

May 2018

Trust in water

# **Application process for Water Supply and Sewerage Licence limited to self-supply: decision document**

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## About this document

This document summarises the responses we received to our consultation '[Proposal by Ofwat to revise the application process for Water Supply and Sewerage Licences limited to self-supply](#)' which we published on 1 March 2018. This document sets out details of how we have considered those responses, our conclusions and our next steps.

## Contents

About this document	2
1. Introduction	3
2. Consultation responses	4
3. Next steps	8

## 1. Introduction

We proposed modifying our Water Supply and Sewerage Licences (WSSL) application process for applications limited to self-supply, to better reflect the information we require to assess these types of applications. Reflecting the lessons we, applicants and other regulators involved in the application process have learnt from the first self-supply applications we have received and assessed, we proposed to publish a separate application form and guidance document that is tailored to self-supply applications. These documents are intended to:

- Better explain the differences between standard WSSL applications and those limited to self-supply, so that potential applicants can understand their options and what an application would require.
- Recognise where different information is required to assess those applications limited to self-supply.
- Be clearer in requiring all necessary information upfront rather than risk delays as a result of us seeking further information after the application has been made.
- Apply a lower application fee for self-supply applications because the work entailed to complete our assessment is different and in most cases less than that required to process a standard WSSL application.

To produce our proposed application form and supporting guidance we revised our WSSL documents to exclude those sections that are not applicable to self-supply, and to modify relevant sections to reflect that a self-supply licensee can only serve itself and associated parties. These changes were proposed in line with Ofwat's regulatory model that seeks to make regulation proportionate and targeted.

## 2. Consultation responses

Our consultation closed on 3 April 2018 and we received seven consultation responses.

The consultation responses have been published in full on [our website](#). Table 1 below provides a high-level summary of the seven responses we received during the consultation stage.

**Table 1 – Summary of consultation responses**

<b>Company</b>	<b>Agreed with proposed modifications?</b>	<b>Specific comments addressed in decision document</b>
Water Plus	Yes	None
Wave <sup>1</sup>	Yes	None
Three Sixty Water	Yes	Review of self-supply licensing and impact on market if self-supply continues to grow.
Regent Water	Yes	Explanation of reduction in application fee.
Yorkshire Water Business Services <sup>2</sup>	Yes	Consideration of the capability of third parties supporting licensees limited to self-supply.
Waterscan and the current self-supply licensees	Yes	Suggestions for clarification on specific elements of the application form and guidance document.
Cambrian Utilities	No comments	

Following the responses we received during the consultation, we have modified the application guidance and forms further to take into account some of the comments received. Alongside this decision documents we have issued and published a new [Licence Application Notice](#)<sup>3</sup> under section 17F(1C) of the Water Industry Act 1991 (the Act) and have published the revised application guidance and form.

<sup>1</sup> Joint venture between Anglian Water Business (National) and NWG Business

<sup>2</sup> The Business Retail Business division of Yorkshire Water Services Limited

<sup>3</sup> The Licence Application Notice is a Notice made by Ofwat under section 17F of the WIA91 which determines the requirements which relate to applications for Water Supply and Sewerage Licences, including information on the licence application process and information to be provided by prospective licensees.

In this section we summarise the key points raised in the consultation responses and how we have dealt with those responses. We also detail sections of the application guidance and form that we have updated following the feedback from the consultation.

## **2.1 Impact on market**

Three Sixty Water raised a concern in its response relating to the impact on the market should requests for self-supply grow over time. Three Sixty Water is keen for there to be a review of the self-supply licensing regime and the impact on the market should there be a large number of licensees limited to self-supply operating.

There is continued interest in self-supply as an option for customers in the business retail market. To date, four companies have been granted self-supply licences and we expect applications from other business customers. We will continue to monitor the market and the wider market architecture considering if it remains fit for purpose for the market.

## **2.2 Fee for self-supply applications**

Regent Water requested details on the rationale behind the new fee for self-supply applications.

As part of our consultation, we proposed applying a lower application fee for self-supply applications. The current application fee is a fee of £5,250 and we proposed an application fee for WSSLs limited to self-supply of £3,000.

Both fees are intended to cover the average cost incurred by Ofwat in processing each application. It does not include any provision for the ongoing costs of regulating licensees.

We analysed the resource required to process self-supply applications and calculated that the cost of processing and assessing self-supply applications to be £3,000. This detailed analysis included a breakdown of the tasks involved in processing applications, the time to complete each task and the range of resources from within Ofwat required in the assessment of an application. Our assessment of the changes made to the application process for WSSL applications limited to self-supply calculated the average cost of processing applications to be £3,000.

## 2.3 Assessment requirement relating to sub-contractors

Yorkshire Water Business Services questioned whether greater emphasis should be placed on establishing the capability of any sub-contractor that provides services to licensees limited to self-supply.

We have updated the relevant section of the application form that relates to sub-contractors (D1) to provide further detail on the information we expect applicants to include in order to answer question D1 in the application form. In the application form we advise that applicants should include details of any agreement the applicant will have with a third party to deliver its retail functions (i.e. to subcontract or out-source these services). Applicants should include:

- information on how the applicant plans to use the third party and the role they will have in enabling the applicant to operate as a self-supply licensee; with
- an explanation of the relevant duties and responsibilities of the third party and how these have been contracted;
- the anticipated costs for this service to the applicant;
- detail on the managerial and technical capability of the third party in providing support to the self-supply licensee; and
- contingency plans the applicant has for operating in the market should this agreement end (e.g. if the relationship was to break down).

## 2.4 Feedback on proposed application guidance and application form

Table 2 details the feedback received from Waterscan relating to the proposed application form and guidance.

**Table 2 – Summary of feedback relating to the application form and guidance**

<b>Feedback</b>	<b>Response</b>
Clarification on the information that applicants are expected to provide in the application form in relation to assets.	We have updated the supporting information relating to question B8 of the application form and provided clarification on the information we require.
Amendment to the prescribed forecast of applicant's projected cost savings table (as some companies operate in cubic meters not mega litres).	We have updated table 2 of the application guidance (Forecast of applicant's projected cost savings) following this feedback.
Clarification on our expectations on the information to be provided relating to associated persons.	As part of the application, applicants must provide a list of premises and associated persons (if applicable) that it intends supplying if a WSSL limited to self-supply is granted.
Clarification on the requirements of a self-supply applicant in relation to the	We have amended the wording of section 4.4.4 of the application guidance.

information required for the Drinking Water Inspectorate (DWI) and the Environment Agency (EA)/Natural Resources Wales (NRW).

The applicant should be able to demonstrate that it has technical competency relating to the measures expected by the DWI and EA/NRW. The DWI and EA/NRW will provide an assessment of whether applicants have the knowledge and expertise required to be a licensee. Therefore, we consider the requirements appropriate to our assessment.

We have updated our guidance document appropriately to reflect the feedback we received on the points listed above.

### 3. Next steps

In terms of the next steps, we have set out in this document how we have considered and responded to the comments we have received from our consultation.

The following revised documents have been published alongside this decision document:

- [Application guidance for WSSL](#)
- [Application form for WSSL](#)
- [Application guidance for WSSL limited to self-supply](#)
- [Application form for WSSL limited to self-supply](#)
- [Licence application notice](#)

Potential applicants will be able to apply for a WSSL or a WSSL limited to self-supply using the new application forms and guidance documents from the date we publish the new documents.



Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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May 2018

ISBN 978-1-911588-34-4

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