



Water Services Regulation Authority (Ofwat)

Modification of the conditions of appointment of Anglian Water Services Limited, Severn Trent Water Limited and South West Water Limited

On 12 December 2014, Ofwat issued notice of its proposal to modify the conditions of the appointments (licences) of Anglian Water Services Limited, Severn Trent Water Limited and South West Water Limited (the 'three companies') as water and sewerage undertakers. [The notice \(issued under section 13 of the Water Industry Act 1991\) can be viewed here.](#)

This notice confirms Ofwat has modified licence condition B (Charges) of the three companies' licences. The three companies agreed to the modification which was set out in the section 13 notice. The modifications had effect from 1 June 2015.

[The modified condition B for each company can be viewed on our website.](#) The background and the reasons for the modification are set out below.

Background and reasons for the modifications

As part of the 2014 price review, Ofwat confirmed that companies' boards should develop and propose outcomes and associated performance commitments and outcome delivery incentives. It said that these should reflect the views and priorities of customers, both now and in the future, as well as environmental priorities.

In its '[Setting price controls for 2015-20 – final methodology and expectations for companies' business plans](#)', Ofwat explained that each company could determine the form of any incentives that it was proposing. The three companies requested to take the rewards and penalties for some of the performance commitments each of them was proposing in-period (that is, ahead of the next price review).

Under the three companies' previous licences, changes to price controls could only be made in between price reviews through an interim determination which is only permitted in specified circumstances. The licence modification which Ofwat has made will allow for price controls to be changed before the next price review to take account of any rewards and penalties that are due for the company's performance against specific commitments.

Making in-period changes to price controls to take account of rewards and penalties more immediately links customers' experience to companies' performance. We

consider this may provide a stronger incentive in terms of encouraging improved performance that benefits customers. We expect it to also increase investor confidence in the incentive framework, given the more immediate impact of any rewards or penalties due.

End