



## **Water Services Regulation Authority (Ofwat)**

### **Modification of South Staffordshire Water PLC's conditions of Appointment (licence) as a water undertaker, variation of its area and termination of the Appointment of Cambridge Water Plc**

#### **A position note by Ofwat**

On 23 January 2013, Ofwat issued a notice on its proposals that South Staffordshire Water PLC (South Staffordshire) replace Cambridge Water PLC (Cambridge) as the water undertaker for Cambridge's water supply area and for the consequential modification of South Staffordshire's conditions of appointment. The notice (issued under sections 8 and 13 of the Water Industry Act 1991) can be viewed [here](#).

The consultation period closed on 21 February 2013 and Ofwat received three responses to the proposals (Affinity Water Limited, The Consumer Council for Water (CCW), and Mr Martin Blaiklock – a consultant).

Affinity Water Limited commented that they considered the proposals had merit and would benefit consumers in a similar way to their recent licence unification. CCW considered the proposals and raised two issues. CCW identified that any cost savings arising from the proposals should be shared with customers at the earliest opportunity and South Staffordshire should ensure that levels of customer service were maintained, with best practice being followed in both geographical areas.

CCW were pleased to note the commitments that South Staffordshire had made in both these areas and supported Ofwat's proposed amendments to Condition E of South Staffordshire's conditions of appointment to ensure that customers in the Cambridge area are not disadvantaged by the changes.

Mr Blaiklock wrote to raise a concern regarding the corporate structure of the ultimate controlling party of South Staffordshire, the historic dividend levels and the strength of existing licence conditions. The modification to South Staffordshire's licence contained the latest suite of ring fence conditions. These ensure South Staffordshire is protected from wider group activities and able to maintain necessary resources to carry out its regulated activities.

This notice confirms with effect from 1 April 2013 South Staffordshire's appointment has been varied so that it also applies to the area previously supplied by Cambridge and that Cambridge's licence has been terminated. South Staffordshire's conditions of appointment have also been amended in line with the proposals set out in the notice dated 23 January 2013.

A link to the area variation and the modified Conditions of Appointment can be viewed [here](#). The background and the reasons for the modification are set out below.

## **Background and reasons for the modification**

South Staffordshire and Cambridge each held an appointment from the Secretary of State as a water undertaker. In May 2012 the two companies merged and both companies came under the common control of Alinda Capital Partners LLC. South Staffordshire subsequently decided to unify the operations of the two companies to:

- i) improve the resilience of operations and customer service in the Cambridge area: and
- ii) reduce the corporate costs of operating two separate companies.

Ofwat's preference is for companies under common ownership to operate under a single common licence. The two companies were under common control and we therefore considered that the unification under a single licence would have little impact on Ofwat's ability to make comparisons between regulated water companies.

## **Price limits and charges to customers**

We modified South Staffordshire's price limits for 2013-14 and 2014-15 to represent the combined price limit for the enlarged area. To provide assurance to customers in the Cambridge region we included wording in Condition E to ensure that until 31 March 2015 customers in the Cambridge area will not have higher charges than they would have done if Cambridge's licence had not been terminated. In order to monitor this, we included wording in Condition E to require separate Principal Statement information to be provided for each of the separate areas until 31 March 2015.

As a consequence of this transitional provision, and to provide reassurance to South Staffordshire, we also included wording in Condition E to provide that differences in tariffs in each area until 31 March 2015 will not breach its obligation to ensure that its charges do not unduly discriminate against or give undue preference to, particular classes of its customers.

## **Ring fencing provisions**

We have included the latest suite of ring fence conditions in South Staffordshire's licence to ensure that South Staffordshire is protected from wider group activities and able to maintain the necessary resources to carry out its regulated activities.

## **Service and Performance information**

So we can monitor whether South Staffordshire has met the outputs required by both companies' 2009 price limits (because the Cambridge and South Staffordshire areas are geographically and operationally separate) Ofwat has modified conditions J and M of South Staffordshire so that South Staffordshire will continue to hold separate information for this purpose. Thereafter, South Staffordshire may be required to collect and maintain separate data on matters such as supply and demand issues due to the difference in the water resources positions in each region.

## **Fees**

To avoid any doubt as to how licence fees are calculated we have modified Condition N of South Staffordshire's conditions of appointment to state that the turnover for any period prior to the unification of the two licences in relation to which future fees are set should be the combined turnover of South Staffordshire and Cambridge.

## **Codes of practice and plans**

To reflect the fact that the Cambridge and South Staffordshire areas are geographically and operationally separate we have modified Conditions G, H, I and L of South Staffordshire's conditions of appointment to provide that Codes of practice and plans can be submitted as one code of practice or plan (including separate provision for each area) or as two separate codes of practice or plans for each area.

## **Other**

Because this is a suitable opportunity we have updated or deleted any outdated terms and references in Staffordshire's conditions of appointment. For example, references to the Companies Act 1985 are now to the Companies Act 2006 and references to the 'Director' now state the Water Services Regulation Authority.

## **End**