

February 2019

Trust in water

Proposal to vary South West Water's area of appointment to include the Isles of Scilly

About this document

This consultation is about our proposal to vary the licence of South West Water Services Limited (SWW) so that it becomes the appointed water and wastewater company for the Isles of Scilly (IoS).

This document sets out the background to our proposal and SWW's plans for investment and customer service. It explains why the UK Government, Ofwat, SWW, the Council of the Isles of Scilly and other stakeholders consider this to be a necessary measure to meet the challenges of protecting public health and safeguarding the environment on the IoS, now and in the future.

Responding to this consultation

We welcome responses to this consultation by **9 April 2019**.

We welcome comments on our proposal, the contents of our consultation document or matters that are missing from our consultation but which you consider may be relevant to our decision.

To help us better understand the issues you are raising in your consultation response, please make clear in your response whether you are a current or potential future customer of SWW, whether you are a resident or visitor to the IoS, or more generally set out your role as an interested party.

We prefer you to send your response by email to IslesofScilly@ofwat.gov.uk

You can also submit your response by post to:

Isles of Scilly consultation
Ofwat
21 Bloomsbury Street
London WC1B 3HF

We may publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection

Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004.

If you would like the information that you provide to be treated as confidential, please be aware that, under the FoIA, there is a statutory 'Code of Practice' which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

Contents

| | |
|--|----|
| 1. Summary..... | 5 |
| 2. Background..... | 7 |
| 2.1 Isles of Scilly | 7 |
| 2.2 Current water provision on the IoS..... | 7 |
| 2.3 Developments leading to SWW's application | 9 |
| 2.4 Preparing for SWW to start operations..... | 10 |
| 2.4.1 Our role in assessing SWW's application to vary its licence..... | 10 |
| 3. SWW's proposals for the IoS | 12 |
| 3.1 SWW's proposed investment plan for IoS..... | 12 |
| 3.2 Regulation of drinking water, wastewater and water supply..... | 14 |
| 3.3 Customer protections | 15 |
| 3.3.1 Priority services | 15 |
| 3.3.2 Guaranteed Standards of Service | 15 |
| 3.3.3 Customer complaints..... | 16 |
| 3.4 PR19 performance commitments..... | 17 |
| 4. Assessment of financial impacts by category of customer | 18 |
| 4.1 Households on the IoS..... | 18 |
| 4.1.1 Assistance to make bills more affordable | 20 |
| 4.2 Business customers on the IoS..... | 20 |
| 4.2.1 Retail services for business customers..... | 20 |

| | | |
|-------|--|----|
| 4.2.2 | Business customers' bills..... | 21 |
| 4.3 | SWW's existing customers..... | 21 |
| 4.3.1 | Bill impact for existing SWW customers | 22 |
| 4.4 | Private supplies and future customers | 22 |
| 4.4.1 | Water services..... | 22 |
| 4.4.2 | Wastewater services | 23 |
| 5. | Next steps..... | 25 |
| 5.1 | Extending legislation | 25 |
| 5.2 | Varying SWW's area to include the loS | 25 |
| 5.3 | PR19..... | 25 |
| 5.4 | SWW's engagement with customers on the loS | 26 |

1. Summary

Substantial investment is required for the Isles of Scilly (IoS) to bring its water and wastewater infrastructure up to the standards of mainland England. Addressing this is requiring a major collective effort over a number of years and legislative change.

In 2016, the Department for Environment, Food and Rural Affairs (Defra) invited expressions of interest in operating the public water and wastewater networks on the IoS. South West Water (SWW) was the only company that responded. It has since conducted due diligence and prepared a proposed plan for extending its area of operation to the IoS and of investment. It explains its proposals for the IoS [here](#).

SWW provides water and wastewater services to Devon, Cornwall and parts of Dorset. Ofwat regulate it by licence. This consultation is about our proposal to vary SWW's licence to include the IoS within its area from April 2020 onwards. Our ability to do this is subject to the UK Government's plan to extend the relevant legislation so that it applies to the IoS.

SWW would take on responsibility for the relevant infrastructure of the Council of the Isles of Scilly (the Council), the Duchy of Cornwall and the Tresco Estate. It has prepared its business plan on the basis that it would be under equivalent mainland regulations at the commencement of operations with agreed work being carried out to achieve full water quality and environmental protection from April 2025 onwards for four of the five inhabited islands. For the fifth, Tresco, the equivalent date SWW has planned for is April 2030 onwards. The investment on Tresco would come later because SWW's assessment is that the infrastructure there is already relatively well maintained and managed.

Residents on private supplies would be entitled to a connection to SWW's infrastructure by 2025, and potentially earlier where SWW has sufficient resource and treatment capacity available to enable this. Aside from these constraints, new connections would be subject to the same statutory and regulatory arrangements and charges that apply on the mainland.

Although the proposed IoS investment costs are high per head of the IoS population, SWW is proposing to spread the costs over all its customers, so that IoS customers pay equivalent charges to its mainland customers. Vulnerable customers would be eligible for affordable tariffs, as applicable. We expect most customers' metered bills to be broadly stable in real terms or to decrease at the point of switching to SWW, though larger households currently on the Council's water and wastewater tariffs are likely to experience bill increases.

It is intended that arrangements for business customers will be on an equivalent basis to the rest of England. In particular, they will be served directly by a licensed retailer, who is responsible for customer services including billing and meter reading. They will be subject to the same price and non-price protections as the rest of England. They will also be able to switch retailer.

The investment that SWW proposes for the IoS would be funded primarily by SWW's customers through our 2019 price control (PR19), with an initial significant contribution from the Duchy of Cornwall on the transfer of its assets. SWW developed its PR19 business plan in consultation with its customers, of whom 82% supported extending the SWW area to include the IoS.

We estimate that the impact on SWW customers' bills due to the inclusion of the IoS within SWW's area to be on average £2.10 a year for 2020 to 2025 and £4.20 a year for 2025 to 2030. This would be more than offset by expected bill reductions due to increased efficiency, also secured through PR19.

In common with the IoS, the rest of Cornwall and Devon has required substantial investment by SWW to improve its coastal environment since privatisation. In recognition of these costs, the UK Government has funded an annual reduction in each household bill of SWW's customers of £50 a year from April 2013. This runs until 31 March 2020. This funding agreement is not a matter for Ofwat or this consultation. Government is considering the position for April 2020.

Ofwat considers that SWW's proposed investment is needed to meet the challenges of protecting public health and safeguarding the environment on the IoS, now and in the future. We consider that its proposed package of measures protects customer interests on the mainland and delivers substantial benefits for residents of, and visitors to, the IoS. We propose to accept SWW's application to vary its licence, subject to the relevant legislative framework being put in place and the responses we receive to this consultation.

2. Background

In this chapter we set out the context and activities undertaken leading up to SWW's application to vary its licence as follows:

- Outline of the IoS's geographic context and administrative arrangements;
- The current provision of water and wastewater services;
- The steps already undertaken with the aim of improving water services; and
- How SWW's application fits into this context.

2.1 Isles of Scilly

The IoS are a small group of islands situated 28 miles south west of Lands End. One of the main industries is tourism, and the population varies widely depending on season. The 2011 census recorded 2,200 people; the summer population peaks at around 5,000 people. The IoS have over 100,000 visitors each year.

There are five inhabited islands. Around 1,600 people live on St Mary's, with smaller populations of between 70 and 160 individuals on each of Tresco, St Martin's, Bryher and St Agnes.

IoS's distinctive character is recognised nationally and internationally. It is a designated Area of Outstanding Natural Beauty, a Special Area of Conservation, and contains 11 Marine Conservation Zones.

The IoS form part of the Cornish parliamentary constituency of St Ives and, while historically part of the county of Cornwall, have a separate local authority: the Council.

The majority of the land and nearly a third of the residential buildings on the IoS are owned by the Duchy of Cornwall. The whole of the Island of Tresco is let on a long-term basis to the Tresco Estate.

2.2 Current water provision on the IoS

Provision of water and wastewater services is currently as follows.

- The Council:

- provides water to around 1,070 household and business properties on St.Mary's and Bryher;
- has two, linked, wastewater systems, both on St Mary's, serving Hugh Town and Old Town.
- The Tresco Estate provides water and wastewater services on Tresco.
- The Duchy of Cornwall provides water services on St Martin's and St Agnes.
- There are private water supplies for around two thirds of premises on the islands of St Martin's and St Agnes, as well as a small number on the other islands. These may take the form of either a dedicated or shared supply systems, typically a well or borehole.
- There are private arrangements for managing wastewater for all premises on Bryher, St Martin's and St Agnes, as well as some premises on St Mary's and Tresco. These usually take the form of private septic tanks.

Various key pieces of water legislation within England that protect public and environmental health do not currently apply to the IoS (or have only been applied in part). This means that the Drinking Water Inspectorate (DWI) and Environment Agency (EA) have no role of independent oversight and limited enforcement powers in relation to water quality on the islands so public health and environmental protection standards are not as stringent as elsewhere in England.

The Water Industry Act 1991 (WIA) established the regulatory framework for the newly privatised water companies in England and Wales, with Ofwat as the economic regulator. The WIA does not apply to the IoS. In mainland England and Wales, since the WIA came into effect, there has been major investment in water infrastructure, resulting in higher standards of water quality, environmental protection, customer service and water service resilience.

The IoS has not had the same levels of investment. Issues on the IoS can include:

- water supplies being impacted by naturally arising compounds, being vulnerable to pollution from agricultural chemicals and septic tank seepage;
- weaknesses in the water infrastructure, resulting in problems including leakage and low pressure for some customers;
- lack of facilities for water quality sampling and analysis;
- a lack of resilience to drought and flooding, while at the same time demand increasing sharply during the main visitor season; and
- many wastewater discharges not being compliant with existing regulations (Environmental Permitting Regulations 2016), thereby increasing contamination risk to sensitive sites and groundwater.

Existing providers on the IoS estimated that the cost implications of bringing existing infrastructure up to the standard required to achieve the same environmental and public health standards as on the mainland is far greater than could be covered by the small number of bill payers on the IoS.

2.3 Developments leading to SWW's application

Defra has been working with stakeholders for a number of years to improve water and wastewater standards on IoS.

- Since 2006, DWI has been advising the Council, the Duchy of Cornwall and residents on the IoS.
- In 2007, Environmental Permitting Regulations became applicable. Permits are required for the management of sewage discharges to sea or to ground.
- In 2014 Defra [consulted](#) on applying water legislation to the IoS. The consultation responses indicated broad support for ensuring customers on the IoS have the same protections as on the mainland although there was a concern about the cost of achieving this.
- In 2015 Defra formed a working group with key stakeholders to find solutions for the IoS that are affordable, compliant, reliable and sustainable, and safe for the marine and groundwater environment.
- As a consequence of this work, in 2016 Defra invited all water companies in England and Wales to express interest in taking over responsibility for the Council's water and wastewater services. The investment costs would then be recovered from the generality of the company's customers in the same way they are when any mainland water company has to upgrade infrastructure to serve a particular community within its area of appointment.
- Only one water company responded: SWW.

SWW is the water company for mainland Cornwall and Devon. In common with the IoS, much of its area of appointment is coastal, containing Areas of Outstanding Natural Beauty, and with high fluctuations in demand due to summer tourism.

Over the last four years, Defra, Ofwat and SWW have been working with the Council and with other stakeholders on a proposal for SWW to provide water and wastewater services on the IoS. While originally the intention had been for SWW to take over the Council's infrastructure only, the plan extended to cover Tresco's and the Duchy of Cornwall's infrastructure also.

2.4 Preparing for SWW to start operations

SWW has now applied to Ofwat to be appointed as the water and wastewater company for the IoS.

The application by SWW is one element in a wider programme of activities to put water and wastewater services in the IoS on a sustainable footing to protect public health, support the local tourist economy and safeguard the environment, now and in the future, and provide independent regulatory oversight for public confidence purposes. Other elements include:

- Government is working to extend water legislation to the IoS. This will include secondary legislation to apply the Water Industry Act 1991 to the IoS. Subject to Parliamentary scrutiny, this legislation is scheduled to come into effect before SWW becomes the water and wastewater services supplier for the IoS in April 2020.
- We are conducting our 2019 price review (PR19) to set the price, service and investment package for water companies in England and Wales during the 2020 to 2025 period, including with respect to IoS. As part of this SWW has submitted an IoS business plan to us.

As we are assessing SWW's application to vary its licence concurrently with PR19, some of the relevant considerations for the licence variation are being addressed through PR19. In particular, this is where we are assessing SWW's financeability, resilience and performance commitments. We set out an overview of SWW's proposals for the IoS, as set out in its PR19 business plan and its licence application, in the next chapter.

2.4.1 Our role in assessing SWW's application to vary its licence

This licence application is unique because SWW will not be replacing a regulated company on the IoS. All other applications for appointments or variations of appointments involve one company replacing another company as the appointed water or wastewater company for a particular area. For this reason, our existing [policy](#) on new appointments and variations is not directly applicable. Instead, in considering SWW's application, we will apply duties, set out in section 2 of the WIA, in a way that is best calculated to:

- Secure that companies are able to properly carry out their functions;
- Secure that companies can finance the proper carrying out of their functions (in particular by securing reasonable returns on their capital);

- To further the consumer objective by protecting the interests of consumer, wherever appropriate by promoting effective competition; and
- Secure the long-term resilience of water and wastewater infrastructure.

Although we have agreed to consider SWW's application before legislation has been extended to the IoS, we will only have the power to appoint SWW once this has come into effect. Our proposal is to do this shortly after the legislation is applied to the IoS, with the appointment taking effect on 1 April 2020.

3. SWW's proposals for the IoS

In this chapter we set out some key aspects of the proposed arrangements for SWW to provide services on the IoS. These are primarily achieved through legislation and our regulation, in particular through the commitments SWW makes as part of the PR19 price control.

Under SWW's proposal, customers currently connected to networks of the Council, the Duchy of Cornwall and the Tresco Estate, would become customers of SWW. SWW would provide water and wastewater services on St Mary's and Tresco, and it would provide water only services on St Martin's, Bryher and St Agnes.

The rest of this chapter is structured as follows:

- We discuss SWW's proposed investment plan for the IoS;
- We set out proposed arrangements for regulation of drinking water and wastewater;
- We list some key customer protections that apply to mainland customers which will apply for IoS customers; and
- We explain how SWW will have financial incentives to achieve a wide range of performance commitments across its area of appointment including the IoS.

Bills for IoS customers and SWW's existing customers, and connections are assessed in the next chapter.

3.1 SWW's proposed investment plan for IoS

SWW's investment plan for the IoS was included in the business plan SWW submitted to Ofwat in September 2018 for PR19. Information on SWW's plans for the IoS together with its business plan can be found [here](#).

To enable it to prepare its business plan, SWW conducted a series of due diligence activities including the review of hundreds of documents, site visits, technical investigations and surveys, and ongoing discussions with regulators and other members of the working group.

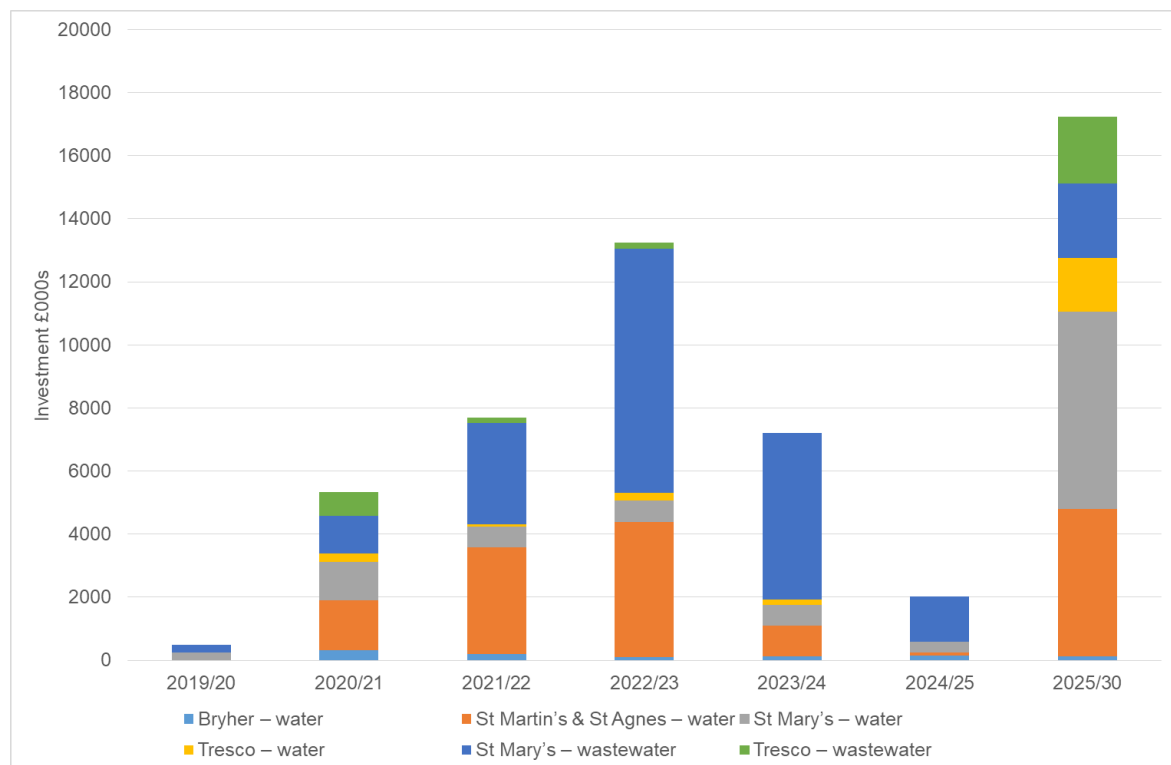
SWW has explained that its investment proposals take account of funding availability, legislative requirements and customer needs, and it is striving to develop a balanced plan for the five islands.

Highlights of the IoS plan include:

- installing a wastewater treatment facility on St Mary's so raw sewage is no longer discharged direct to the marine environment;
- implement long-term planning and investment of water resources to ensure that there are sufficient drinking water supplies for all five islands, including potential new connections for existing customers on private supplies and future new development;
- a new chlorine contact tank on St Mary's to address water quality issues, and to replace old cast iron mains in Hugh Town that are causing discolouration of water;
- on Bryher, improvement of treatment works to remove high levels of organics and coliforms; and
- on St Agnes and St Martin's, improvement of water treatment to address issues of microbiological quality, acidity caused by dissolved metals, chloride, nitrate, iron, manganese and aluminium as well as water colour issues.

SWW's plans for investment on the five islands is shown in Figure 1.

Figure 1: SWW PR19 business plan investment profile for the IoS



As part of PR19, we have scrutinised and challenged all companies' costs. We set companies' revenue controls with respect to an allowance for what we consider to be efficient costs, with the aim that companies make their services affordable to all. In its business plan, SWW forecast its total costs for 2020 to 2025 would be around £2bn. We have agreed with SWW a 3.3% reduction in its allowed cost without reducing the scope of what it has committed to achieve. Of the £2bn, we have allowed £34m for IoS investment costs.

Our regulatory regime gives companies freedom to change the details of their investment plans, subject to EA and DWI regulation, and subject to the financial implications of over or under achieving PR19 performance commitments. EA and DWI regulation is discussed in the next section, and PR19 performance commitments are discussed in the last section of this chapter.

3.2 Regulation of drinking water, wastewater and water supply

If the licence variation is granted, mainland regulations and standards will apply from the date of the variation. SWW wishes to establish a Memorandum of Understanding (MoU) with DWI which would include commitments to deliver the asset improvements necessary to achieve full compliance by April 2025 for St Mary's, St Agnes, Bryher and St Martin's and April 2030 for Tresco.

The investment on Tresco would come later because SWW's assessment is that the infrastructure on Tresco is already relatively well maintained and managed.

The Environmental Permitting Regulations (EPR) apply to the IoS, and SWW would meet current permit standards for those permits that would transfer from the Council, the Tresco Estate and the Duchy of Cornwall from the start of operations on the islands. SWW would obtain new permits for any new discharge to ground or surface/coastal waters as part of the planned investment programme to ensure compliance with EPR

SWW's plan is to comply fully with wider environmental protection regulations by April 2025 for St Mary's (and St Agnes, Bryher and St Martin's to the extent that it takes on any responsibility for wastewater on those islands during that time) and April 2030 for Tresco. SWW would establish a MoU with the EA which would include commitments to deliver the operational and infrastructure improvements necessary to achieve compliance.

Measures of water quality and environmental protection are included in SWW's performance commitments, which we regulate. This is explained further in the final section of this chapter.

Water companies prepare Water Resources Management Plans (WRMP) every five years. The WRMP sets out how the company ensures it can provide a secure supply of water to homes and businesses in its area. SWW will include information on its overall plans for the IoS in a new appendix to its final 2019 WRMP, but IoS will not be included in its full WRMP assessment. SWW would be expected to include a full supply-demand assessment for the IoS in its WRMP in 2024 and provide updates on progress with developing this through its annual review of the WRMP.

3.3 Customer protections

From 1 April 2020, under the proposal, SWW's customers on the IoS will benefit from a number of statutory, regulatory or voluntary arrangements aimed at protecting the standards of service they receive. Key examples are outlined here.

3.3.1 Priority services

SWW's [priority service scheme](#) allows customers that have a medical condition that requires constant access to a supply of water, or who would find it difficult to reach alternative supplies during an interruption to main water supplies, to join a priority services register. If SWW needs to plan an interruption to supplies it will telephone or visit priority customers on the register to advise on managing supplies while essential work is being carried out, and in the event of an emergency interruption SWW may be able to provide an alternative supply.

3.3.2 Guaranteed Standards of Service

SWW has proposed that the Guaranteed Standards of Service (GSS) Scheme, the statutory compensation scheme, apply for IoS customers from 1 April 2020, and has agreed to comply with this scheme for IoS customers from that date.

Where a water company fails to meet a GSS, it is required to make a specified payment to the affected customer.¹ SWW's leaflet [Our Customer Promise](#) sets out the payments it will make. These are shown in Table 1.

Table 1: SWW compensation for GSS

| Service standard issue | Payment |
|--|--|
| Not keeping an appointment | £20 |
| Not responding to account query within 10 working days | £20 |
| Not actioning a request to change payment method | £20 |
| Not replying to a complaint in 10 working days | £20 |
| Not providing notice of planned interruption to water supply | £20 |
| Not restoring water supply within planned time when maintenance is carried out | £20 plus £10 for each further 24 hours |
| Not restoring water supply within 12 hours of an emergency interruption (48 hours if strategic/large main is affected) | £20 plus £10 for each further 24 hours |

3.3.3 Customer complaints

In the event that a customer has a complaint, the redress provided by SWW is better than currently exists for customers on the IoS. SWW's [Complaints and Compliments](#) leaflet sets out arrangements. If a customer is not satisfied with the response from SWW then the customer may refer their concern to the statutory consumer body for the sector, the Consumer Council for Water (CCWater) who can investigate and mediate the complaint independently. In the event that the complaint remains unresolved after being referred to CCWater, Ofwat may have powers or duties to consider the complaint or it may be referred to the alternative dispute resolution scheme that SWW is a member of, WATRS.² The DWI would handle complaints about drinking water quality where a customer has concerns regarding the response of the company to their complaint.

¹ Water Supply and Sewerage Services (Customer Service Standards) Regulations 2008

² [The Water Redress Scheme \(WATRS\)](#)

3.4 PR19 performance commitments

As part of PR19, SWW has set out the level of performance that customers across its area can expect it to achieve for the 2020-25 period. These are a set of performance commitments to deliver outcomes in a range of areas that matter to today's customers, future customers and the environment. SWW will report annually with respect to certain performance levels. In many cases there may be payments for under- or outperformance, which provide a stronger incentive to improve performance for customers.

SWW could have asked that the IoS be excluded from the calculation of payments for performance commitments until it had had the opportunity to upgrade its infrastructure there. However, recognising the importance of company performance to all customers, it has proposed to report on performance commitments for the IoS from 2020, include IoS in the calculation of most of its performance commitments payments from 2020 and all performance commitments from 2025. In particular, the IoS would be included in the calculation of payments for performance commitments:

- from 2020 for performance commitments relating to water supply interruptions, leakage, sewer blockages or collapse, sewer flooding, drought and flooding risk, customer satisfaction and experience, and others; and
- from 2025 for performance commitments relating to pollution incidents and DWI's measure of water quality compliance.

4. Assessment of financial impacts by category of customer

In this section we explain the potential financial impact of this proposal for individual customers. We first consider prospective household and business customers on the IoS. We then consider SWW's existing customers. In the final section, we discuss the treatment of new connections to SWW's network for customers using a private supply.

There will be different arrangements and bill impacts depending on whether the premises being supplied is classified as a household or a business (or 'non-household'), with the latter being supplied by a retailer rather than SWW directly. If the premises is used both as a business and a household, then the classification is according to its principal use. For example, bed and breakfast accommodation would be classified as a business if that were its principal use.

4.1 Households on the IoS

If we grant the licence variation, customers who currently pay the Council, Duchy of Cornwall or Tresco Estate for water or wastewater services would instead pay SWW.

Although the proposed IoS investment costs are high per head of population, SWW is proposing to spread the costs over its customers so that IoS customers pay equivalent charges to those that apply to its mainland customers.

Table 2 shows the current bills paid by households on the IoS compared to SWW's equivalent 2018-19 metered charges. Table 2 shows that for all providers, average household bills would be stable or fall under SWW's metered tariff. SWW's bills in 2020 are expected to be lower in real terms than 2018-19, and in its PR19 business plan, SWW has proposed that on average its bills will fall by 11% in real terms relative to 2019-20 levels.

Table 2: SWW calculation of average household bills using 2018-19 tariffs

| Current service provider | Island | Service provided | Current tariff | Average Bill for 2018-19 | | |
|--------------------------|--------------------|----------------------|----------------|--------------------------|-----------------|------------|
| | | | | Current | SWW** (metered) | Difference |
| Council | St Mary's | Water and Wastewater | Flat Fee | £550 | £459* | -£91* |
| Council | St Mary's & Bryher | Water only | Flat Fee | £350 | £205* | -£145* |
| Tresco Estate | Tresco | Water and Wastewater | Metered | £449 | £449 | £0 |
| Duchy of Cornwall | St Agnes | Water only | Metered | £164 | £157 | -£7 |
| Duchy of Cornwall | St Martin's | Water only | Metered | £216 | £206 | -£10 |

* For St Mary's and Bryher, SWW has estimated bill impacts using on average consumption for those islands and average national leakage levels.

**SWW's bills in this table exclude the 2018-19 Government Contribution. If it were included, each SWW bill would be £50 less.

SWW is proposing to install free smart meters for all customers on the IoS as part of its investment plan. Meters generally encourage more efficient use of water and help customers manage their bills. The metered charges would be the same as for SWW's mainland customers.

The Council's household customers are not currently metered. It is anticipated that they would have the option of unmetered billing, which would be levied on a comparable basis to SWW's mainland customers. (The unmetered charges would not be identical to the mainland charges because IoS does not have the equivalent 'rateable value' dataset.) As with SWW's mainland charges, average unmetered charges would tend to be higher than average metered charges to reflect differences in costs and benefits of the two services.

While most bills would be stable or decrease in real terms, some bills will increase. These would principally be larger households currently on the Council's flat rate water and wastewater charge. SWW would have a strategy for handling significant bill increases on the IoS, which would include providing information on the likely savings gained by metered billing, and phasing some increases in over more than one year.

4.1.1 Assistance to make bills more affordable

SWW has in place and will maintain a number of measures to help eligible vulnerable customers who are struggling to afford their water bill. The measures include targeted lower tariffs, caps on bills, free leakage repairs, water efficiency audits and measures to help manage debt. Details of the assistance SWW can provide are on its website [here](#).

4.2 Business customers on the IoS

4.2.1 Retail services for business customers

Since April 2017, businesses, charities and public sector organisations in mainland England have been able to choose who supplies their water and wastewater services. They can shop around, renegotiate and find the right deal for them. They are served directly by a retailer, who is responsible for customer service including billing and meter reading. SWW and other water companies act as wholesalers, selling water and wastewater services to retailers.

It is intended that retail arrangements for business customers will be the same as on the mainland. In particular:

- SWW will work with others to distinguish between household and business (or non-household) customers on the basis of the principal use of the premises;
- business customers will be served by a licensed retailer, who will receive a wholesale supply or service from SWW;
- business customers will be free to switch to any retailer willing to supply them, should they wish to do so;
- SWW's wholesale charges would be the same as for those for SWW's mainland customers; and
- business customers will be subject to the same price and non-price protections as business customers on the mainland.

SWW has committed to engaging with the IoS community and working with the retailer to clearly communicate the changes and to address issues that arise.

4.2.2 Business customers' bills

SWW is committed to installing smart water meters free of charge for all business customers on the IoS, replacing old meters if applicable. These meters can be read remotely. These will result in more accurate, fairer bills and allow businesses to more accurately manage their consumption, supporting improvements in water efficiency. All business customers, as currently, would have metered bills. The only exceptions to this is where it is not practicable to install a meter, for example where there is insufficient space in a premises.

Business customers are currently charged as follows by the different IoS suppliers:

- Council: there are around 160 business customers, all with metered billing. The meter stock is old and SWW has concerns that some of these meters may be under-recording water consumption.
- Duchy of Cornwall: business customers are charged the same tariffs as household customers, and this is broadly aligned to the SWW household tariffs.
- The Tresco Estate is currently the only non-household customer on Tresco.

SWW estimates that the Council's current combined water and wastewater bill for business customers that consume low volumes of water is around 30% higher than for equivalent business customers on the mainland (in SWW's area). For higher volume users the bills are approximately the same. Within this, its water bills are less and the wastewater bills are more. Business customers served by the Duchy of Cornwall already have their bills broadly aligned with those of SWW.

4.3 SWW's existing customers

SWW's business plan presents its price, service and investment package for the 2020-2025 period. This indicates its plan for improvements in service levels across all customers combined with declining bills. It also shows improved environmental benefits.

PR19 is not yet complete. However, we have completed our initial assessment of all plans and SWW's plan was one of the top plans from across the industry and one of three marked as 'FastTrack'. This means that the company has scored very well when compared to other companies in that it has proposed stretching targets in terms of improving the outcomes that customers experience from their water company. A consequence of this is that, having accepted some limited interventions to protect customers, SWW is not required to resubmit its business plan.

4.3.1 Bill impact for existing SWW customers

The costs of upgrading infrastructure on the IoS amounts to less than 2% of the costs that SWW expects to incur between 2020 and 2025. These proposed costs, and other SWW investment costs, will be recovered by charges levied across SWW's wider customer base.

SWW estimated that the investment cost associated with the IoS would increase bills for each customer by on average £2.80 a year between 2020 and 2025 and by £5.50 a year between 2025 and 2030. As part of our assessment of SWW's plan, SWW agreed to accept a lower cost allowance relating to the IoS. As a consequence, we now estimate that the IoS investment would increase bills for each customer by on average £2.10 a year between 2020 and 2025, and £4.20 a year between 2025 and 2030. This bill increase would be more than offset by the effects of increased efficiency and other changes also agreed as part of PR19, so that SWW planned for its customers having bill reductions, excluding adjustments for inflation, of 11% by 2025.

Existing customers were surveyed by SWW when developing its plan. As part of that survey 82% of respondents supported extending SWW's area to include the IoS, and 65% of respondents accepted a bill increase in order to improve services on the IoS. On average, existing customers were willing to pay £3.91 a year more.³ We consider that the research demonstrates that there is broad support amongst SWW's existing customer for SWW to extend its area to include the IoS.

4.4 Private supplies and future customers

4.4.1 Water services

Approximately 60-70% of the population of St Agnes and St Martin's have private water supplies in the form of privately owned and managed boreholes and/or rainwater harvesting systems. For the other islands, while private water supplies exist, almost all premises are connected to public networks.

³ The survey results have a confidence interval of £3.87 to £6.56. Some survey respondents indicated that they did not know how much they were willing to pay. As a conservative assessment, if those customers are assumed to all not be willing to pay anything, then the average willingness to pay is £3.91 a year.

With the extension of the legislation, private supplies will be regulated by the Council, with DWI acting as a technical adviser. This is in line with arrangements in the rest of England.

Premises on existing private supplies will not be obliged to connect to SWW's network. However, many of the private supplies are struggling with water quality and availability and so residents and businesses may, to the extent that it is practical, wish to connect to the public supply.

SWW is concerned that there may be insufficient water resources and treatment capacity in some cases for new connections to be practical. It considers it essential that the availability of water resources is investigated and clearly understood. In addition, SWW's planned investment programme is focused on the early delivery of new water treatment processes on St. Martin's and St. Agnes to provide the volume and quality of water required.

Once the prioritised investments are in place, SWW has confirmed to us that it expects to provide new water connections where requested, and will apply the same new connection charges that it uses for its mainland customers.

The WIA has obligations for water companies to provide new connections for domestic purposes subject to associated charges. In the case of the IoS, it does not appear practical for SWW to meet these obligations in all cases for an interim period, and so there will be legislative or regulatory arrangements to manage this.

New customers pay new connection charges and our charging rules specify how SWW is to set charges. SWW has provided assurance as part of its application that it will levy the same new connection charges as on the mainland.

4.4.2 Wastewater services

Under the application, SWW will take over responsibility for the Council's two separate wastewater networks in Hugh Town and Old Town on St Mary's, as well as the wastewater services on Tresco. On the other islands, and on parts of St Mary's and Tresco, premises will retain their private arrangements for managing wastewater, usually via private septic tanks. SWW's business plan is prepared on the basis that it does not provide wastewater services for Bryher, St Martin's and St Agnes.

Under the WIA, SWW has a legal duty to consider applications for the most economical and practical way to provide effective drainage where the current

drainage for two or more properties is causing an environmental nuisance, and that legislation would apply.

Once SWW has received an application, it will liaise with the local environmental health officer and the EA. SWW will then consider the options, costs and benefits in accordance with Government guidelines. SWW will be responsible for providing a public sewer if the assessment:

- confirms environmental nuisance; and
- identifies that a public sewer is the most cost effective solution to provide satisfactory drainage.

Where the cost-effective solution is for the householder to improve and maintain a private system, it will remain the householder's responsibility.

5. Next steps

5.1 Extending legislation

Government is working to extend water legislation to the IoS. This will include secondary legislation to apply the Water Industry Act 1991 to the IoS. Subject to Parliamentary scrutiny and the licence application, this legislation is scheduled to come into effect before SWW becomes the water and wastewater services supplier for the IoS in April 2020.

Once the legislation applies on the IoS, the Secretary of State for Environment, Food and Rural Affairs or Ofwat (with the consent of or acting under a general authorisation from the Secretary of State) will have the power to vary SWW's area of appointment to include the IoS.

5.2 Varying SWW's area to include the IoS

We will consider responses to this consultation and, to the extent necessary, will liaise with Government, the Council and other stakeholders before deciding whether or not to vary SWW's appointment to include the IoS.

If we decide to grant the variation, we will do so once the relevant legislation has come into effect. It is intended that this will be in November 2019, with a view to the variation coming into effect on 1 April 2020. The amendments to the legislation are likely to include provisions that enable SWW to carry out necessary preparatory work on the IoS in the period between November 2019 and April 2020, before the licence variation comes into effect.

5.3 PR19

On 31 January 2019 we published our initial assessments of business plans (IAP) for all water and wastewater companies.

SWW was one of three companies (out of 17 in total) that we decided to fast track. These were companies that set a new standard for the sector. We considered them to be meeting our high expectations of improving efficiency, customer service and resilience; they are sharing financial gains with customers, and looking well beyond the five-year price review period to meet needs of future customers and protect and improve the natural environment.

As a result of SWW's fast track status, we are not asking it to resubmit its business plan, and we consider its plan ready to implement. In common with the other fast track companies, in key areas where its plan fell short, SWW has accepted some limited interventions to protect customer interests. We will publish our draft determination on its business plan in April 2019, including the revenue controls by which it sets prices. We will then publish its final determination in December 2019. SWW will publish its new charges, applicable from April 2020, by the beginning of February 2020.

5.4 SWW's engagement with customers on the IoS

While SWW engages with all its customers, it has proposed a specific programme of engagement with its new customers on the IoS. It would start with a public information programme prior to April 2020, and the programme of engagement would last throughout the period of the investment plan. SWW would ensure that customers are kept up to date on progress with any issues that may impact them. Engagement would include hall meetings, and use of local media. SWW envisages that it would continue to have a high profile in the community indefinitely, to provide water and environmental benefits to support and enhance island life and the tourism economy.

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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February 2019

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