set out the assumptions underlying its projections. We will set out from time to time the information that should be included in the business plan and the verification statements that we expect to accompany it. All financial statements provided to support the business plan should be set out on a quarterly basis. Appendix 4 contains a list of our current requirements, which we will revise as necessary as the regime develops. The business plan must include:
 - the estimated cost as quoted by an appropriate insurance company¹⁸ of acquiring product and public liability insurance at an appropriate level (this is explained further in our access codes guidance);
 - the estimated cost of necessary security and emergency arrangements;
 - and

¹⁸ What is an 'appropriate' company in any given case will depend on the size of the applicant and the level of insurance applied for. The onus is on the applicant to prove that its insurance is provided by an appropriate company that is authorised by the Financial Services Authority (FSA). We will also consider applications where the insurance has been provided by a company outside the scope of the FSA's regulatory activities. Applicants will need to provide us with adequate assurances regarding the suitability of their choice of insurer.

- statements from the applicant’s financial backers and from a sponsor who can assist the applicant in demonstrating its financial and managerial capability (see appendix 4 for details). These statements should be provided on headed paper and signed by the relevant parties.
- For applicants for a variation from a combined to a retail licence, details of any changes in key personnel since the original application, and CVs for those key personnel that have joined the company, its advisers or subcontractors since then (see appendix 4 for details). We will not usually require applicants for a variation from a combined to a retail licence to submit a business plan, but may do so if we believe that this will help the applicant to demonstrate that it is fully competent to hold a retail licence. This might be the case, for example, if a combined licensee that sought to be active in a small local area decided to abandon being a combined licensee to become a much larger retail only licensee.
- Full details of the systems and procedures that the applicant has in place to:
 - comply with its duties under the WIA91;
 - comply with the Standard Conditions of Water Supply Licences;
 - comply with the guidance issued by us under the WIA91;
 - communicate emergencies and details of special consumers¹⁹ to the relevant appointed water company; and
 - comply with relevant appointed water companies’ existing operational standards²⁰;together with details of how those systems and procedures will be tested if necessary (for example, applicants’ ability to transfer data flows via email will need to be tested to ensure they can comply with the customer transfer protocol)²¹. This information should be provided in a table.
- A declaration by a director (on behalf of the applicant) that the directors are aware of the responsibilities of licensees under the WIA91, including responsibilities in relation to security issues under section 208 WIA91.
- A declaration by a director (on behalf of the applicant) that the applicant, if granted a licence, will work positively with CCWater. This requirement is

¹⁹ A ‘special consumer’ is a person or member of a class of persons who regularly requires water urgently on medical or other grounds. These consumers are defined in Standard Licence Condition 5.

²⁰ Relevant operational standards with which licensees will need to comply are set out in appointed water companies’ access codes. Applicants should refer to the latest available version of the access code for the appointed water company or companies in whose area they aim to operate.

²¹ See our customer transfer protocol, which we publish from time to time.

intended to make the applicant aware of CCWater and that they will need to work together²².

- An undertaking from any parent company that it will not strip the licensee of any assets required for designated strategic supplies.

We will base our assessment of whether the applicant has sufficient financial and managerial resources on the applicant's sponsor's assessment and on the statement from its financial backers (see appendix 4). We will make our own assessment of whether the applicant's knowledge and procedures are adequate to fulfil its responsibilities under the WSL regime.

We have not set prescriptive information requirements for our assessment of whether the applicant has adequate knowledge and understanding of the issues set out in section 3.2. The information we need in order to decide whether an applicant can demonstrate adequate knowledge will vary from case to case. We will use a combination of the following:

- information on the qualifications and previous experience of the applicant's directors, Managing Director or Chief Executive Officer and other key personnel or sub-contractors who will be involved in the licensed activity;
- information on the systems and procedures that the applicant has put in place, as set out above; and
- the overall quality of the submission.

We expect that in some cases, the previous experience of key personnel, combined with details of the applicant's systems and procedures (as set out above) will be sufficient to demonstrate that the applicant has adequate knowledge of the responsibilities of a licensee. In other cases, such as new entrants, we may need further evidence. If necessary, we will invite applicants to a meeting to give them the opportunity to demonstrate their knowledge.

²² CCWater has a duty to represent and provide information to consumers, including those supplied by a licensee. Sections 27 and 29 WIA91 set out CCWater's powers and duties. Applicants should be aware that under section 27H(1) WIA91, CCWater will be able to direct licensees to provide information that it requires for the purpose of carrying out its functions. Further information on CCWater's role is available on its website, www.cewater.org.uk.

4.3 Technical competencies

4.3.1 Prospective combined licensees

Following its first stage assessment, the DWI will advise us whether or not an applicant for a combined licence, or a variation from a retail to a combined licence, is aware of its responsibilities with regard to introducing potable water into the public supply system. In the case of both potable and non-potable supplies, potential licensees should also be aware of the likely impact of their activities on the hydraulics of the system and resulting water quality issues.

As set out in section 2.4, the prospective licensee should be able to demonstrate that it and/or its sub-contractor(s) has appropriate knowledge of the issues set out in section 3.3.1. The DWI will also want to be sure that the applicant is aware of the level of competency it will need to demonstrate before it is allowed to input treated water into the public network. This may be subject to a satisfactory interview.

The applicant will not need to provide rigorous proof at the application stage that it has the ability to comply with these requirements, as this will be covered by the DWI's second stage assessment.

Relevant documents of which the applicant should be aware include the following:

- WIA91 – especially sections 18, 19, 67-70, 86, 202 and 208;
- Water Supply (Water Quality) Regulations²³;
- Water Supply (Water Fittings) Regulations²⁴;
- Those detailed in the relevant DWI information direction(s) made under section 208 WIA91;
- All relevant guidance issued by the DWI. The competition section of the DWI's website, www.dwi.defra.gov.uk, lists and provides links to all guidance of which applicants should be aware.

4.3.2 Prospective retail licensees

The applicant should be able to demonstrate that it has adequate knowledge of the issues set out in section 3.3.2. For some of these requirements, for example knowledge of the relevant security and emergency measures required, the applicant

²³ Water Supply (Water Quality) Regulations 2000 (SI 2000/1384, amended by SI 2001/2885, SI 2002/2469, SI 2005/2035, SI 2007/2734 and SI 2010/991) in England; and the Water Supply (Water Quality) Regulations 2010 (SI 2010/994, amended by SI 2011/14) in Wales.

²⁴ The Water Supply (Water Fittings) Regulations 1999 (SI 1999/1148, amended by SI 1999/1506 and SI 2005/2035).

may be able to fulfil this requirement by showing that it has access to advisers with adequate knowledge of these issues.

Because retail licensees will have a responsibility to supply wholesome water, applicants for a retail licence, or their advisers, should be able to demonstrate awareness of the relevant documents set out in section 4.3.1.

As in the case of prospective combined licensees, the DWI's approval of the application may be subject to a satisfactory interview.

4.4 Variation from a combined licence to a retail licence

Combined licensees applying for a variation that will give only the retail authorisation will already have demonstrated to us that they are capable of carrying out retail activities, so they will not need to resubmit the information set out in section 4.3.2 unless this has changed since its original application. They will however need to provide the following additional information that was not required as part of the original application process:

- information concerning arrangements to ensure continuity of supply to its customers; and
- evidence of their discussions with relevant persons on how to address strategic supply implications, if applicable²⁵.

²⁵ See Water Act 2003: Strategic supplies guidance (December 2005): http://www.ofwat.gov.uk/competition/wsl/gud_pro_stratsuppguid.pdf.

5. Compliance with the water supply licence

This section sets out how a licensee should comply with its licence.

Once a licence has been granted, the licensee must comply with the Standard Licence Conditions.

Standard Licence Condition 8 provides that the licensee shall provide us with such information as we may by notice reasonably require for the purpose of carrying out our functions under the Act. We consider that licensees should keep us informed of any significant changes to the ownership and operation of the licensee. These may include changes of ownership of the licensee or parent company of the licensee, changes in key personnel and any significant changes in the business plan submitted to support the application.

We will also ask companies to provide:

- routine information – once licensees have successfully started switching customers, we may ask them to provide data on the services provided to their customer(s); and
- ad hoc information – we may ask a licensee to submit any information to us that we may reasonably require for the purpose of carrying out our functions under the WIA91.

We will use this information in line with Standard Licence Condition 8 to enable us to carry out our functions under the WIA91 to secure that the activities authorised by the licence of a licensee and any statutory functions imposed on it in consequence of the licence are properly carried out.

We do not prohibit any individual from being a director of both an appointed water company and any associate licensee. We do, however, consider that directors must be aware of their companies' duties under the Standard Licence Conditions and of their own fiduciary and other duties to their companies. It is the responsibility of the directors to ensure that conflicts of interest do not arise and that the licensee complies with its Standard Licence Conditions (this guidance deals solely with the conduct of the licensee). For example, information acquired from an appointed water company during the course of negotiating an access agreement by the director in his capacity as director of a licensee may not be used by him in his capacity as a director of the appointed water company, save to the extent that Standard Licence Condition 2 otherwise allows. Where it appears to us that information is being or is likely to be misused in breach of the Standard Licence Conditions (in the case of a

licensee) or Condition R (in the case of an appointed water company) we will consider whether it is appropriate to use our enforcement powers under section 18 WIA91 to secure compliance with the condition in question. This could include requiring further separation between the licensee and the appointed water company.

While we do not prohibit individuals from being a director of both an appointed water company and any associate licensee, we would carefully consider a licence application that proposed a Board of directors that already all held posts with the appointed water company. This could include requiring the applicant to provide details of its compliance procedure. We will review this policy in the light of experience as the market develops.

We require every licence applicant that is related to an appointed water company to clearly illustrate in its application how it proposes to ensure that in the case of shared directorships, conflicts of interest will be avoided.

An associate licensee may use the skills and experience of staff and other resources employed by the appointed water company only where the service provided by those staff or using those resources is properly charged and accounted for between the licensee and the appointed water company. For example, a licensee may use staff employed by the regulated business (including during the application stages of the licensing process) or buildings, equipment and other resources.

Any service to a licensee should be clearly illustrated in the financial records of the licensee and needs to comply with Regulatory Accounting Guideline 5, Standard Licence Condition 7 (licensees) and Condition of Appointment R (appointed water companies).

We require every applicant for a water supply licence that is related to an appointed water company clearly to illustrate in its licence application how it proposes to ensure appropriate charging of services between it and the associated appointed water company.

6. Glossary of terms

Here is a brief description of some of the terms used in the WSL regime. Readers should refer to the WIA91 for precise statutory meanings.

Abstraction licence: The authorisation granted by the Environment Agency to allow the removal of water from a source.

Access: The wholesale supply of water by an appointed water company to a licensee for the purpose of making a retail supply of water to the premises of the licensee's customer; and/or the introduction of water by the licensee into an appointed water company's supply system for that purpose.

Access agreement: An agreement between an appointed water company and a licensee for access by a licensee to an appointed water company's supply system pursuant to the retail authorisation and/or supplementary authorisation.

Access code: An appointed water company's document that sets out all principal aspects of access to its supply system and the terms and conditions on which it will grant access to its supply system by a licensee.

Access terms: The terms on which an appointed water company and a licensee agree access to an appointed water company's supply system.

Application fee: Fee charged to recover the administrative costs of processing the application.

Appointed water company: A company appointed under section 6 WIA91 to provide water services to a defined geographic area of England and Wales.

The Authority: The Water Services Regulatory Authority (also known as Ofwat).

CCWater: The Consumer Council for Water.

Certificate of adequacy: A statement from the licensee that it continues to have adequate resources and competencies to meet the obligations in its water supply licence for at least 12 months.

Combined licence: A retail licence with the supplementary authorisation, authorising the holder to introduce water into an appointed water company's supply

system and to supply that water to a customer's eligible premises (section 17A(6) WIA91).

Combined supply: A supply made pursuant to a combined licence.

Conditions of Appointment: The requirements and obligations that appointed water companies must meet. These are set out in their individual Instruments of Appointment.

Customers with particular needs: Customers that require water for specific medical purposes. These consumers are defined in Standard Licence Condition 5.

Customer transfer protocol (CTP): Processes and procedures for appointed water companies and licensees to follow when a customer's eligible premises is transferred from one supplier to another.

Drinking water safety plans: Preventative plans encompassing all steps in water protection from catchment to the consumer. See DWI Information letter 06/2004 (available on DWI's website) for more information.

DWI: The Drinking Water Inspectorate, responsible for regulating public water supplies in England and Wales. The DWI is responsible for assessing the quality of drinking water, taking enforcement action if standards are not being met, and taking appropriate action when water is unfit for human consumption.

Eligible premises: Premises that satisfy the eligibility requirements in section 17A(3) WIA91. Each of the following three requirements must be satisfied in relation to each of the premises supplied by a licensee.

- The customer's premises are not household premises (see section 17C WIA91).
- When the licensee first enters into an undertaking with a customer to supply water, the total quantity of water estimated to be supplied to the premises annually by the licensee is not less than 5 Ml in relation to premises supplied with water using the supply system of an appointed water company operating wholly or mainly in England and not less than 50 Ml in relation to premises supplied using the supply system of an appointed water company operating wholly or mainly in Wales (see section 17D WIA91).
- The premises are not being supplied by another licensee (but may be supplied by a licensee and one or more appointed water companies).

Instrument of Appointment: An appointment made by the Secretary of State or Ofwat for a company to provide water or sewerage services in part of England or Wales. The Instrument of Appointment imposes conditions on the relevant company which Ofwat enforces.

Licensee: A company holding either a retail licence or a combined licence; also referred to as a licensed water supplier.

Non-potable water: Water that is not intended for domestic or food production purposes.

Potable water: Water for domestic and food production purposes which is wholesome at the time of supply. This is defined in section 68 WIA91 and the Water Supply (Water Quality) Regulations.

Relevant appointed water company: The appointed water company (see above) in whose area of appointment the licensee operates or proposes to operate.

Retail authorisation: An authorisation to a company to use an appointed water company's supply system for the purpose of supplying water to the eligible premises of customers of the company (section 17A(2) WIA91).

Retail licence: A water supply licence giving the holder the retail authorisation, entitling the holder to purchase a wholesale supply of water from the appointed water company and to supply it retail to a customer's eligible premises (section 17A(4) WIA91).

Standard Conditions of Water Supply Licences: The standard terms and conditions of Water Supply Licences determined and published by the Secretary of State (for Environment, Food and Rural Affairs) pursuant to section 17H WIA91.

Strategic supplies: An introduction of water is a strategic supply if, without the introduction being made, there is a substantial risk that the appointed water company would be unable to maintain supplies to its own customers. The 'trigger' for whether a supply can be designated as strategic is contained in sections 66G(10) and 66H(10) WIA91.

Supplementary authorisation: An authorisation to a company to introduce water into an appointed water company's supply system for the purpose of retail supply of water to a customer under section 17A(5) WIA91.

Supply system: Any water mains and other pipes used for the purposes of conveying water from an appointed water company's treatment works to its customer's premises and any water mains and other pipes used to convey non-domestic water from any source to premises that are not connected directly to any water mains and pipes connected to those treatment works. This term is defined in section 17B(5) WIA91.

Treated water: Water of a suitable quality for introduction into the potable water distribution system and which meets regulatory requirements.

Water Fittings Regulations: The Water Supply (Water Fittings) Regulations 1999 (SI 1999/1148, amended by SI 1999/1506 and SI 2005/2035). These Regulations replaced the Water Byelaws in England and Wales and are largely enforced by the appointed water companies.

Water Quality Regulations: Water Supply (Water Quality) Regulations 2000 (SI 2000/3184, amended by SI 2001/2885, SI 2002/2469, SI 2005/2035, SI 2007/2734 and SI 2010/991) for supplies made using appointed water companies' supply systems wholly or mainly in England; and the Water Supply (Water Quality) Regulations 2010 (SI 2010/994, amended by SI 2011/14) for supplies made using appointed water companies' supply systems wholly or mainly in Wales.

Water supply licence: A licence granted to a company giving it the retail authorisation, or both the retail authorisation and the supplementary authorisation.

Wholesale supply: Supply of water to a licensee by an appointed water company for the purposes of retail by the licensee to its customer's premises.

WIA91: The Water Industry Act 1991 (as amended).

Appendix 1: Summary of the water supply licence application process

This summary should be read in conjunction with the flow charts of the application process at the end of this appendix.

1. Pre-application stage – **Ofwat, applicant** [at applicant's discretion]

The applicant should refer to the WSL area of our website, www.ofwat.gov.uk, for information and details on how to request an application form. We will offer advice if the applicant wishes, before the formal application is submitted. Informal discussions will allow us to explain our information requirements, if necessary, and any particular concerns that the applicant will need to address in its application.

2. Prepare a formal application – **applicant** [at applicant's discretion]

The applicant should hold early discussions with us to assist in the preparation of a formal licence application. When preparing an application, the applicant should ensure that it has provided all of the necessary information (as set out in this guidance). An incomplete submission does not contain all of the information required and cannot be accepted as a formal application.

3. Submit formal application to Ofwat – **applicant** [at applicant's discretion]

The applicant should submit the formal application, with the relevant application fee, to us. We will check whether the application contains all of the information required. Once we are satisfied that a valid application has been made, we will notify the applicant in writing (usually by email).

4. Publish a notice – **Ofwat, applicant**

All applicants (except those applying for a variation of a combined licence to a retail licence) must publish a notice of application within 10 working days of the day on which we notify them that a valid application has been made²⁶, and tell us they have done so. Applicants should publish the notice on their own website (if they have one), or in such other way as they consider appropriate for bringing it to the attention of interested persons. That notice must contain specified particulars²⁷. The particulars to be contained in the notice are prescribed in the Application Regulations

²⁶ See Application Regulations, regulation 5(3).

²⁷ See Application Regulations, regulation 5(4) and Schedule 2.

and are reproduced in appendices 2 and 3. The notice must state the type of licence, or variation to an existing licence, that the applicant wishes to obtain and it must invite responses in writing, to be directed to us, within 20 working days of the notice having been published on our website.

We are required to publish a copy of the applicant's notice of application on our website, on or as soon as reasonably practicable after the day on which the applicant publishes the notice. We will liaise with the applicant to ensure that publication is at the same time.

5. Assessment of the application – **Ofwat** [up to 40 working days]

We will work with the applicant to clarify what is needed to satisfy the criteria for granting a licence. We expect that the assessment process will take less time when considering an application for the variation of a combined licence to a retail licence.

5a. Role of DWI – **Ofwat, DWI**

Where an applicant applies for a combined licence, it will be required to demonstrate to the DWI that it is aware of its responsibilities with regard to introducing potable water into the public supply system and that it has the resources to meet these. Applicants for a retail licence will also need to satisfy the DWI that they are aware of their responsibilities. We will work closely with the DWI during the licence application process. This working relationship is set out in a memorandum of understanding between the two organisations.

The DWI estimates that the assessment of technical competency, that is the first stage assessment, to gain a water supply licence should take no more than 20 working days and will be undertaken in parallel with our assessments.

5b. Consider responses to the notice of application – **Ofwat**

Before deciding whether to accept or reject an application, we must take account of any representations or objections made with respect to the application in response to the published notice of application. If substantive objections are raised, we will attempt to resolve them as quickly as possible. If necessary, we will discuss the objections with the applicant.

6. Proposal to refuse an application – **Ofwat, applicant** [up to 20 working days]

If we propose to refuse the application, for whatever reason, we will give the applicant notice to that effect; setting out the details required by section 17F(4)

WIA91. We will state the reasons why we are proposing to refuse the application and will invite representations or objections with respect to the proposed refusal within a specified time. We will specify a reasonable time for making representations or objections, which we expect to be 10 working days. We will consider any representations or objections that are duly made and not withdrawn. If, following representations and further evaluation, we are still not satisfied with the application, we will reject it. We will notify the applicant in writing of our decision, setting out our reasons.

7. Granting a licence – **Ofwat** [days 50-60]

Once we and the DWI are satisfied that the applicant is suitable to be granted a licence, we will inform the applicant. As soon as is practicable after granting a licence or varying a licence, we are required to serve a copy of the licence or the licence as varied on the licensee. We must also serve a copy on the Secretary of State, the Welsh Government, the DWI, the Environment Agency, CCWater, each relevant appointed water company and all other licensees.

A copy of all licences that have been granted will be held in our public Register of Licensees, which is available on our website at www.ofwat.gov.uk.

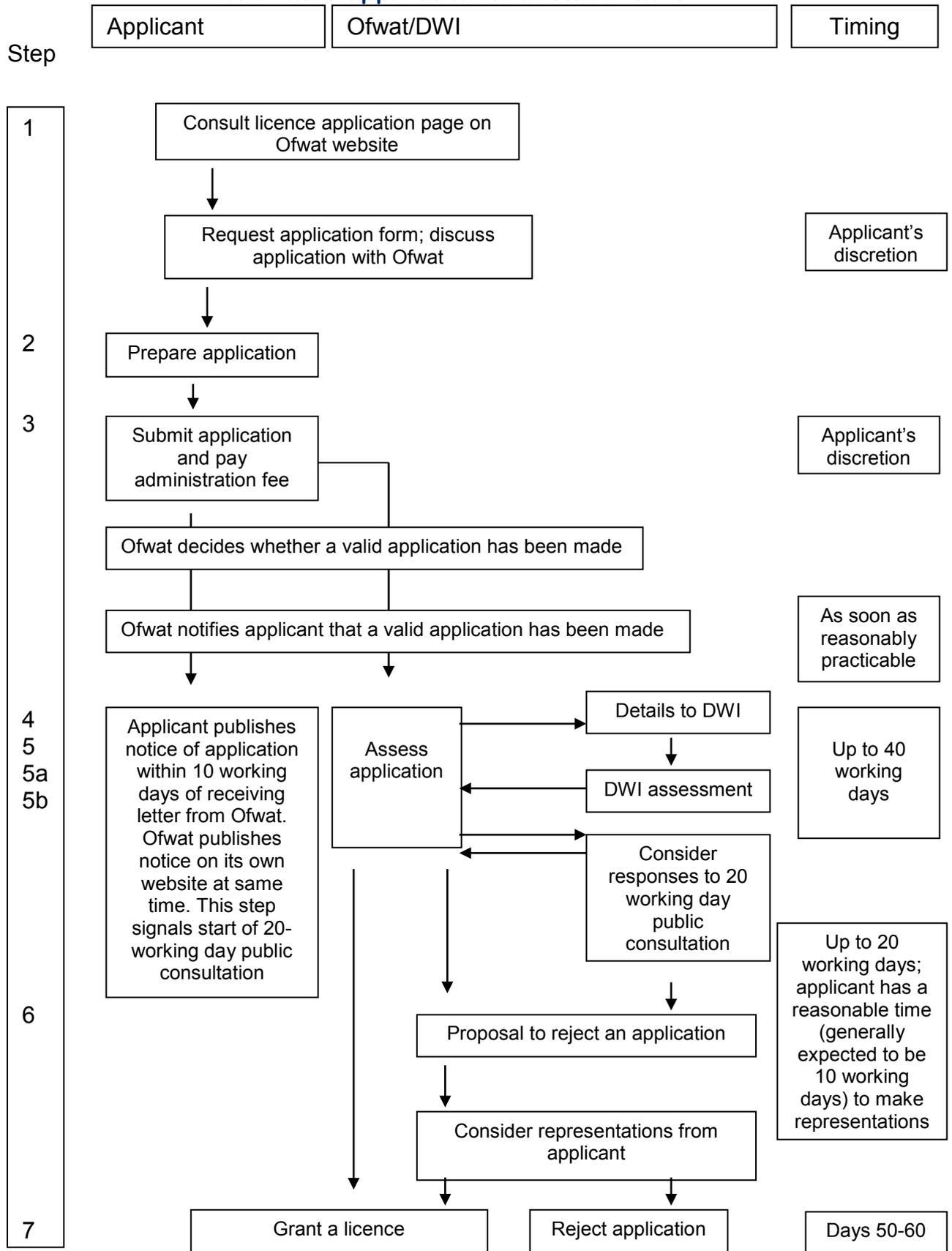
8. Permission to begin introduction of potable water – **DWI** [day 60 onwards]

Under Standard Licence Condition 13, a combined licensee is not permitted to introduce water in pursuance of its licence into any appointed water company's supply system until the DWI has conducted a satisfactory audit of relevant regulatory standards²⁸ applicable to the water source and treatment works used by the licensee in relation to that introduction. This detailed assessment will need to be carried out each time a licensee wants to use a new source or treatment works for potable water. This stage is outside of the licence application process.

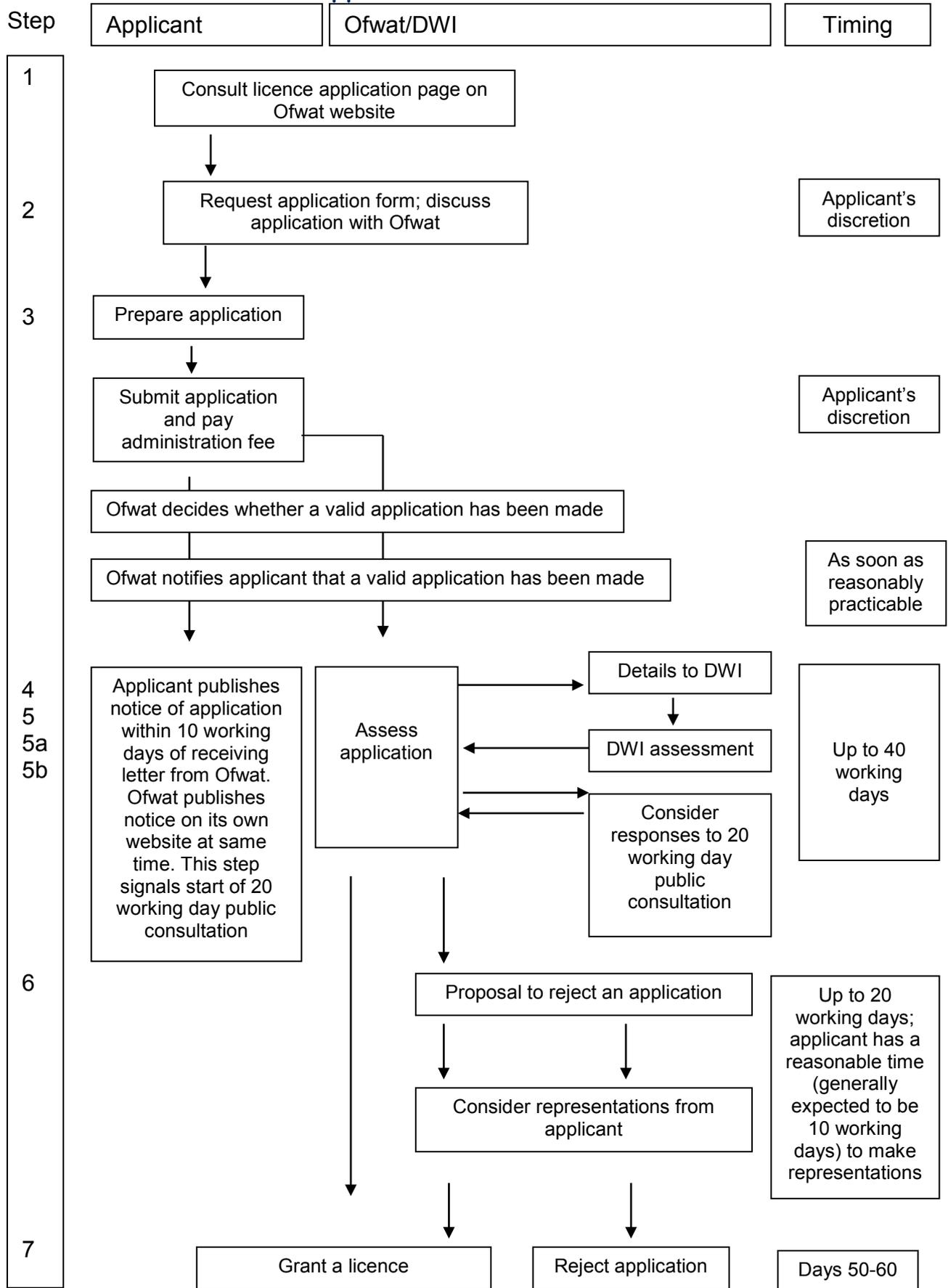
The DWI expects to carry out a detailed assessment of new treatment works within 20 working days of notification that the works are completed and ready to provide fully treated water. Reporting of the findings from this assessment will be expected to meet the DWI's internal key performance indicator targets. This is currently 10 working days to request additional information requirements and a further 30 working days from receipt of this information for a final report.

²⁸ See sections 67 (Standards of wholesomeness), 68 (Duties with respect to water quality) and 69 (Regulations for preserving water quality) WIA91; Water Supply (Water Quality) Regulations 2000 (SI 2000/3184, amended by SI 2001/2885, SI 2002/2469, SI 2005/2035, SI 2007/2734 and SI 2010/991) in England; and the Water Supply (Water Quality) Regulations 2010 (SI 2010/994, amended by SI 2011/14) in Wales.

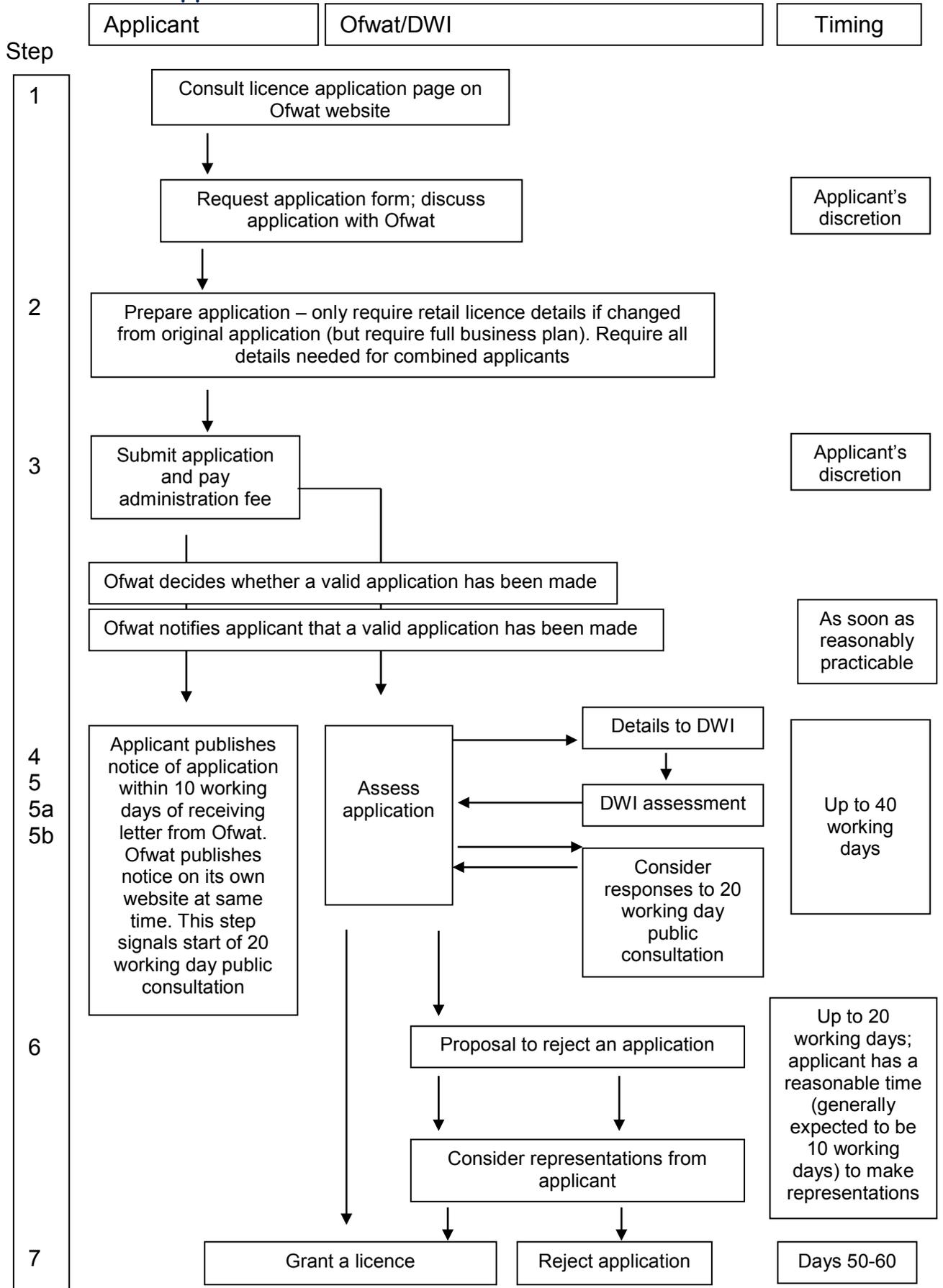
Flow chart: application for a retail licence



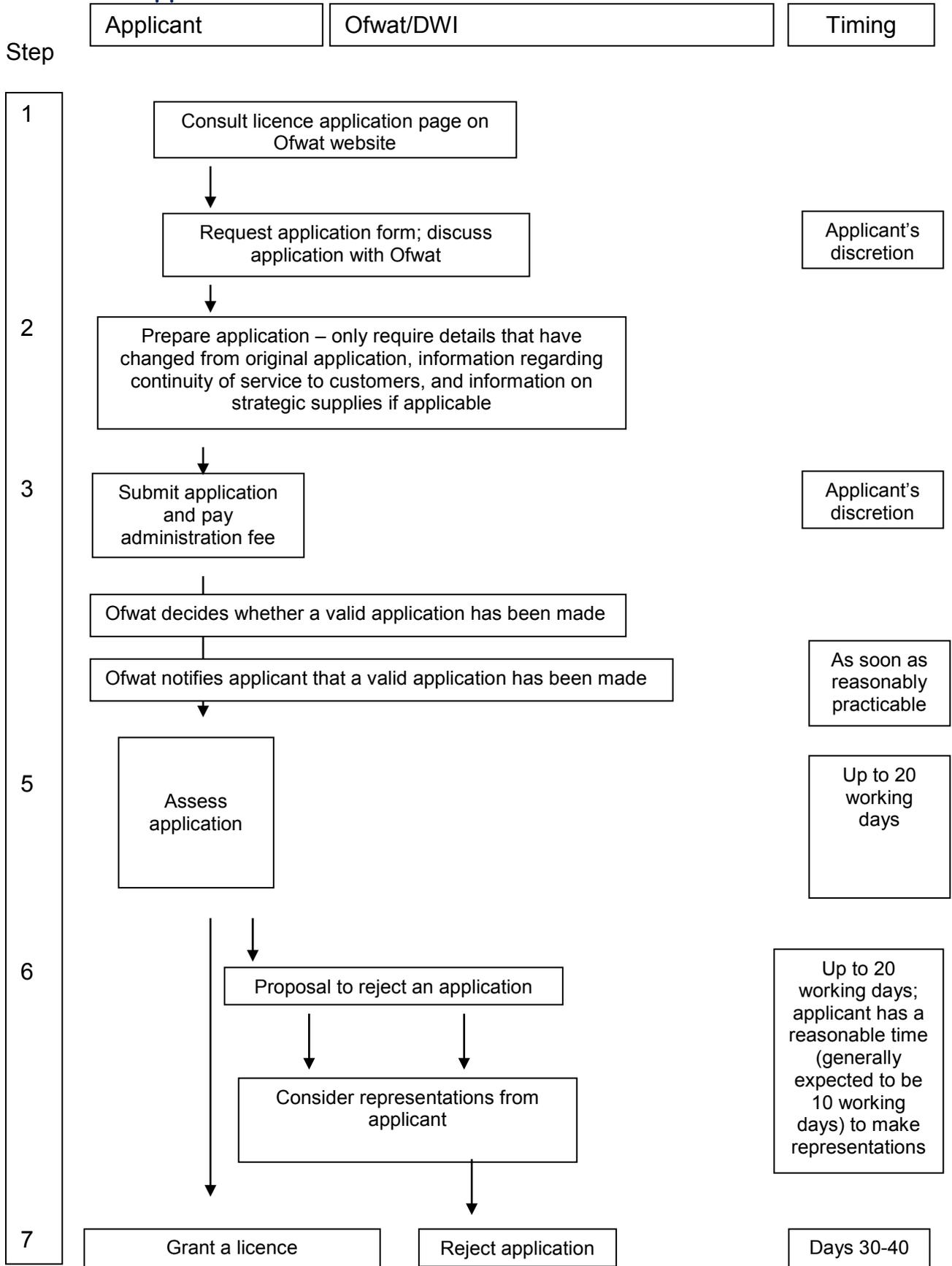
Flow chart: application for a combined licence



Flow chart: application for a variation from a retail to a combined licence



Flow chart: application for a variation of a combined licence to a retail licence



Appendix 2: Notice of application for a water supply licence

Regulation 5(4) of the Water Supply Licence (Application) Regulations 2005 requires that a notice of the application for a water supply licence, required to be published by an applicant pursuant to section 17F(2) WIA91, shall contain the particulars specified below.

Notice of application for a water supply licence under section 17A of the Water Industry Act 1991

[Insert name of applicant] whose registered office is at [insert full postal address] gives notice that it has made an application to the Water Services Regulation Authority (“Ofwat”) for a [insert either “retail” or “combined” as appropriate] licence under section 17A of the Water Industry Act 1991.

Any person who wishes to make representations or objections with respect to the application should do so in writing (which includes by email) to Ofwat at [insert full postal and appropriate email address of principal office of the Authority]. These must be received at Ofwat no later than 17.00 hours on [insert appropriate date, if known, otherwise state the 20th working day after the day of publication of this notice on Ofwat’s website; see regulation 6)]. 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 [insert reference to appropriate page on the Authority’s website]

[Insert full name of director or company secretary responsible for this notice and “Director” or “Company Secretary” as appropriate]

For and on behalf of [insert name of applicant]

Date [insert date of publication]

Appendix 3: Notice of application to vary a retail licence

Regulation 5(4) of the Water Supply Licence (Application) Regulations 2005 requires that a notice of the application for a variation of a retail licence so that it gives also the supplementary authorisation, required to be published by an applicant pursuant to section 17F(2) WIA91, shall contain the particulars specified below.

Notice of application for variation of a retail water supply licence under section 17A of the Water Industry Act 1991

[Insert name of applicant] whose registered office is at [insert full postal address] gives notice that it has made an application to the Water Services Regulation Authority (“Ofwat”) for a variation of its retail licence under section 17A of the Water Industry Act 1991 so that it gives also the supplementary authorisation.

Any person who wishes to make representations or objections with respect to the application should do so in writing (which includes by email) to Ofwat at [insert full postal and appropriate email address of principal office of the Authority]. These must be received at Ofwat no later than 17.00 hours on [insert appropriate date, if known, otherwise state the 20th working day after the day of publication of this notice on Ofwat’s website; see regulation 6]. 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 [insert reference to appropriate page on the Authority’s website]

[Insert full name of director or company secretary responsible for this notice and “Director” or “Company Secretary” as appropriate]

For and on behalf of [insert name of applicant]

Date [insert date of publication]

Appendix 4: Certificate of adequacy

Standard Licence Condition 3 of the water supply licence of [insert company name] granted pursuant to section 17A of the Water Industry Act 1991 requires that the company's directors certify to Ofwat that all of the arrangements required by Standard Licence Condition 2(3) are in place and that [insert company name] has, and will have until 31 March in the following year, all the management, financial, technical, operational and other resources needed for securing that it is able to meet the obligations mentioned in Standard Licence Condition 2(3).

Standard Licence Condition 2(3) provides that [insert company name] shall ensure that all such arrangements have been made as are necessary for securing that:

- (a) it is and continues to be able to meet its obligations under:
 - (i) its water supply licence; and
 - (ii) any statutory requirement imposed on it in consequence of its licence, including its obligations under terms and conditions agreed or determined under section 66D of the Act (sections 66A to 66C: determinations and agreements); and
- (b) it has sufficient product and public liability insurance for the activities authorised by its licence.

In compliance with Standard Licence Condition 3, the Directors of [insert company name] have assessed company resources as stipulated by the licence and certify that all of the arrangements required by Standard Licence Condition 2(3) are in place and that [insert company name] has, and will have until 31 March [insert year], all the management, financial, technical, operational and other resources needed for securing that it is able to meet the obligations mentioned in Standard Licence Condition 2(3).

[Insert full name of the director or company secretary responsible for this certificate and "Director" or "Company Secretary" as appropriate]

For and on behalf of [insert company name]

Date [insert date of issue]

Appendix 5: Business plans – guidance to applicants and sponsors

This appendix details the information we will require in applicants' business plans and the verification we will require from sponsors and financial backers. We expect to revise these requirements from time to time as the regime develops.

In order to assess applicants' financial and managerial viability, we will require each applicant to submit a business plan, accompanied by statements from its financial backers and from a sponsor who can assist the applicant in demonstrating its financial and managerial capability.

Our approach aims to give confidence to appointed water companies and customers at eligible premises that any company granted a licence is likely to have the financial and managerial capacity to be a licensee. It cannot guard against any risk of future financial failure or guarantee to customers and appointed water companies that licensees will always be financially viable.

Guidance to applicants

Content of business plan

The applicant's business plan should as a minimum cover the three years following its application and contain the information listed below. These requirements should be seen as a minimum; in most cases we would expect applicants to provide additional supporting information. The onus is on the applicant to ensure that its plan includes all information necessary for its sponsor to make an informed assessment of its financial and managerial viability.

The business plan should expose any material assumptions underlying the applicant's projections.

Further guidance on producing a business plan can be found on the Government's Business Link website at www.businesslink.gov.uk.

The business plan should be structured as follows:

Introduction to the company

This section should contain brief details of the company's history, past and present activities, and the activities it plans to undertake if granted a water supply licence.

Strategy and expenditure

This should, as a minimum, contain the following.

- The applicant's strategy, covering at least the first three years of its operation, including details of the type of customers it plans to target, and projections for number and size of customers.
- The expected cost of implementing this strategy, including:
 - if applying for a combined licence, the costs of additional activities that the applicant would be carrying out compared with the activities of a retail licensee (such as water quality monitoring);
 - the estimated cost, as quoted by an appropriate insurance company²⁹, of acquiring product and public liability insurance at an appropriate level; and
 - the estimated cost of necessary security and emergency arrangements³⁰.

Management and personnel

The plan should include:

- CVs for directors, Managing Director or Chief Executive Officer and other key personnel or sub-contractors who will be involved in the licensed activity. These should include details of any professional qualifications and relevant experience;
- details of any advisers, including accountants, lawyers and technical advisers, and information on how the applicant plans to make use of their expertise;
- details of workforce in terms of total numbers and by department;
- plans for staff development including recruitment or training plans; and
- confirmation by the directors that, in their opinion, the applicant has sufficient managerial capacity to perform the activities set out in its business plan.

²⁹ The definition of an 'appropriate' company will depend on the size of the company and the level of insurance applied for. The onus is on the applicant to prove that their insurance is provided by an appropriate company that is authorised by the FSA. We will also consider applications where the insurance has been provided by a company outside the scope of the FSA's regulatory activities. Applicants will need to provide us with adequate assurances regarding the suitability of their choice of insurer.

³⁰ The necessary security and emergency arrangements with which licensees will need to comply are set out in appointed water companies' access codes. Applicants should refer to the latest available version of the access code for the appointed water company or companies in whose area they aim to operate. They should also be aware that they need to comply with the Security and Emergency Measures (Licensed Water Suppliers) Direction 2006.

Financing plan

This section should focus on the finance required by the business, consistent with the expenditure needs identified in the previous two sections.

The applicant's directors should confirm that, in their opinion, the applicant has access to sufficient capital facilities to fund the activities set out in its business plan.

This section should also:

- list the finance facilities that the applicant intends to use to fund the activities set out in its business plan;
- outline longer-term plans for the financial structure of the business; and
- expose any material financing assumptions, including cost of debt or equity, critical financial indicators or covenants, implied capital structure and dividend policy.

Financial projections

This section should include, as a minimum, the following statements:

- opening balance sheet;
- projected closing balance sheets for the following three years (to include a quarterly breakdown);
- three years' projected cashflow statements (to include a quarterly breakdown); and
- three years' projected profit and loss statements (to include a quarterly breakdown). A note to these statements should split the projected turnover figure into a) turnover from licensed activities and b) turnover from other activities.

The applicant should provide commentary as appropriate on the items in these statements.

Accompanying statements

The business plan should be accompanied by the following.

- **A declaration from the applicant's financial backers** that they are willing to provide funds based on the business plan. This should be submitted on headed paper. 'Financial backers' are those bodies that the business plan indicates are expected to provide all or most of the finance for the applicant's

activities over the following three-year period. They may include lenders, the applicant's parent company or the applicant itself if it does not envisage raising new capital to fund its activities. If finance is intended to come from more than one source, the applicant should provide a declaration from each major backer. These declarations will not constitute a guarantee that funds will be available, but are intended to give us additional assurance that new licensees will be able to finance their functions.

- **A statement from a sponsor**, which should not be an appointed water company if the applicant is an associate of that company, on the applicant's financial and managerial capability to carry out the activities specified in its business plan. This should be submitted on headed paper. The confirmation we will require is detailed below. The sponsor should be of good standing, and should be authorised by the FSA under the Financial Services and Markets Act 2000, or be a credit institution able to carry on a business in the UK under the provisions of the Capital Requirements Directive³¹. We will also consider alternative companies that applicants can use as a sponsor. We will assess the suitability of these companies on a case-by-case basis. These companies will need to provide us with adequate assurances equivalent to those companies that we specify as suitable with regard to FSA authorisation or companies that operate under the provisions of the Capital Requirements Directive. The applicant may propose to appoint as its sponsor an organisation that already has knowledge of its application, including its financial backer, providing that it is appropriately authorised and is able to give us the confirmation we require.

We need to be satisfied that the sponsor is competent to discharge its responsibilities. We retain, therefore, the right to reject any potential sponsor. The applicant should inform us at the earliest opportunity who it intends to appoint as its sponsor.

Guidance to sponsors

Purpose of sponsor statement

The sponsor should produce a written statement confirming that:

³¹ Comprising Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast).

- the applicant's directors have confirmed in writing that in their opinion its financial and managerial resources are sufficient to fund and undertake the activities set out in its business plan;
- it is satisfied that confirmation on the adequacy of financial resources has been given after due and careful enquiry by the applicant;
- it is satisfied that the applicant has taken all necessary steps to ensure that the assumptions underlying its business plan are reasonable;
- the persons or institutions providing finance have stated in writing that they are willing to provide funds based on the business plan; and
- it is satisfied that confirmation on the adequacy of managerial resources has been given after due and careful enquiry by the applicant.

A draft confirmation statement is shown below.

The sponsor should perform whatever checks it judges necessary in order to give the confirmation required. This may include obtaining confirmation that the directors have established procedures for them to make proper judgements as to the financial position and prospects of the company, and the adequacy of its managerial resources. It may if necessary include examination of the applicant's financial projections and underlying assumptions, and of the details it has provided on its managerial resources.

Draft statement

The sponsor should produce a written statement as follows:

As the appointed sponsor of [name of potential licensee], I hereby confirm that I have obtained written assurances from [name of potential licensee]'s Board of directors that it has access to sufficient capital facilities to fund its activities, as set out in its business plan, for the next three years.

I am satisfied that this confirmation has been given after due and careful enquiry by [name of potential licensee], and that the company has taken all necessary steps to ensure that the assumptions underlying its business plan are reasonable. I am also satisfied that the persons or institutions providing the finance have stated in writing that they are willing to provide funds based on the business plan.

I also confirm that I have obtained written assurances from [name of potential licensee]'s Board of directors that in their opinion it has access to sufficient managerial resources to carry out its activities, as set out in its business plan, for the next three years. I am satisfied that this confirmation has been given after due and careful enquiry by [name of potential licensee].

I confirm that I am [authorised by the Financial Services Authority under the Financial Services and Markets Act 2000/a representative of a credit institution able to carry on a business in the UK under the provisions of the Capital Requirements Directive/a representative of an institution that has Ofwat's agreement to act as sponsor for [name of potential licensee – delete as appropriate]].



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September 2011

ISBN 978-1-908116-06-2

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