

Information notice

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Responses and next steps on the consultation on proposals to modify the conditions of appointment of all water and sewerage and water only companies

This information notice describes how we are extending the engagement process on Water Industry Act 1991, section 13 proposals to [modify](#) the conditions of appointment of all water and sewerage and water only companies. This is so we can gain greater clarity about respondents' concerns and identify ways to address those concerns.

Proposals that enable sustainable regulation

In our strategy, we highlighted the need for the water and sewerage sectors in England and Wales to change to meet the challenges of the future. Climate change, population growth, demographic changes, increasing customer expectations and pressure on water resources are creating a new and more unpredictable environment. These challenges require practical solutions by the water and sewerage sectors in England and Wales, at both strategic and operational levels.

To play our part, in 2010 we launched our future regulation

programme of work to develop fresh ideas for regulating the sectors, which build on past successes.

We are now starting to take firm decisions about the shape of our future regulatory framework, having explored a range of possible solutions. This includes [‘Future price limits – a consultation on the framework’](#), which we published on 23 November 2011, and which sets out the proposed framework and principles that would guide our decisions.

In December 2011, we [consulted](#) on changes to the companies' licences. The licences of all appointed water and sewerage companies currently specify that each time we set prices, we must set a single price limit for a five-year period. We believe that we need more flexibility to set price limits in a way that will help the water and sewerage sectors meet the challenges they face. Our proposals made ‘enabling’ changes to licence condition B; they did not change the substance of the regulatory framework.

These would allow us to decide on the nature, form, number and duration of the price limits at each review after consulting on issues and methodologies. This change affirms our commitment to a stable and transparent regulatory regime. The companies would still be able to appeal to the Competition Commission.

On 8 December 2011, the UK Government published its water policy framework for England, [‘Water for Life’](#), which sets out changes (to be enacted through a future Water Bill) that are relevant to this consultation. Our proposals are designed to implement Government policies in the Water White Paper and our future price limits framework, to make regulation of the sector sustainable in the face of significant challenges.

Stakeholders' views

We had discussions with the companies and other stakeholders during the consultation period, and we held a company [workshop](#) on 6 February about our proposals.

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

We received 31 written [responses](#) to our consultation, which we have published on our website. (Three respondents requested that their responses remain confidential.) The responses expressed high-level concerns about the proposals, but in many cases they did not provide detail on the specific issues.

Next steps

We welcome the companies' commitment to ongoing dialogue about our proposals. In light of the responses received, we would like to know more about stakeholders' views. In April and May, we will

hold meetings with each of the companies (at Chairman and Chief Executive level), investors other respondents to understand the particular drivers behind their responses and explore how we can address their substantive concerns.

At the workshop in February, we told the companies that we would need to make a decision by 1 May whether to refer this matter to the Competition Commission. This was to allow time for a Competition Commission referral, so that we could issue our methodology consultation for the 2014 review in the autumn,

knowing that the licence issues were resolved. We have extended our timetable to accommodate additional engagement and to allow us to understand concerns. But this cannot be open ended. We need to finalise our methodology for the next price review in time to give water companies and other stakeholders sufficient certainty about the price review process. We cannot do this if the legal basis for the price review has not been resolved. So, we need to have certainty around the licence modifications before spring 2013.

In May we will publish our future price limits framework and principles. The extended timetable allows stakeholders to consider the proposed modifications in light of our conclusions on the framework.

We will update stakeholders again once we have completed these discussions.

More information

Ofwat's [future regulation](#) programme

'Future price limits – a [consultation](#) on the framework'

'[Water for Life](#)'

[Water Industry Act 1991, section 13 proposals by Ofwat to modify the conditions of appointment of all water only and water and sewerage companies](#)

Future price limits – enabling modifications: [Industry workshop](#)

[Responses](#) to the consultation on proposals to modify the conditions of appointment



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Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.