

August 2020

Leep Networks (Water) Limited (formerly SSE Water Limited): Conclusions on Change of Control and Licence Modifications

About this document

On 9 June 2020 we published a [Consultation on change of ownership for Leep Networks \(Water\) Limited \(formerly SSE Water Limited\)](#) ('the consultation') which resulted from our consideration of a change in the ownership and control of Leep Networks (Water) Limited¹, "**LN(W)L**". The consultation was a notice under both section 13 and section 8 of the Water Industry Act 1991, setting out our proposals to modify LN(W)L's licence conditions and vary its area of appointment.

The consultation closed on 8 July 2020. It set out:

- Our assessment of the impact of the change of ownership and control on LN(W)L and consideration of whether changes to that company's licence are required to protect customers;
- Our assessment of the entities identified as Ultimate Controllers of LN(W)L;
- Proposed modifications to the conditions of the licence of LN(W)L following the change of control;
- Our assessment of LN(W)L's financial security; and
- The transfer of sites from Leep Water Networks limited² ("**Leep Water Networks**") to LN(W)L by means of a revocation of the appointments of Leep Water Networks and a variation of the areas of appointment of LN(W)L.

In this document, we summarise the response to the consultation and confirm we have now modified LN(W)L's licence conditions and have varied its areas of appointment, effective from 1 October 2020. We set out the reasons for the licence modifications in the consultation and we still consider those reasons to be valid. The reasons for the area variation and the revocation of Leep Water Networks' appointments have been published in '[Variation of Leep Networks \(Water\) Limited's appointment to include Liverpool International Business Park in Liverpool and MediaCityUK in Salford](#)'.

¹ Company number 06021063

² Company number 06680258

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1. Background to the consultation

In April 2019 Leep Utilities Limited³ (“**Leep**”), the owner and operator of a number of regulated electricity, water and district heating utility assets, entered into an agreement with SSE plc to acquire its water business which it operated as SSE Water Limited. The transaction completed at the end of May 2019 and SSE Water Limited was subsequently renamed Leep Networks (Water) Limited, “**LN(W)L**”.

Leep is 90% owned by Ancala Partners LLP (“**Ancala**”) and 10% owned by Peel Group. Until March 2019 Peel Group owned 50% of Leep but sold 40% of Leep to co-owner Ancala two months prior to the acquisition of LN(W)L thereby increasing Ancala’s ownership from 50% to 90%.

At the time of the acquisition of LN(W)L, Leep already owned a NAV⁴ company, Leep Water Networks which supplied water and sewerage services to two sites: MediaCityUK and Liverpool International Business Park (“**the Sites**”). Following the acquisition, therefore, Leep owned two NAV companies: Leep Water Networks and LN(W)L.

From the time of the acquisition of LN(W)L, Leep ran its two NAVs as separate businesses each with its own licence. We consulted on Leep’s application to vary the licence of LN(W)L to include the area covered by Leep Water Networks’ licence and revoke the latter’s licence, so that all sites owned by Leep are governed by the licence of LN(W)L. LN(W)L applied for a variation to supply the Sites based on the consent criterion set out in section 7(4) (b) of the WIA91⁵; this provision allows for variations if the existing incumbent consents to the variation. We have a letter from Leep Water Networks confirming that it consents to LN(W)L taking over the Sites.

The licence variation becomes effective on 1 October 2020 meaning that from this date MediaCityUK and Liverpool International Business Park will be served by LN(W)L for water and sewerage services and subject to the licence of LN(W)L. The licence of Leep Water Networks will simultaneously be revoked on 1 October 2020. In addition to the variation to add the two sites, effective on 1 October 2020, the licence conditions of LN(W)L have been modified to ensure that they reflect the current industry leading standard of protection for the regulated company and its customers. The proposed licence modifications and our reasons for them were set out in the consultation; the specific drafting changes to the current licence of LN(W)L are included in the [modification notice](#).

³ Company number 10742452

⁴ NAV stands for ‘new appointment or variation’

⁵ Water Industry Act 1991

The consultation set out the following questions:

Consultation questions

- 1) Do you agree with our assessment of the new owners of LN(W)L?
- 2) What are your views on the ability of the new owners to own a regulated water utility?
- 3) Do you have any concerns with the new owners that might affect the ability of LN(W)L to fulfil its statutory duties and obligations under its licence?
- 4) Do you have any specific views on the potential conflicts of interest?
- 5) What are your views on the identification of the Ultimate Controllers?
- 6) What are your views on the proposed modifications to LN(W)L's licence?
- 7) What are your views on the proposed modifications to LN(W)L's financial security requirement?
- 8) What are your views on the financial security formula and the associated conditions?
- 9) What are your views on the proposed variation of LN(W)L's area of appointment to include the two Sites currently owned and operated by Leep Water Networks?

We received one response to the consultation from Portsmouth Water Limited ("**Portsmouth Water**"). A copy of the response can be found at Appendix A1.

2. Summary of the response received

Portsmouth Water, which has been fully owned by Ancala since early 2018, provided a brief response to each of the nine questions posed in the consultation. Overall, the company said it has found the Ancala management team to have a good understanding of water regulation in England & Wales and to be very supportive of its regulatory aims and business strategies.

Based on its experience, Portsmouth Water said it has no concerns that the new owners will negatively affect the ability of LN(W)L to fulfil its statutory duties and obligations under its licence. No specific view or concern was identified in relation to our identification of the Ultimate Controllers.

Portsmouth Water support the proposed modifications of the LN(W)L licence as they believe it is appropriate that all undertakers have the same licence conditions to ensure a level playing field between all parties. Provided there is no detrimental impact on customers, Portsmouth Water supports the proposal to include the two sites of Leep Water Networks into LN(W)L's area of appointment.

Conflicts of interest

Given the ownership structure, Portsmouth Water said there is the potential for conflicts of interest to arise or for the perception of such conflicts of interest. As such, its Board governance and approach to managing the day to day relationship with Leep recognises this issue and processes are in place to ensure any potential conflict of interest is recognised and addressed appropriately.

Portsmouth Water said its dealings with Leep are already on an arm's length basis and in compliance with competition law in relation to "level playing field". The company expects this to continue and will ensure that ongoing governance manages any actual or perceived threat of conflict.

Portsmouth Water also noted that, while both businesses (i.e. Portsmouth Water and Leep) are owned by funds managed by Ancala, there is no statutory common control of the two businesses and neither is in a position to exercise a dominant influence over the other. That is, Portsmouth Water said the companies do not meet the statutory or regulatory definition of "related parties".

3. Next steps

No concerns were raised with regard to the proposed modifications to the licence conditions of LN(W)L and we have not changed our view and reasons as presented in the consultation. We have therefore modified the licence conditions of LN(W)L, and those modifications come in to effect on 1 October 2020. A copy of the final licence conditions (the '[modification notice](#)') has been published separately, alongside this document.

The [variation of the licence](#) of LN(W)L to include sites previously supplied by Leep Water Networks and the revocation of the licence of Leep Water Networks also comes in to force on 1 October 2020. The document setting out our [reasons for varying LN\(W\)L's area](#) of appointment and revoking the appointment of Leep Water Networks, has been published separately, alongside this document.

A copy of the [letter to LN\(W\)L](#) outlining what has been determined with regard to financial security has also been published alongside this document.

A1 Response to the consultation



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8 July 2020

Dear Sir

PRT Response to Ofwat's Consultation on the Change of Ownership of Leep Networks (Water) Limited

Thank you for the opportunity to review your consultation on the Change of Ownership of Leep Networks (Water) Limited which was published on 9 June 2020.

As noted in the consultation Portsmouth Water is owned by funds managed by Ancala Partners LLP. We already have normal arm's length working relationships with Leep Water (formerly SSE Water) as they operate two NAV sites within our region.

Looking briefly at each of your nine questions in turn:-

1) Do you agree with our assessment of the new owners of LN(W)L?

We note that the consultation states that Leep, Ancala and the Peel Group have all confirmed that neither they nor any of their associated group companies are subject to any financial investigations by an accredited UK (or equivalent) regulator or have any legal or financial claims against them which might have a material impact on their financial standing.

We have no reason to question this position.

2) What are your views on the ability of the new owners to own a regulated water utility?

Funds managed by Ancala LLP have owned Portsmouth Water since 2018. In that time we have found the Ancala management team them to have a good understanding of water regulation in England & Wales and to be very supportive of the regulatory aims and business strategies.

3) Do you have any concerns with the new owners that might affect the ability of LN(W)L to fulfil its statutory duties and obligations under its licence?

Based on our experience, we have no concerns that the new owners might affect the ability of Leep to fulfil their statutory duties and obligations under its licence.

4) Do you have any specific views on the potential conflicts of interest?

Given the ownership issue described above, there is the potential for conflicts of interest to arise or for the **perception** of such conflicts of interest. However, our Board governance and approach to managing the day to day relationship with Leep recognises this issue and we have processes in place to ensure any potential conflict of interest is recognised and addressed appropriately.

Our dealings with Leep are already on an arm's length basis and in compliance with competition law in relation to "level playing field". We would expect this to continue and we will ensure that our ongoing governance manages any actual or perceived threat of conflict.

Similarly it should be noted that, whilst both businesses are owned by funds managed by Ancala LLP, there is no statutory common control of the two businesses and neither is in a position to exercise a dominant influence over the other. The companies do not meet the statutory or regulatory definition of "related parties".

5) What are your views on the identification of the Ultimate Controllers?

We have no views on this issue.

6) What are your views on the proposed modifications to LN(W)L's licence?

We support the proposed modifications of the licence. We believe it is appropriate that all undertakers have the same licence conditions, to ensure a level playing field between all parties.

7) What are your views on the proposed modifications to LN(W)L's financial security requirement?

We have no views on this issue.

8) What are your views on the financial security formula and the associated conditions?

We have no views on this issue.

9) What are your views on the proposed variation of LN(W)L's area of appointment to include the two Sites currently owned and operated by Leep Water Networks?

We would support the proposal to include the two sites into the LN(W)L's area of appointment, assuming no detrimental impact on customers.

If you wish to discuss any of the points above, please contact me

Yours faithfully

HMG Orton
Finance and Regulation Director

Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.

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