

Instrument of Appointment for

**Severn Trent Services (Water and Sewerage) Limited
as a sewerage only undertaker**

February 2024

Consolidated working copies of Appointments are not formal documents and for some purposes you may need to consider the formal appointments and variations to appointments rather than this consolidated working copy. A list of all variations made to these appointments is contained in a consolidation note at the back of this working copy.

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**WATER SERVICES REGULATION AUTHORITY
WATER INDUSTRY ACT 1991, SECTIONS 6 TO 9 AND 11**

**Appointment of Severn Trent Services (Water and Sewerage) Ltd as a
Sewerage Undertaker and Variation of the Appointment of Thames Water
Utilities Ltd as a Sewerage Undertaker**

Made on 21 December 2015
Coming into effect on 22 December 2015

1. Severn Trent Services (Water and Sewerage) Ltd ("Severn Trent Services") has applied under section 7(4)(b) of the Water Industry Act 1991 ("the Act") to be appointed as the sewerage undertaker for a site at Wellesley, near Aldershot in Hampshire that is currently within the Sewerage Services Area of Thames Water Utilities Limited ("Thames Water"). The site is being developed by Grainger.
2. On 27 June 1995, the Secretary of State for the Environment and the Secretary of State for Wales acting jointly and pursuant to sections 6(1) and 7(2) of the Act authorised the Director General of Water Services¹ to make appointments and variations such as those contained in paragraphs 3 and 5 below.
3. Therefore, as provided by sections 6(1) and 7(2) and (4)(b) of the Act, the Water Services Regulation Authority appoints Severn Trent Services ("the Appointee") to be the sewerage undertaker for the area described in Schedule 1.
4. The appointment made in paragraph 3 ("the Appointment") is subject to the conditions set out in Schedule 2.
5. In consequence of the Appointment, the Water Services Regulation Authority varies the Appointment of Thames Water as a sewerage undertaker so that the area described in Schedule 1 is excluded from Thames Water's Sewerage Services Area.

**Signed for and on behalf of the
Water Services Regulation Authority**

¹With effect from 1 April 2006 the functions of the Director General of Water Services were transferred to the Water Services Regulation Authority in accordance with section 36 of, and Schedule 3 to, the Water Act 2003.

Severn Trent Services – Water and Sewerage Undertaker – Appointment

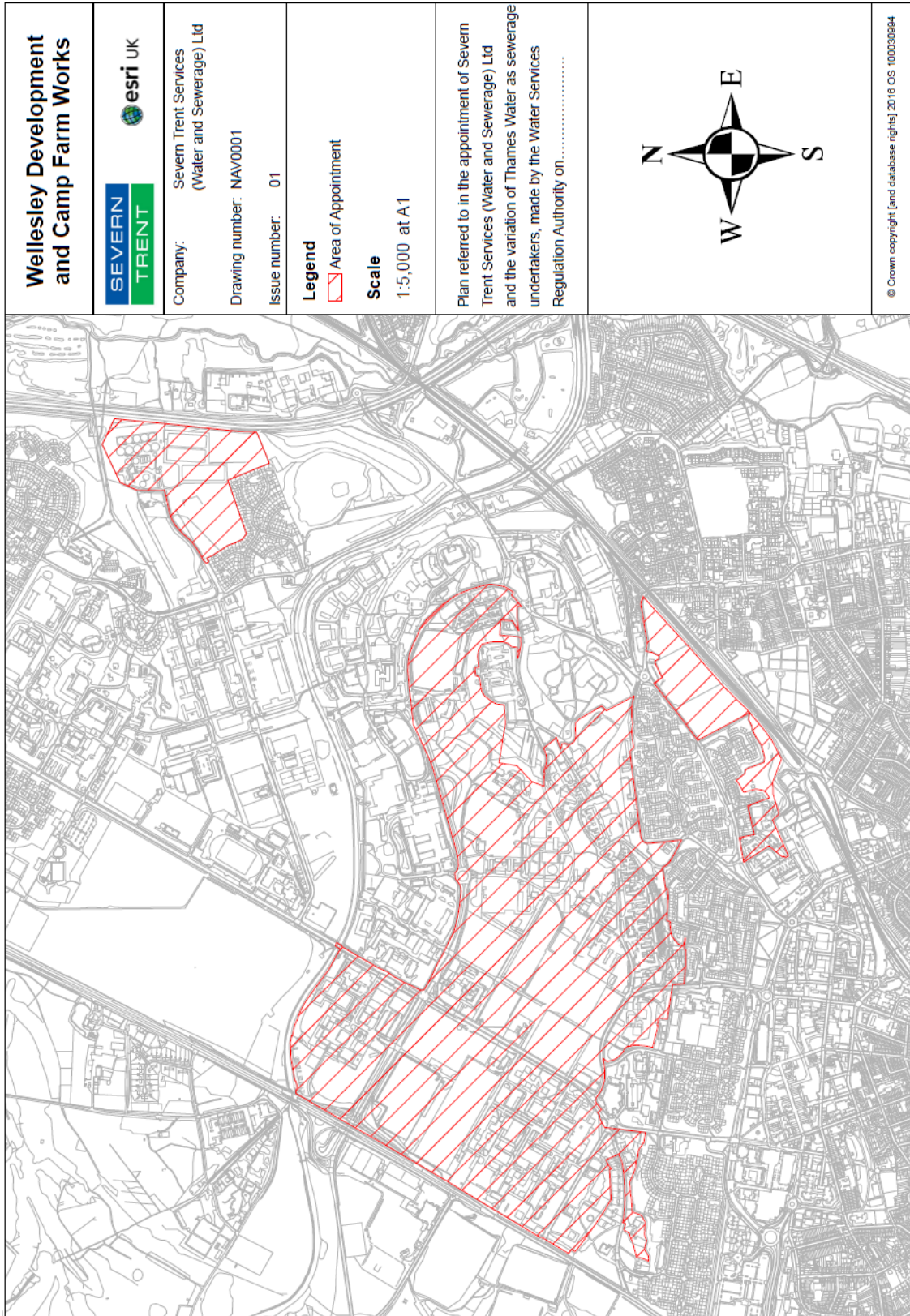
Cathryn Ross
Chief Executive

SCHEDULE 1: Area for which the Appointment is made

The Sewerage Services Area

The area for which the Appointee is appointed to be the sewerage undertaker ("**the Sewerage Services Area**") comprises the area the boundaries of which are more particularly delineated by the line shaded red in the **Sewerage Services Area Map** which forms part of this instrument.

Sewerage Services Area Map



SCHEDULE 2: Conditions of the Appointment

Condition A: Interpretation and Construction

1. Unless the contrary intention appears:
 - (1) words and expressions used in these Conditions and references in these Conditions to enactments shall be construed as if they were in an Act of Parliament and the Interpretation Act 1978 applied to them;
 - (2) references in these Conditions to enactments shall include any statutory modification thereof after the date on which the Appointment is made;
 - (3) references to a liability shall be taken to include the creation of any mortgage, charge, pledge, lien or other form of security or encumbrance, the making of a loan and the taking on of a debt;
 - (4) references to a loan shall be taken to include the transfer or lending, by any means, of any sum of money or rights in respect of that sum;
 - (5) words and expressions used in these Conditions shall have the same meaning as in any provision of the Water Industry Act 1991;
 - (6) references in these Conditions to sections and Schedules are references to sections of, and Schedules to, the Water Industry Act 1991; and
 - (7) references in these Conditions to paragraphs are references to paragraphs of the Condition in which the reference appears and references to sub-paragraphs are references to sub-paragraphs of the paragraph in which the reference appears.

2. In construing these Conditions:

- (1) the heading or title of any Condition or of any paragraph of any Condition shall be disregarded; and
- (2) any description of the purposes of a Condition shall be construed subject to the provisions of the rest of the Condition in which that description appears.

3. Unless the context otherwise requires, in these Conditions:

“the 2014 Act” means the Water Act 2014;

“Appointed Business” means the business consisting of the carrying out by the Appointee of the Regulated Activities;

“Appointee’s Turnover Share” means, in relation to a Charging Year, the amount calculated as t / T where:

- (a) “t” means an amount equal to the turnover of the Appointed Business as shown in the accounting statements prepared by the Appointee under Condition F for the twelve month period ending twelve months before the start of the Charging Year; and
- (b) “T” means an amount equal to the sum of the turnover of the appointed businesses of all relevant undertakers, including the Appointee, as shown in their accounting statements prepared under Condition F, and the provisions of appointments which are equivalent to Condition F, for the twelve month period ending twelve months before the start of the Charging Year;

“Area” means the area for which for the time being the Appointee holds the appointments as a water undertaker or sewerage undertaker, as the case may be;

“Associated Company” means any Group Company or Related Company;

"Auditors" means the Appointee's auditors for the time being appointed in accordance with the Companies Act 2006;

"Bespoke Charge" means any charge fixed or agreed by the Appointee, in respect of any customer of the Appointee, which is not a Class Charge;

"Books and Records" means any and all books, records, files, maps, plans, documents, papers, accounts, estimates, returns and other data of whatsoever nature and whether or not created, recorded or maintained in a document;

"Charging Year" means a year commencing on 1st April;

"Class Charge" means any charge fixed or agreed by the Appointee which applies to a particular class of the Appointee's customers;

"customer" means any person who is provided with water or sewerage services by the Appointee either directly or indirectly via a Licensee, but does not include a Licensee acting in its capacity as such;

"Cross-Default Obligation" means a legal obligation contained in an agreement or arrangement where the Appointee's liability to pay or repay any debt or other sum arises or is increased or accelerated due to the default of any person other than the Appointee;

"Domestic Customer" means the occupier of Domestic Premises;

"Domestic Premises" means any premises used wholly or partly as a dwelling or intended for such use;

"drought order" means an order made under section 73 of the Water Resources Act 1991;

"Eligible Premises" has the same meaning given in the Wholesale-Retail Code (as amended from time to time);

"Effective Date" means, for the Appointee's appointment as a water undertaker, the date its appointment as a water undertaker came into effect and for the Appointee's appointment as a sewerage undertaker, the date its appointment as a sewerage undertaker came into effect;

"Financial Year" means a financial year of the Appointee beginning and ending on the respective dates referred to in section 390 of the Companies Act 2006;

"Holding Company" has the meaning set out in section 1159 of the Companies Act 2006;

"Group Company" means any subsidiary or holding company of the Appointee and any subsidiary of any holding company of the Appointee (other than the Appointee);

"Household Premises" has the meaning given in the Wholesale-Retail Code (as amended from time to time);

"Incumbent" means in relation to any particular part of the Area the company that was the water undertaker or sewerage undertaker before the Appointee became the water undertaker or the sewerage undertaker for that particular part of the Area or such other company or companies as Ofwat may determine to be appropriate;

"Information" means information which the Appointee:

- (a) holds;
- (b) can reasonably obtain; or
- (c) can reasonably prepare from information which it holds or can reasonably obtain;

"Infrastructure Charge" means a Water Infrastructure Charge or a Sewerage Infrastructure Charge;

“Licensee” means the holder of a water supply licence and/or a sewerage licence granted by Ofwat under section 17A or under section 17BA of the Water Industry Act 1991;

“Metered Charges” means charges for services that are based wholly or partly on measured quantities of volume of water supplied;

“Ofwat” means the Water Services Regulation Authority;

“Periodic Review” means a review of the Appointed Business carried out under paragraph 9 or 11 of Condition B, but so that references in Part IV of Condition B to a Periodic Review shall exclude any review carried out under paragraph 11 of that Condition and shall include the determination by the Competition and Markets Authority of the relevant questions or, as the case may be, the disputed determination referred to it under paragraph 16 of Condition B following the giving of Information to Ofwat in accordance with paragraph 9;

“potential customer” means any person who is capable of becoming a customer on making an application for that purpose to either the Appointee or a Licensee;

“Principles of Good Governance and Code of Best Practice” means the document of that title incorporated into the Listing Rules of the Financial Services Authority, or any document published to be the successor of the document, which has similar purpose and content;

“Prior Year” means the year commencing 1st April immediately prior to the relevant Charging Year;

“Relevant Index” means –

- (a) for any period before 1 April 2020, the Retail Prices Index,

- (b) for any period including, or after, 1 April 2020, the Consumer Prices Index (H),
- (c) in any year where the Statistics Board has not published the index to be applied by 31 December, such index for such month as Ofwat may not later than the following 7 January determine to be appropriate in all the circumstances after such consultation with the Appointee as is reasonably practicable;

"Reference Notice" means a notice given to Ofwat under paragraph 11 or 14 of Condition B;

"Regulated Activities" means the functions of a water undertaker or a sewerage undertaker, as the case may be, and, for the avoidance of doubt, references to the functions of a water undertaker shall include references to the duties imposed on a water undertaker, and the functions of a sewerage undertaker shall include references to the duties imposed on a sewerage undertaker;

"Related Company" means any body corporate in which the Appointee or any Group Company has a participating interest within the meaning of paragraph 11 of Schedule 10 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) or which has such a participating interest in the Appointee or any Group Company;

"Relevant Premises" means any office premises occupied by the Appointee in relation to the Appointed Business and to which members of the public have access;

"Retail Prices Index" means the Retail Prices Index published by the Office for National Statistics each month in respect of all items or, if the said index for the month of November is not published by 31st December next following, such index for such month as Ofwat may not later than 7th January next following determine to be appropriate in the circumstances, after such

consultation with the Appointee as is reasonably practicable, and in such a case references to the Retail Prices Index shall be construed for the purpose of all subsequent calculations for which the value of the Retail Prices Index for that year is relevant as references to that other index;

"Review Charging Year" means the first of the Charging Years in respect of which any Periodic Review is carried out;

"Review Notice Date" means the first day of January which is fifteen months before the first day of the Review Charging Year;

"Ring-fencing Certificate" means a certificate, submitted to Ofwat by the Appointee, which states that, in the opinion of the Board of the Appointee:

- (a) the Appointee will have available to it sufficient financial resources and facilities to enable it to carry on the Regulated Activities, for at least the twelve month period following the date on which the certificate is submitted;
- (b) the Appointee will have available to it sufficient management resources and systems of planning and internal control to enable it to carry on the Regulated Activities, for at least the twelve month period following the date on which the certificate is submitted; and
- (c) all contracts entered into between the Appointee and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to the Appointee, to ensure that it is able to carry on the Regulated Activities;

"Sewerage Infrastructure Charge" means such a charge as is described in section 146(2)(b);

"Supply Pipe" means that part of the service pipe which is not owned by the Appointee;

“subsidiary” has the meaning set out in section 1159 of the Companies Act 2006;²

“trade effluent” has the same meaning as in section 141 of the Water Industry Act 1991;

“Ultimate Controller” means any person which, whether alone or jointly and whether directly or indirectly is, in the reasonable opinion of Ofwat, in a position to control or in a position to materially influence the policy or affairs of the Appointee or any Holding Company of the Appointee;

“United Kingdom Holding Company” means a Holding Company which is registered in the United Kingdom and which is not a subsidiary of any company registered in the United Kingdom;

“Water Infrastructure Charge” means a charge as is described in section 146(2)(a);

and

“Wholesale-Retail Code” means the code issued by Ofwat pursuant to sections 66DA and 117F of the Water Industry Act 1991.

4. Any notification required or permitted to be given under any Condition shall be given in writing and cognate expressions shall be construed accordingly.
5. The Appointee may refer to Ofwat for determination by it (having considered any representations by the Appointee and any other water undertaker or

2 s.1159 of the Companies Act 2006:

Meaning of “subsidiary”

- (1) A company is a “subsidiary” of another company, its “holding company”, if that other company—
 - (a) holds a majority of the voting rights in it, or
 - (b) is a member of it and has the right to appoint or remove a majority of its board of directors, or
 - (c) is a member of it and controls alone, pursuant to an agreement with other members, a majority of the voting rights in it, or if it is a subsidiary of a company that is itself a subsidiary of that other company.
- (2) A company is a “wholly-owned subsidiary” of another company if it has no members except that other and that other's wholly-owned subsidiaries or persons acting on behalf of that other or its wholly-owned subsidiaries.
- (3) Schedule 6 contains provisions explaining expressions used in this section and otherwise supplementing this section.(4) In this section and that Schedule “company” includes any body corporate.

sewerage undertaker) any question arising as to whether any area, island, premises or installation is, or, as the case may be, are, comprised within the Area.

6. The Appointee will use all reasonable endeavours to work with Ofwat, subject to the Appointee's legal duties and obligations, in a constructive and cooperative manner to improve these Conditions of Appointment.

Condition B: Charges

Part I. Explanatory Provisions

1 Introduction

The purposes of this Condition are set out in the following sub-paragraphs.

- 1.1 To empower the Water Services Regulation Authority to make determinations setting controls in respect of the charges to be levied by and/or revenue allowed to the Appointee or to any part of the Appointee's business (having regard to its costs) for the supply of water and sewerage services.
- 1.2 To provide for reviews of the Appointed Business to be carried out by the Water Services Regulation Authority, so that the Water Services Regulation Authority can determine whether one or more Price Controls should be changed. This is dealt with in Part III under the heading "Periodic Reviews".
- 1.3 To enable the Appointee:
 - (1) ...
 - (2) to refer to the Water Services Regulation Authority for determination from time to time the question of changing the Price Control or Price Controls to allow for Notified Items and Relevant Changes of Circumstance;
 - (3) to refer to the Water Services Regulation Authority for determination at any time the question of changing the Price Control or Price Controls where circumstances have a substantial adverse effect on the Appointed Business; and
 - (4) where notice to terminate the Appointment has been given, to refer to

the Water Services Regulation Authority for determination the question what the Price Control or Price Controls should be in the future, on the assumption that the relevant Appointment were to continue in force, for the purpose of facilitating consideration of the terms on which a new appointee could accept transfers of property, rights and liabilities from the Appointee, as provided in section 9(4) of the Water Industry Act 1991.

These matters are dealt with in Part IV under the heading "Interim Determinations".

- 1.4 To provide for the Water Services Regulation Authority to initiate changes to the Price Control or Price Controls to allow for Notified Items and Relevant Changes of Circumstance. This is also dealt with in Part IV.
 - 1.5 To enable the Appointee to require the Water Services Regulation Authority to refer to the Competition and Markets Authority matters arising out of determinations by the Water Services Regulation Authority referred to in sub-paragraphs 1.2 and 1.4 and references referred to in sub-paragraph 1.3. These matters are dealt with in Part V under the heading "References to the Competition and Markets Authority".
 - 1.6 To require the Appointee to give Information to the Water Services Regulation Authority to enable it to make determinations under this Condition. This is dealt with in Part VI under the heading "Provision of Information to the Water Services Regulation Authority".
- 1A. **Application and transitional provisions**
- 1A.1 Paragraphs 3 to 17 of this Condition shall not apply until the Water Services Regulation Authority has given notice to the Appointee of their application and the period of notice has expired.
 - 1A.2 Before the Water Services Regulation Authority gives notice under sub-

paragraph 1A.1, it may determine the question of what the Adjustment Factor should be for such number of consecutive Charging Years (not exceeding five) as the Water Services Regulation Authority considers appropriate, starting with the Charging Year starting on 1st April immediately after it has given notice under sub-paragraph 1A.1. The Water Services Regulation Authority shall give notice to the Appointee of its determination not later than the thirty-first day of December immediately preceding the first of the Charging Years in respect of which it is setting Price Controls.

1A.3 Until the Water Services Regulation Authority has given notice under sub-paragraph 1A.1, the Appointee shall not make or fix the amount of any Relevant Charge for the supply of water or any provision of sewerage services made, or reception, treatment and disposal of trade effluent which takes place, at an amount that is greater than the amount of such Relevant Charge fixed by the Incumbent for the same Charging Year that would, but for the Appointment or any subsequent variation, have applied to any particular part of the Area.

1A.4 In sub-paragraph 1A.3 above "Relevant Charge" means a charge fixed under any such charges scheme as is referred to in section 143.

2 Defined terms which apply for the purposes of all Parts of this Condition

In this Condition:

references to "**the Appointed Business**" shall be construed as if the Appointed Business included the management and holding by the Appointee of any protected land;

"**End-User**" means a person who, otherwise than as a person holding an appointment or a licence under the Water Industry Act 1991 or under other legislation in respect of water or sewerage services enacted from time to time, is a customer of the Appointee or a user of the goods or services concerned;

"Excluded Charges" unless and until otherwise agreed between the Water Services Regulation Authority and the Appointee, are

- (1) amounts payable in respect of an unmeasured supply of water by means of stand-pipes or water tanks and in respect of the erection or maintenance of stand-pipes or water tanks;
- (2) charges for a supply of water provided by the Appointee under section 59 of the Water Industry Act 1991;
- (3) charges for the reception and disposal by the Appointee, or other person specified by the Appointee of matter delivered to the Appointee or such other person by a collection authority in pursuance of section 14(9) of the Control of Pollution Act 1974;
- (4) charges for unmeasured supplies of water to cattle troughs;
- (5) charges for unmeasured building water supplies;
- (6) amounts payable in respect of an unmeasured supply of water by means of bowsers or water tankers;
- (7) charges for unmeasured supplies of water to farm taps and other agricultural water points; and
- (7A) charges in any Charging Year for supplies of water (or for the provision of sewerage services or for the reception, treatment and disposal of trade effluent) to premises where the premises were supplied in the relevant Prior Year with not less than such quantity of water as is specified from time to time under section 7(5)(a) of the Water Industry Act 1991,

AND, for the avoidance of doubt, but without prejudice to the meaning of Standard Charges in respect of a water supply or sewerage services and the reception, treatment and disposal of trade effluent, shall also include

- (8) charges payable for any such connection as is described in section 146(2) of the Water Industry Act 1991;
- (9) charges for a supply of water in bulk to another water undertaker; and
- (10) amounts payable under any such agreement as is described in section 20(1)(b) of the Water Resources Act 1991;

"Interim Determination" means a determination by the Water Services Regulation Authority of the relevant questions pursuant to a reference by the Appointee under paragraph 14 or pursuant to paragraph 15 or, as the case may be, a determination by the Competition and Markets Authority of the relevant questions or of a disputed determination subject to a reference to it pursuant to paragraph 16 that relates to a reference by the Appointee under paragraph 14 or a determination pursuant to paragraph 15;

"Price Control" means a control set by the Water Services Regulation Authority, pursuant to a Periodic Review or an Interim Determination, or deemed to be so set by virtue of sub-paragraph 16.2, in respect of the charges to be levied by and/or revenue allowed to an Appointed Business or any part thereof (having regard to its costs) and such matters ancillary to the said control, by way of a determination pursuant to this Condition. The appropriate nature and form of each control for Retail Activities will depend on the circumstances of each case;

"Retail Activities" means such activities that constitute the provision of goods or services by the Appointee directly to one or more End-Users, and such activities ancillary to such provision including ownership of meters, and that are so designated from time to time (which designation, for the avoidance of doubt, shall be reversible) by the Water Services Regulation Authority or by such person or persons as may be nominated by the Water Services Regulation Authority to do so, but for the avoidance of doubt shall not include the following:

- (a) water resources, raw water distribution, water treatment or treated water distribution (as each of those is defined in the Water Services Regulation Authority's Regulatory Accounting Guideline 4.04);
- (b) sewage collection, sewage treatment, sludge treatment or sludge disposal (as each of those is defined in the Water Services Regulation Authority's Regulatory Accounting Guideline 4.04); or
- (c) in so far as the ownership of meters is so designated, the ownership of meters that were installed at, or in order to measure supplies to, End-Users' premises on or before the date of such designation;

"Standard Charges" means

- (1) charges fixed under any such charges scheme as is referred to in section 143 of the Water Industry Act 1991;
- (2) charges fixed by the Appointee in respect of its Wholesale Activities;
- (3) charges payable under any such agreement as is referred to in section 142 of the Water Industry Act 1991;
- (4) charges determined by agreement in respect of a supply of water provided by the Appointee for non-domestic purposes where all the charges so determined in respect of that supply are in accordance with standard charges published or fixed by the Appointee;
- (5) charges payable where a discharge is made in pursuance of a consent given by the Appointee for the purposes of Chapter III of Part IV of the Water Industry Act 1991 under or for which all the charges payable are in accordance with standard charges published or fixed by the Appointee;

provided that no part of this definition shall apply to any charge which is for the time being an Excluded Charge by virtue of (7A) of the definition of

Excluded Charges.

In this definition references to standard charges published or fixed by the Appointee or the Water Authority are to such charges, whether published or fixed under a charges scheme or otherwise;

"**Termination Notice**" means a notice given in accordance with Condition O;

an "**unmeasured supply**" is one where none of the charges for that supply is based on measured quantities of volume;

"**Wholesale Activities**" means all activities undertaken as part of the Appointed Business apart from Retail Activities;

3 [Not used]

4 [Not used]

5 [Not used]

6 [Not used]

7 [Not used]

Part III. Periodic Reviews

8 [Not used]

9 Periodic Reviews of the Appointed Business

9.1 The Appointee shall levy charges in a way best calculated to comply with the Price Control or Price Controls determined by the Water Services Regulation Authority pursuant to sub-paragraph 9.3 or sub-paragraph 9.4.

9.2 The Appointee shall furnish to the Water Services Regulation Authority such Information as the Water Services Regulation Authority may reasonably

require to enable it to carry out a Periodic Review pursuant to sub-paragraph 9.3 or sub-paragraph 9.4.

9.3 In respect of the Appointed Business's Retail Activities, the Water Services Regulation Authority shall determine (having regard to all the circumstances which are relevant in the light of the principles which apply by virtue of Part I of the Water Industry Act 1991 in relation to the Water Services Regulation Authority's determinations, including, without limitation, any change in circumstance which has occurred since the last Periodic Review or which is to occur):

- (1) what is the appropriate nature, form and level of one or more Price Controls in respect of the relevant part or parts of the Appointed Business;
- (2) how the Appointee shall, in respect of each such Price Control applicable to it, demonstrate the compliance referred to in sub-paragraph 9.1; and
- (3) for how long each such Price Control in respect of the Appointee shall last (being a period of consecutive Charging Years).

9.4 In respect of the Appointed Business's Wholesale Activities except those activities for which there are Excluded Charges, the Water Services Regulation Authority shall determine (having regard to all the circumstances which are relevant in the light of the principles which apply by virtue of Part I of the Water Industry Act 1991 in relation to the Water Services Regulation Authority's determinations including, without limitation, any change in circumstance which has occurred since the last Periodic Review or which is to occur):

- (1) one single Price Control in respect of the Appointed Business's water services and one single Price Control in respect of the Appointed Business's sewerage services or alternatively (at the discretion of the

Water Services Regulation Authority), one single Price Control, each such Price Control consisting of, in each Charging Year:

- (a) the percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Retail Prices Index between that published for the month of November in the Prior Year and that published for the immediately preceding November; and
- (b) a number, "**K**", which may be a positive number or a negative number or zero

which together shall be expressed as a percentage, and which shall limit the change in the charges to be levied by and/or revenue allowed to the Appointed Business in each Charging Year in respect of the Wholesale Activities concerned; and

- (2) how the Appointee shall, in respect of the Price Control demonstrate the compliance referred to in sub-paragraph 9.1.

9.5 The Price Control determined under sub-paragraph 9.3 pursuant to a Periodic Review shall be set for a period which shall be a number of Charging Years to be determined by the Water Services Regulation Authority, in conjunction with its determination pursuant to sub-paragraph 9.3, in each case starting on 1 April, with the first such period determined by the Water Services Regulation Authority when it gives notice to the Appointee under paragraph 1A.1 of this Condition, provided that no such period shall exceed five consecutive Charging Years.

9.6 The Price Control determined under sub-paragraph 9.4 pursuant to a Periodic Review shall be set:

- (1) for five consecutive Charging Years starting on a date determined by

the Water Services Regulation Authority when it gives notice to the Appointee under paragraph 1A.1 of this Condition; and

- (2) thereafter, for each period of five consecutive Charging Years starting on the fifth anniversary of the first day of the period in respect of which the immediately preceding Periodic Review was carried out.

9.7 If, at any time after the first Price Control has been determined by the Water Services Regulation Authority under paragraphs 9.3 and 9.4, the Water Services Regulation Authority is unable to conduct a further Periodic Review by 31 December in the Charging Year before the Review Charging Year, then:

- (1) in respect of Retail Activities, the previous determination pursuant to sub-paragraph 9.3 – in so far as that determination includes the matters decided under sub-paragraphs 9.3(1) and (2) – in respect of the final Charging Year of the period that was set in that previous determination pursuant to sub-paragraph 9.3(3), shall continue to apply for consecutive Charging Years until the next relevant determination under sub-paragraph 9.3 (or equivalent determination by the Competition and Markets Authority pursuant to paragraph 16) or the next relevant Interim Determination becomes effective;
- (2) in respect of Wholesale Activities, the previous determination pursuant to sub-paragraph 9.4(1) in respect of the final Charging Year of the period that was set in that previous determination shall continue to apply for consecutive Charging Years until the next relevant determination under sub-paragraph 9.4(1) (or equivalent determination by the Competition and Markets Authority pursuant to paragraph 16) or the next relevant Interim Determination becomes effective; and
- (3) the Water Services Regulation Authority shall conduct a Periodic Review as soon as reasonably practicable thereafter, provided that the

Appointee has not given a relevant notice under paragraph 16.

9.8 Where there is a material change to the basis of compiling the Retail Prices Index, this Condition, in so far as it relates to that part of the calculation of any Price Control to which the Retail Prices Index is relevant, shall be modified in such a manner as the Water Services Regulation Authority, after prior consultation with the Appointee, may determine to be appropriate to take account of such change.

9.9 The Water Services Regulation Authority (or such person or persons as may be nominated by the Water Services Regulation Authority to do so) may at its discretion from time to time (whether pursuant to a Periodic Review in conjunction with a determination pursuant to sub-paragraph 9.3 or sub-paragraph 9.4, or at other times) designate any activity that constitutes the provision of goods or services by the Appointee directly to one or more End-Users or that are ancillary to such provision

(i) as a Retail Activity where previously and until that designation it had been designated as a Wholesale Activity; and

(ii) as a Wholesale Activity where previously and until that designation it had been designated as a Retail Activity,

provided that, for the avoidance of doubt, none of the following shall be designated as a Retail Activity:

(a) sewage collection, sewage treatment and disposal, sludge treatment or sludge disposal (as each of those is defined in the Regulatory Accounting Guideline 4 (for the table definitions in the annual performance report) published by the Water Services Regulation Authority and revised from time to time); or

(b) water resources, raw water distribution, water treatment or treated water distribution, sewage collection, sewage treatment, sludge treatment or

sludge disposal, (as each of those is defined in the Water Services Regulation Authority’s Regulatory Accounting Guideline 4.04); or

- (c) in so far as the ownership of meters is so designated, the ownership of meters that were installed at, or in order to measure supplies to, End-Users’ premises on or before the date of such designation.

9.10 Where a designation is made under sub-paragraph 9.9 pursuant to a Periodic Review in conjunction with a determination pursuant to sub-paragraph 9.3 or sub-paragraph 9.4, that designation shall be treated for the purposes of sub-paragraph 16.1 as part of the determination.

9.11 Where a designation is made under sub-paragraph 9.9 otherwise than pursuant to a Periodic Review in conjunction with a determination pursuant to sub-paragraph 9.3 or sub-paragraph 9.4, that designation shall be treated for the purposes of sub-paragraph 16.1 as part of the next following determination in respect of the activity concerned.

10 Wholesale Charges Publication

10.1 The Appointee may from time to time be required to publish charges fixed for the purposes of demonstrating compliance with the Price Controls determined in respect of its Wholesale Activities. Such requirement shall be made by way of a notice from the Water Services Regulation Authority to the Appointee specifying the information to be provided, the method of publication, the time by which publication is required (being a reasonable period of time) and the period for which the published charges are to be effective. The Appointee shall comply with the said requirement by notice and adhere to the charges accordingly published.

11 Periodic Reviews relating to the Appointed Business where a Termination Notice has been given

11.1 Where a Termination Notice has been given by the Secretary of State to the Appointee, the Appointee may refer to the Water Services Regulation Authority for determination by it the question whether, on the assumption that such a Termination Notice had not been given, (but subject thereto, having regard to all the circumstances which are relevant in the light of the principles which apply by virtue of Part I of the Water Industry Act 1991 in relation to the Water Services Regulation Authority's determination or determinations, including, without limitation, any change in circumstance which has occurred since the most recent one or more Periodic Reviews or which is to occur), the Price Controls, and in the case of Retail Activities, the nature, form and level of one or more Price Controls should be changed (and if so what change should be made to the relevant Price Control or Price Controls and, in the case of Retail Activities, to the nature, form and level of the relevant Price Control or Price Controls) for one or more periods (as decided by the Water Services Regulation Authority) of consecutive Charging Years starting with the Charging Year starting 1 April last before the Termination Notice is to expire.

11.2 A reference to the Water Services Regulation Authority under this paragraph 11 shall be made by notice given to the Water Services Regulation Authority not earlier than 1 July and not later than 14 July in the Charging Year next but one before that commencing on the said 1 April.

12 **[Not used]**

Part IV. Interim Determinations

13 Matters of interpretation and construction which apply for the purposes of this Part IV

13.1 In this Part of this Condition:

"the Appropriate Discount Rate" means such rate of return as, at the time at which the Appropriate Discount Rate falls to be applied from time to time

under this Condition, investors and creditors would reasonably expect of a properly managed company holding the Appointments whose sole business consists of being a water undertaker and a sewerage undertaker and, without excluding other considerations which may also be relevant, having its equity share capital listed on The London Stock Exchange, and the same Appropriate Discount Rate shall be applied for all purposes in determining questions the subject of the same reference (including questions determined by the Water Services Regulation Authority under paragraph 15 when it determines questions referred to it by the Appointee under paragraph 14);

"**equity share capital**" has the same meaning as in the Companies Act 2006;

"**making a Relevant Determination**" means, as regards each Price Control to which an Interim Determination relates or is to relate, making one or more determinations pursuant to sub-paragraph 9.3 or sub-paragraph 9.4, pursuant to a Periodic Review, as to that Price Control, or making any subsequent Interim Determination as to whether the level of that Price Control should be changed (and if so, what change should be made to the level of the Price Control or Price Controls), and "**Relevant Determination**" shall be construed accordingly;

"**Net Present Value**" means the net present value calculated as at 30 September in the year in which the relevant Reference Notice is given or, where in any year no Reference Notice is given under paragraph 14 but the Water Services Regulation Authority gives a notice to the Appointee under paragraph 15, as at 30 September in the year in which the Water Services Regulation Authority gives that notice, by discounting subsequent cash flows and inflating earlier cash flows at the Appropriate Discount Rate, assuming all cash flows in any Charging Year occur on 30 September in that Charging Year;

a "**Notified Item**" is any item notified by the Water Services Regulation

Authority to the Appointee as not having been allowed for (either in full or at all) in making a Relevant Determination; and for the purpose of this definition:

- (a) where any such item was not allowed for in full then it shall only be a Notified Item to the extent that it was not allowed for; and
- (b) where, in determining whether the Relevant Determination should be changed (and if so what change should be made to it), the Water Services Regulation Authority, or, as the case may be, the Competition and Markets Authority, allows for any such item as was previously so notified by the Water Services Regulation Authority then references in this Condition to Notified Items and Relevant Items shall be taken, for the purposes of any subsequent Interim Determination, to exclude such item to the extent that the Water Services Regulation Authority or, as the case may be, the Competition and Markets Authority, allowed for it as aforesaid;

a "**Relevant Change of Circumstance**" is any of the following:

- (1)
 - (a) the application to the Appointee of any legal requirement; and
 - (b) any change to any legal requirement which applies to the Appointee (including any legal requirement ceasing to apply, being withdrawn or not being renewed);
- (2) [Not used]
- (3) where:
 - (i) in making a Relevant Determination, an amount has been allowed for on account of steps taken or to be taken for the purpose of securing or facilitating compliance with a legal requirement or achieving a service standard adopted or to be adopted by the Appointee; and

(ii) in any such case:

- (A) the Appointee has not taken (by the date by which it was assumed for the purposes of assessing the amount allowed for as aforesaid it would take those steps) any or all of those steps which, for the purpose of assessing the amount allowed for as aforesaid, it was assumed it would take; and
- (B) as a result, the amount allowed for as aforesaid is substantially greater than the costs (if any) actually incurred by the Appointee for the relevant purpose; and
- (C) that purpose has not been otherwise achieved;

a "**Relevant Item**" is any of the following:

- (1) a Relevant Change of Circumstance;
- (2) a Notified Item

and references to a Relevant Item are to a Relevant Change of Circumstance, or a Notified Item as the context may require.

13.2 In the definition of a "Relevant Change of Circumstance" and for the purpose of that definition:

- (1) a "**legal requirement**" is any of the following:
 - (a) any enactment or subordinate legislation to the extent that it applies to the Appointee in its capacity as a water undertaker or a sewerage undertaker, as the case may be, (and for this purpose, but without prejudice to the generality of the foregoing, "subordinate legislation" includes any order made under section 18 of the Water Industry Act 1991, and any authorisation

granted, approval given, or prohibition imposed, by the Secretary of State under the Water Supply (Water Quality) Regulations 2000);

- (b) any regulation made by the Council or the Commission of the European Union to the extent that it applies to the Appointee in its capacity as a water or sewerage undertaker, or decision taken by the said Commission which is binding on the Appointee in its capacity as a water or sewerage undertaker and to the extent that it is so binding;
- (c) any licence, consent or authorisation given or to be given by the Secretary of State, the Environment Agency or other body of competent jurisdiction to the Appointee for the purpose of carrying on any of the functions of a water or sewerage undertaker;
- (d) any undertaking given by the Appointee to, and accepted by, the Secretary of State or, as the case may be, the Water Services Regulation Authority for the purposes of section 19(1)(b) of the Water Industry Act 1991 ;
- (e) other than any such undertaking as is referred to in (d), any undertaking given by the Appointee to any enforcement authority, and accepted by that enforcement authority, to take all such steps:
 - (i) as are specified by that enforcement authority to be necessary or appropriate for the Appointee to take for the purpose of securing or facilitating compliance with any legal requirement in relation to which that enforcement authority is the enforcement authority; or
 - (ii) the taking of which is specified by that enforcement

authority to be a condition or requirement of granting or renewing any such licence, consent or authorisation as is referred to in (c) or agreeing not to withdraw the same;

- (f) the Conditions of these Appointments; and
- (g) any interpretation of law, or finding, contained in any judgment given by a court or tribunal of competent jurisdiction in respect of which the period for making an appeal has expired which requires any legal requirement falling within (a) to (f) above to have effect in a way:
 - (i) different to that in which it previously had effect; or
 - (ii) different to that in which it was taken to have effect:
 - (A) for the purpose of making a Relevant Determination; or, as the case may be,
 - (B) in determining whether a Relevant Determination should be changed

but so that nothing in sub-paragraphs (a) to (g) above shall apply so as to include:

- (i) any such legal requirement as is referred to in section 41 of the Environment Act 1995 or any such legal requirement that is equivalent to those referred to in section 113 of the Water Act 1989 (as originally enacted), or
- (ii) those sections to the extent in either case that they require the Appointee to pay fees or charges to the relevant enforcement authority; and

(2) "**enforcement authority**" means any person or body having

jurisdiction to enforce or to take action under or in respect of the relevant legal requirement.

13.3 In paragraph 14 and in the definition of a "Relevant Change of Circumstance":

- (1) references to costs include references to expenditure and loss of revenue and references to costs being incurred include references to expenditure being made and loss of revenue being suffered;
- (2) references to receipts include references to receipts, cash or other assets of any sort, whether of a capital or revenue nature and including receipts of grants, contributions, gifts and loans; and
- (3) without prejudice to sub-paragraph (1) above, "**Operating Expenditure**" in sub-paragraph 14.2(6) includes third party services as third party services is defined in the Regulatory Accounting Guideline 3 (for the format and disclosures for the annual performance report) published by the Water Services Regulation Authority and revised from time to time.

13.4 (1) In paragraphs 14.2(8) and 14.2(9) "**Base Cash Flows at Current Prices**" means the amount of any Base Cash Flow which has been adjusted to a price level at which the Base Cash Flow has occurred, or is expected to occur.

- (2) In paragraph 14.2(8), "**Current Value**" means the amount of any Base Cash Flow which has been adjusted to take account of the cumulative percentage change in the Retail Prices Index since the year in which the Base Cash Flow occurred.

14 References to the Water Services Regulation Authority relating to Notified Items and Relevant Changes of Circumstance and circumstances having a substantial effect on the Appointed Business

- 14.1 The Appointee may from time to time refer to the Water Services Regulation Authority for determination by it (having considered the proposals of the Appointee) the questions set out in sub-paragraph 14.2 or, as the case may be, sub-paragraph 14.3. Such reference shall be made by notice given to the Water Services Regulation Authority, which, in the case of the questions set out in sub-paragraph 14.2, shall be given in accordance with sub-paragraph 14.4. For the purposes of sub-paragraph 14.2 a single reference may be made in respect of any number of Notified Items and Relevant Changes of Circumstance and sub-paragraph 14.2 shall be construed accordingly.
- 14.2 In the case of a Notified Item or where there has been or is to be a Relevant Change of Circumstance all of the following:
- (1) what are, or are likely to be, the costs, receipts and savings reasonably attributable to the Relevant Item;
 - (2) to what extent:
 - (a) are the costs determined under (1) reasonably recoverable through charges for services provided, functions carried out by, and other activities of, the Appointee in its capacity as a water undertaker or sewerage undertaker which are not Standard Charges for water supply, sewerage services and the reception, treatment and disposal of trade effluent (not being Excluded Charges);
 - (b) in the case of receipts and savings, is the Relevant Item relevant to services provided, functions carried out by, and other activities of, the Appointee as a water undertaker or sewerage undertaker which are not water supply, sewerage services and the reception, treatment and disposal of trade effluent in respect of which the Appointee makes Standard Charges (not being Excluded Charges)

and where it is determined that such costs are reasonably recoverable as aforesaid or, as the case may be, that the Relevant Item is relevant as aforesaid, either in full or to an extent, then references hereafter to costs, receipts and savings reasonably attributable to a Relevant Item are to those costs, receipts and savings except to that extent;

- (3) both of the following:
- (a) what costs reasonably attributable to, or connected with, the Relevant Item as determined under (1) and what timing of incurring of such costs are appropriate and reasonable for the Appointee in all the circumstances to incur and programme, or, as the case may be, to have incurred and programmed, by reason of the Relevant Item; and
 - (b) what receipts and savings reasonably attributable to, or connected with, the Relevant Item as determined under (1) and what timing of such receipts and savings is appropriate and reasonable for the Appointee in all the circumstances to achieve and programme or, as the case may be, to have achieved and programmed, by reason of the Relevant Item

and for the purpose of determining the separate amounts under (a) and (b), but without prejudice to the generality of the foregoing:

- (i) no account shall be taken of:
 - (A) any trivial amounts;
 - (B) any costs, to the extent that they would have been, or would be, avoided by prudent management action taken since the Effective Date (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the

circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time);

- (C) any savings achieved by management action taken since the Effective Date over and above those which would have been achieved by prudent management action (and for this purpose what constitutes "prudent management action" shall be assessed by reference to the circumstances at the relevant time); or
 - (D) any amounts attributable to matters allowed for in making a Relevant Determination, except to the extent that such amounts otherwise fall to be taken into account as amounts reasonably attributable to, or connected with, the Relevant Item under this sub-paragraph (3) and sub-paragraph (1) by virtue of the definition of a Notified Item and a Relevant Change of Circumstance; and
- (ii) in the case of a Relevant Change of Circumstance falling within sub-paragraph (1) of the definition, regard shall be had to whether either:
- (a) the Secretary of State has notified the Water Services Regulation Authority of any change of policy, concerning any environmental or water-quality standard, which has been made since the last Relevant Determination or
 - (b) the Appointee has itself given notice to the Water Services Regulation Authority of the application to it of, or any change to, any legal requirement, before referring

that legal requirement to the Water Services Regulation Authority under sub-paragraph 14.1;

- (4) having determined under (3) the separate amounts of costs and of receipts and savings in respect of each Relevant Item, what are the annual cash flows thereof (costs being netted off against the amount of receipts and savings for this purpose) over each Charging Year included in the timing determined under (3) (those annual cash flows being hereinafter referred to as "**the Base Cash Flows**");
- (5) what is the annual aggregate of:
 - (a) one half of the Base Cash Flows in respect of Relevant Changes of Circumstance falling within sub-paragraph (2) of that definition; and
 - (b) the Base Cash Flows in respect of all other Relevant Changes of Circumstance and Notified Items

in both cases the subject of the notice or notices under sub-paragraph 14.4 or paragraph 15;

- (6)
 - (a) where any part of an annual aggregate derived under sub-paragraph (5) consists of items to which (b) below does not apply, what is the Net Present Value of that part of the annual aggregate, calculated up to the start of the first of the Charging Years for which the next Periodic Review falls to be carried out;
 - (b) where any part of the annual aggregate derived under sub-paragraph (5) consists of revenue and/or Operating Expenditure, what is the Net Present Value of that part of the annual aggregate, calculated over 15 years; and
 - (c) what is the aggregate of the Net Present Values calculated under (a) and (b) ("**the Materiality Amount**");

- (7) is the Materiality Amount equal to or does it exceed ten per cent of the turnover attributable to the Appointed Business in the latest financial year for which accounting statements have been prepared and delivered to the Water Services Regulation Authority under Condition F, as shown by those accounting statements, and for this purpose where the Materiality Amount is a negative figure it shall be treated as though it were a positive figure;
- (8) if so, for each year ("**the relevant year**") until the first of the Charging Years for which the next Periodic Review falls to be carried out (having regard to any Review Notice or Reference Notice which has been given at the time when the reference is made),
- (a) what are the following amounts:
- (i) all Base Cash Flows at Current Prices attributable to the creation or acquisition of depreciable assets ("**Allowable Capital Expenditure**");
 - (ii) all the Base Cash Flows at Outturn Prices attributable to the creation, acquisition or disposal of non-depreciable assets ("**Allowable Infrastructure Asset Expenditure**");
 - (iii) all other Base Cash Flows at Current Prices ("**Other Allowable Expenditure**");
 - (iv) the Current Value of the sum of all Allowable Capital Expenditure occurring up to and including the relevant year, divided by the weighted average expected life of the assets attributable to that Allowable Capital Expenditure at the time those assets were or are expected to be created or acquired ("**Allowable Depreciation**");
 - (v) the Current Value of the sum of all Allowable Capital

Expenditure occurring up to and including the relevant year less the Current Value of the sum of all Allowable Depreciation occurring up to and including the relevant year ("**Allowable Net Asset Value**");

(vi) the Current Value of the sum of all Allowable Infrastructure Asset Expenditure occurring up to and including the relevant year ("**Allowable Infrastructure Asset Value**");

(vii) the Appropriate Discount Rate, adjusted so as to exclude any allowance for changes in the Retail Prices Index, multiplied by the sum of:

A. the Allowable Net Asset Value for the relevant year; and

B. the Allowable Infrastructure Asset Value for the relevant year;

("the **Allowable Return**"); and

(b) what is the sum of:

(i) Other Allowable Expenditure;

(ii) Allowable Depreciation; and

(iii) the Allowable Return;

("the **Annual Allowable Amount**");

(9) what changes to the level of Price Control or Price Controls over the period until the first of the Charging Years for which the next Periodic Review falls to be carried out (having regard to any Review Notice or Reference Notice which has been given at the time when the reference

is made) (the "**Relevant Period**") is most likely to allow, or, as the case may be, require, the Appointee to make such charges over the Relevant Period ("**Adjusted Charges**"), in such a manner as to secure that the increase, or, as the case may be, decrease, in revenue attributable to the making of Adjusted Charges would, in each year of the Relevant Period, be equal to

(i) the Annual Allowable Amount for that year

plus

(ii) where Base Cash Flows at Current Prices have occurred prior to the first year of the Relevant Period, the amount which, calculated as a constant annual amount over the Relevant Period, would result in the sum of the Net Present Values of these amounts equalling the sum of the Net Present Values of the Annual Allowable Amounts for each of the years prior to the Relevant Period.

14.3 All of the following:

(1) whether any circumstance (other than a Relevant Change of Circumstance) has occurred which has or will have:

(a) a substantial adverse effect on the Appointed Business or on its assets, liabilities, financial position, or profits or losses, not being one which would have been avoided by prudent management action taken since the transfer date; or

(b) a substantial favourable effect on the Appointed Business, or on its assets, liabilities, financial position, or profits or losses, being one which is fortuitous and not attributable to prudent management action; and

(2) if so, what change should be made to the level of Price Control or Price

Controls.

For this purpose:

- (i) what constitutes "prudent management action" shall be assessed by reference to the circumstances which were known or which ought reasonably to have been known to the Appointee at the relevant time;
- (ii) an effect shall not be regarded as a substantial adverse effect or a substantial favourable effect in any case unless, if the questions set out in sub-paragraph 14.2 were to be asked in relation to the circumstance giving rise to it, the answer to that in 14.2(7) (taking the reference in it to ten per cent as a reference to twenty per cent) would be in the affirmative.

14.4 A Reference Notice given to the Water Services Regulation Authority in respect of sub-paragraph 14.2 shall contain or be accompanied by reasonable details of the Relevant Item in respect of which the Reference Notice is given and, unless the Water Services Regulation Authority otherwise consents, shall be given not later than:

- (1) the fifteenth day of September immediately preceding the first of the Charging Years in respect of which the Appointee wishes the change to the level of Price Control or Price Controls to take effect; or
- (2) where the Water Services Regulation Authority has given a notice to the Appointee under sub-paragraph 15.1 in respect of the same Charging Year, within fourteen days from the receipt by the Appointee of that notice or by no later than the fifteenth day of September, whichever is the later.

15 Changes to the level of a Price Control or Price Controls initiated by the Water Services Regulation Authority relating to Notified Items and Relevant Changes of Circumstance and circumstances within sub-paragraph 14.3(1)(b)

15.1 In the case of a Notified Item or where any Relevant Change of Circumstance has occurred or is to occur, the Water Services Regulation Authority may, having given notice to the Appointee specifying the Notified Item or, as the case may be, the Relevant Change of Circumstance, of its intention so to do not later than:

- (1) the fifteenth day of September immediately preceding the first of the Charging Years in respect of which it proposes the change to the level of a Price Control or Price Controls to take effect; or
- (2) where the Appointee has given a Reference Notice to the Water Services Regulation Authority in respect of sub-paragraph 14.2 and falling within sub-paragraph 14.4(1) in respect of the same Charging Year, within fourteen days from the receipt by the Water Services Regulation Authority of that Reference Notice, or by no later than the fifteenth day of September, whichever is the later,

determine the questions set out in sub-paragraph 14.2 in respect of that Notified Item or, as the case may be, that Relevant Change of Circumstance. A single notice may be given under this sub-paragraph 15.1 in respect of any number of Notified Items and Relevant Changes of Circumstance and sub-paragraph 14.2 shall be construed accordingly.

15.2 Where sub-paragraph 14.4(2) or 15.1(2) applies, the questions set out in (5) to (9) inclusive of sub-paragraph 14.2 shall be determined in respect of all Notified Items and Relevant Changes of Circumstance in respect of which the Appointee and the Water Services Regulation Authority have given notice, taken as a whole.

15.3 In the case of sub-paragraph 14.3, the Water Services Regulation Authority shall give notice to the Appointee of its intention to determine the questions set out in sub-paragraph 14.3(1)(b) and (2).

Part V. References to the Competition and Markets Authority

16 References to the Competition and Markets Authority

16.1 Where:

- (1) pursuant to paragraph 9 or following a reference under paragraph 11, the Water Services Regulation Authority has not given notice to the Appointee of its determination or determinations within one year from the Review Notice Date or, in the case of a reference under paragraph 11, within one year from the date of the relevant Reference Notice;
- (2) following a reference under paragraph 14, the Water Services Regulation Authority has not given notice to the Appointee of its determinations (including any determinations under paragraph 15 which fall to be taken into account in determining the questions the subject of the reference under paragraph 14) within 3 months from the date of the relevant Reference Notice; or
- (3) the Appointee disputes any determination made by the Water Services Regulation Authority under sub-paragraph 9.3 or sub-paragraph 9.4 or any Interim Determination made by the Water Services Regulation Authority under Part IV of this Condition

the Appointee may, by notice given to the Water Services Regulation Authority within:

- (a) 13 months from the Review Notice Date or, in the case of a reference under paragraph 11, from the date of the relevant Reference Notice (in the cases referred to in sub-paragraph (1));
- (b) 4 months from the date of the relevant Reference Notice (in the case referred to in sub-paragraph (2)); or
- (c) 2 months from the date on which the Water Services Regulation Authority gives notice of its determination or determinations to the Appointee (in the case referred to in sub-paragraph (3))

require the Water Services Regulation Authority to refer to the Competition and Markets Authority for determination (such determination to be effective as if made by the Water Services Regulation Authority) by it:

- (i) in any case referred to in sub-paragraph (1) or (2), the relevant question or questions (including, where relevant, the questions in respect of any Notified Item or Relevant Change of Circumstance the subject of a notice under paragraph 15); or
- (ii) in any case referred to in sub-paragraph (3), the disputed determination.

16.2 Where the Appointee requires the Water Services Regulation Authority to make a reference to the Competition and Markets Authority under sub-paragraph 16.1 in the case referred to in section (3) of that sub-paragraph, the Appointee shall levy charges in a way best calculated to comply with the Price Control or Price Controls determined by the Water Services Regulation Authority as if a reference had not been made until the Competition and Markets Authority makes its determination following such reference. The determination made by the Competition and Markets Authority shall then take effect as if it had been made by the Water Services Regulation Authority.

17 **[Not used]**

Part VI. Provision of Information to the Water Services Regulation Authority

18

18.1 The Appointee shall furnish to the Water Services Regulation Authority:

- (1) ...
- (2) not later than 30 September immediately following the date of the Reference Notice (in the case of a reference under paragraph 11);
- (3) at the time when it gives the relevant Reference Notice to the Water

Services Regulation Authority: (in the case of a reference under paragraph 14);

- (4) as soon as reasonably practicable and in any event not later than the expiry of one month from the date of the Water Services Regulation Authority's notice to the Appointee under paragraph 15

such Information as the Appointee reasonably believes is necessary or, as the case may be, as the Water Services Regulation Authority may reasonably require in its said notice, to enable the Water Services Regulation Authority to make its determination. The Appointee shall also furnish to the Water Services Regulation Authority as soon as reasonably practicable such further Information as the Water Services Regulation Authority may from time to time by notice to the Appointee reasonably require to make its determination.

18.2 The Appointee shall also furnish to the Water Services Regulation Authority from time to time when so requested by the Water Services Regulation Authority such Information as the Water Services Regulation Authority may reasonably require to decide whether or not to make determinations under paragraph 15.

18.3 Any Information furnished to the Water Services Regulation Authority under this paragraph 18 or under paragraph 9 shall, if the Water Services Regulation Authority so requires to make its determination, be reported on by a person appointed by the Appointee and approved by the Water Services Regulation Authority (such approval not to be unreasonably withheld) ("**the Reporter**").

18.4 The Appointee shall enter into a written contract of engagement with the Reporter which shall:

- (1) where such a report is required by the Water Services Regulation Authority under sub-paragraph 18.3, require the Reporter to prepare and furnish to the Water Services Regulation Authority, and separately

to the Appointee, a written report addressed jointly to the Water Services Regulation Authority and the Appointee in form and substance such as may be specified by, or consistent with any guidelines specified by, the Water Services Regulation Authority at the time when it requires the report to be furnished, the matters so specified being reasonably appropriate to enable the Water Services Regulation Authority to make its determination (to the extent that the Information in respect of which that report is required to be prepared and furnished is relevant to that determination); and

- (2) include a term that the Reporter will provide such further explanation or clarification of his report as the Water Services Regulation Authority may reasonably require and such further Information in respect of, or verification of, the matters which are the subject of his report as the Water Services Regulation Authority may reasonably require.

The contract of engagement may also include provisions requiring the Reporter, his employees and agents to keep confidential and not to disclose, except to the Water Services Regulation Authority or as required by law, any Information which the Reporter obtains in the course of preparing his report.

18.5 The Appointee shall co-operate fully with the Reporter to enable him to prepare his report, including without limitation, so far as is necessary for that purpose:

- (1) subject to reasonable prior notice to the Appointee, giving to the Reporter access at reasonable hours to any Relevant Plant and to any premises occupied by the Appointee in relation to the Appointed Business; and
- (2) subject to reasonable prior notice to the Appointee, allowing the Reporter at reasonable hours:
 - (a) to inspect and make photocopies of, and take extracts from, any books and records of the Appointee maintained in relation to the Appointed Business;

- (b) to carry out inspections, measurements and tests on or in relation to any such premises or Relevant Plant; and
- (c) to take on to such premises or on to or in to any Relevant Plant such other persons and such equipment as may be necessary for the purposes of preparing and completing his report.

18.6 Nothing in sub-paragraph 18.5 shall require the Appointee:

- (1) to do anything which is outside its reasonable control; or
- (2) to do, or to allow the Reporter to do, anything which would materially disrupt the Appointee's business (unless it is essential that that thing be done to enable the Reporter to prepare his report).

18.7 In sub-paragraphs 18.4 and 18.5:

- (1) references to the Reporter include references to his employees and agents; and
- (2) "**Relevant Plant**" means any plant used by the Appointee for the purpose of carrying out the Regulated Activities including, without limitation, sewers and other pipes and their accessories.

Part VII. Developing the Price Controls

19.1 The Appointee will use all reasonable endeavours to work with the Water Services Regulation Authority, subject to the Appointee's legal duties and obligations, in a constructive and cooperative manner on the development of the Price Controls so that they might be appropriately targeted or operated more effectively in respect of specific activities undertaken as part of the Appointed Business.

Condition C: [Not used]

Condition D: New connections

Introduction

This condition requires that, where the Appointee makes a new connection to one of its water mains, the Appointee must provide specified information to any separate sewerage undertaker for the premises.

Informing sewerage undertakers of connections

D1 Where the Appointee connects premises to a water main which is owned by the Appointee, and the drainage of those premises is into a public sewer owned by a sewerage undertaker which is not the Appointee, the Appointee must as soon as reasonably practicable inform that sewerage undertaker of:

D1.1 the address of the premises;

D1.2 the date of the connection; and

D1.3 to the extent known to the Appointee:

D1.3.1 the name and address of the person who is liable to pay charges for the supply of water to the premises; and

D1.3.2 the name and address of any other person who is liable to pay Infrastructure Charges in respect of the premises.

Condition E: Undue Preference/Discrimination in Charges

Introduction

This condition requires that the Appointee must not set its charges in a way which results in undue preference in favour of, or undue discrimination against, any of its customers or potential customers. This condition also sets out a number of limits to this requirement.

Requirement not to show undue preference or undue discrimination

E1 Subject to paragraphs E2 to E4, in fixing or agreeing any charges for the carrying out of the Regulated Activities (whether Class Charges or Bespoke Charges), the Appointee must not show undue preference to, or exercise undue discrimination against:

E1.1 any class of customers or potential customers of the Appointee;

E1.2 any particular customer in relation to whom the Appointee has fixed or agreed a Bespoke Charge; or

E1.3 any potential customer in relation to whom the Appointee has offered to fix or agree a Bespoke Charge.

Limits to requirement not to show undue preference or exercise undue discrimination

E2 Paragraph E1 shall not apply to the fixing or agreeing of:

E2.1 [not used];

E2.2 any charge which is determined by terms or conditions of an agreement that was:

E2.2.1 entered into by the Water Authority and transferred to the Appointee in accordance with a scheme under Schedule 2 to the Water Act 1989; or

E2.2.2 entered into by the Appointee before the transfer date but continuing in effect after that date;

E2.3 any charge which is determined by:

E2.3.1 where the Appointee is a water undertaker, terms or conditions on which any supply of water in bulk is given by the Appointee to another water undertaker; or

E2.3.2 where the Appointee is a sewerage undertaker, terms or conditions on which any main connection by another sewerage undertaker is permitted into the Appointee's sewerage system;

E2.4 any charge which is determined by terms or conditions determined by Ofwat (or by a person appointed by Ofwat) under section 56 of the Water Industry Act 1991;

E2.5 any charge which is determined by conditions imposed by Ofwat under section 122 of the Water Industry Act 1991; or

E2.6 any charge which is determined by the provisions included in any notice served by the Environment Agency or Natural Resources Wales under section 132 of the Water Industry Act 1991 or anything required

to be done by the Appointee under section 133 of the Water Industry Act 1991 so as to secure compliance with those provisions.

- E3 In fixing or agreeing any charges in compliance with paragraph E1, the Appointee is not required to consider any charges referred to in paragraph E2.
- E4 Paragraph E1 shall not require the Appointee to take any action in contravention of any local statutory provision.

Condition F: Regulatory accounting statements

Introduction

This condition requires the Appointee to keep appropriate accounting records which are consistent with guidelines published by Ofwat. Ofwat will publish the guidelines and revise them, subject to certain procedural protections.

The Regulatory Accounting Guidelines

F1 Ofwat will publish the **Regulatory Accounting Guidelines** which will:

F1.1 relate to the accounting records that must be kept by the Appointee and the accounting Information that must be provided by it to Ofwat; and

F1.2 have the purpose of ensuring that:

F1.2.1 Ofwat may obtain all appropriate accounting Information in respect of the Appointed Business; and

F1.2.2 the financial affairs of the Appointed Business are recorded and reported on, and may be assessed, separately from any other business or activity of the Appointee.

F2 The Regulatory Accounting Guidelines may in particular include provisions in relation to:

F2.1 the form and content of the accounting records that the Appointee is required to keep;

F2.2 the form and content of the accounting statements, and any associated reports or analyses, that the Appointee is required to prepare;

- F2.3 any audit of the accounting records and statements that the Appointee is required to procure, the terms on which that audit is to be procured, and the basis on which the record and conclusions of that audit must be provided to Ofwat; and
 - F2.4 the time by which the Appointee is required to provide any accounting Information to Ofwat and any requirement on the Appointee to publish that Information.
- F3 The Regulatory Accounting Guidelines may not require the disclosure of Information which relates solely to a transaction wholly unconnected with the Appointed Business.
- F4 Ofwat may, from time to time, revise the Regulatory Accounting Guidelines in any manner that it considers appropriate, provided that, before any revision takes effect, Ofwat:
 - F4.1 consults the Appointee on a draft of the proposed revision;
 - F4.2 has regard to any representations made by the Appointee;
 - F4.3 publishes a final version of the revision, incorporating any changes made to the draft following consultation; and
 - F4.4 gives reasonable notice (of at least one month) to the Appointee of the date on which that revision will take effect.
- F5 The Appointee may notify Ofwat, within one month of receiving notice that a revision to the Regulatory Accounting Guidelines will take effect, that it disputes the revision, and in that case:

F5.1 the question of whether the revision is appropriate shall (unless Ofwat withdraws the decision to make it) be referred by Ofwat to the Competition and Markets Authority for determination; and

F5.2 the revision shall not take effect unless and until the Competition and Markets Authority determines that it shall.

Compliance with the Regulatory Accounting Guidelines

F6 The Appointee must:

F6.1 prepare a set of regulatory accounting statements, in respect of the twelve month period ending on 31 March in each Charging Year, which are in accordance with the Regulatory Accounting Guidelines; and

F6.2 comply with all other requirements that are set out in the Regulatory Accounting Guidelines.

Condition G: Principles for Customer Care

Introduction

This Condition requires the Appointee to adopt high standards of customer service and appropriate support for the full diversity of its customers' needs. It requires the Appointee to deliver the principles for customer care set out at paragraph G3.

Nothing in this Condition has the effect of removing or affecting the functions of the Consumer Council for Water in relation to the investigation of individual customer complaints.

Interpretation and application

G1 In this condition:

G1.1 an 'incident' means an event or situation which causes or may cause damage, disruption, distress or inconvenience to the Appointee's customers in their capacity as such which is not trivial.

G1.2 references to customers in principles G3.1 to G3.6 means the Appointee's customers in their capacity as occupants of Household Premises.

Principles for customer care

G2 The Appointee must:

G.2.1 develop or have in place policies and approaches to meet the principles for customer care set out in paragraph G3, consulting with the Consumer Council for Water where appropriate;

G.2.2 implement or continue to follow those policies and approaches in a way that meets the principles for customer care set out in paragraph G3; and

G.2.3 explain in a manner that is effective, accessible and clear how it is meeting the principles set out in paragraph G3.

G3 The principles for customer care are:

G3.1 The Appointee is proactive in its communications so that its customers receive the right information at the right time, including during incidents.

G3.2 The Appointee makes it easy for its customers to contact it and

provides easy to access contact information.

- G3.3 The Appointee provides appropriate support for its customers when things go wrong and helps to put things right.
- G3.4 The Appointee learns from its own past experiences, and shares these with relevant stakeholders. The Appointee also learns from relevant stakeholders' experiences and demonstrates continual improvement to prevent foreseeable harm to its customers.
- G3.5 The Appointee understands the needs of its customers and provides appropriate support, including appropriate support for customers in vulnerable circumstances, and including during and following incidents.
- G3.6 As part of meeting principle G3.5 above, the Appointee provides support for its customers who are struggling to pay, and for customers in debt.

Condition H: Procedure on leakage

Introduction

This condition sets out the procedure which the Appointee must follow in relation to leaks or potential leaks on Supply Pipes of Domestic Premises.

Application

H1. The Appointee must follow the procedure set out in this condition in relation to customers whose premises are Domestic Premises.

H2. In this condition, any reference to the Appointee making an adjustment to Metered Charges for water supply in respect of premises means:

H2.1 in any case where the Appointee supplies water at the premises, making an adjustment to the Metered Charges payable by the customer for that supply; and

H2.2 in any case where the premises are supplied by a Licensee with whom the Appointee has an agreement under section 66D of the Water Industry Act 1991, making an adjustment to the Metered Charges payable by the Licensee for that supply.

H3. In this condition, any reference to the Appointee making an adjustment to Metered Charges for sewerage services in respect of premises means:

H3.1 in any case where the Appointee provides sewerage services at the premises, making an adjustment to the Metered Charges payable by the customer for those services; and

H3.2 in any case where the premises are provided with sewerage services by a Licensee with whom the Appointee has an agreement under section 117E of the Water Industry Act 1991, making an adjustment to the Metered Charges payable by the Licensee for those services.

Checking for a leak on the Supply Pipe

H4. At the time of the installation of a meter at a customer's premises, the Appointee must check the Supply Pipe between the meter and the customer's tap to detect whether there are any leaks.

H5. Where, as a result of that check, a leak is detected on the Supply Pipe:

H5.1 if the leak can be repaired without additional excavation at the time the meter is installed, the Appointee must repair the leak; and

H5.2 if the leak cannot be repaired without additional excavation at that time, the Appointee must notify the customer of the leak and either:

H5.2.1 repair the leak; or

H5.2.2 request that the customer repairs the leak at the customer's own expense.

Adjustment of charges for water supply

H6. Paragraph H7 applies where, after a meter has been installed:

H6.1 a meter reading indicates that there could be an undetected leak on the Supply Pipe; and

H6.2 such a leak is subsequently discovered.

- H7. Where this paragraph applies, the Appointee must make an adjustment to the Metered Charges for water supply in respect of the premises, subject to paragraphs H8 and H9.
- H8. The requirement to adjust Metered Charges under this condition is conditional on the leak being repaired within any reasonable period of time specified by the Appointee.
- H9. The Appointee is not required to make any adjustment to Metered Charges under this condition in relation to any leak:
- H9.1 detected following the repair of a previous leak in relation to which such an adjustment has been made;
 - H9.2 which was caused through the negligence of the customer, the owner of the Supply Pipe or anyone acting on behalf of either of them;
 - H9.3 where the Appointee has requested that a customer repairs the leak under paragraph H5.2.2 and the customer has failed to repair it; or
 - H9.4 which the customer otherwise knew or ought to have known about and failed to repair.

The amount of the adjustment of charges for water supply

- H10. In making an adjustment to the Metered Charges for water supply in respect of the premises under this condition:
- H10.1 where the Appointee has a record of the customer's past consumption, the adjustment must be based on that consumption, and

H10.2 where the Appointee has no such record:

H10.2.1 the adjustment must be based on typical usage for properties of a similar type; and

H10.2.2 the Metered Charges in respect of the premises must be further adjusted if the customer's subsequent actual usage is significantly different.

Adjustment of charges for sewerage services

H11. Where the Appointee is required to make any adjustment to the Metered Charges for water supply under this condition:

H11.1 if the Appointee is the sewerage undertaker for the premises, it must also make an adjustment to the Metered Charges for sewerage services in respect of the premises; and

H11.2 if another relevant undertaker is the sewerage undertaker for the premises, the Appointee must inform that undertaker as soon as reasonably possible of the adjustment the Appointee is required to make to the Metered Charges for water supply (specifying the basis on which the adjustment has been, or will be, made).

H12. The Appointee must also make an adjustment to the Metered Charges for sewerage services in respect of premises where:

H12.1 the Appointee is the sewerage undertaker for the premises; and

H12.2 the Appointee is informed by a water undertaker that the undertaker is required to make an adjustment to the Metered Charges for a supply of water to the premises (specifying the basis on which the adjustment

has been, or will be, made).

- H13. Where the Appointee is required to make any adjustment to Metered Charges for sewerage services under this condition, it must make that adjustment on a similar basis to the adjustment being made to the Metered Charges for water supply in respect of the premises.

Condition I: Ring-fencing

Introduction

The purpose of this Condition is to ensure that there is no cross-subsidy between the Appointed Business and any other business of the Appointee or between the Appointed Business and any Associated Company.

Interpretation and Construction

- I1. In this Condition and for the purposes of this Condition:
 - I1.1 references to "**the Appointed Business**" shall be construed as if the Appointed Business included the management and holding by the Appointee of any protected land; and
 - I1.2 "**sewerage services**" includes sewage treatment and disposal and reception, treatment and disposal of trade effluent.
- I2. Except where otherwise expressly provided, references in this Condition to costs or liabilities shall be construed as including taxation, and references to any profit and loss account shall be construed accordingly.
- I3. For the purposes of this Condition:
 - I3.1 all forms of property shall be assets, whether situated in the United Kingdom or not, including:
 - I3.1.1 options, debts and incorporeal property generally; and
 - I3.1.2 any currency including sterling;

- 13.2 references to the supply of a service include references to anything (including the services of any employee) being made available; and
- 13.3 references to a transfer of an asset or liability include references to a part transfer of an asset or liability and, without limitation, there is a part transfer of an asset where an interest or right in or over the asset is created.
14. [Not used]
15. The Appointee shall not, in respect of any Charging Year, make any payments to any Associated Company in respect of the services rendered to the Appointee by that company, which exceeds:
- 15.1 such prices in respect of the service in question which the Appointee has ascertained by market testing in accordance with such arrangements as Ofwat may have approved for the purpose of this Condition I and as set out in Regulatory Accounting Guideline 5 (Transfer Pricing in the Water and Sewerage Industry) or any revision or modification of it for the time being in force, provided that those arrangements have no prejudicial effect upon the proper carrying out of the Appointee's functions or any of them; or
- 15.2 if, in the opinion of Ofwat, the Appointee has demonstrated that market testing as described in paragraph 15.1 above is inappropriate, such proportion as Ofwat may agree of the Associated Company's costs in providing to the Appointee the service in question (including a reasonable return to the Associated Company).
16. [Not used]

17. The Appointee shall not, without the consent of Ofwat and otherwise than in compliance with its directions concerning the valuation of the asset and the treatment of the consideration in the Appointee's accounts, transfer to any Associated Company to which paragraph 15 applies any right or asset to which paragraph 3 of Condition K of these Conditions applies.

Condition J: [Not used]

Condition K: Regulatory ring-fence

1 Introduction

1.1 The purpose of this Condition is to ensure that:

- (a) the Appointed Business is conducted as if it is substantially the Appointee's sole business and it is a public limited company separate from any other business carried out by the Appointee;
 - (b) the Appointee retains sufficient rights and assets and has in place adequate financial resources and facilities, management resources and systems of planning and internal controls;
 - (c) any transfers or transactions entered into by the Appointee do not adversely affect the Appointee's ability to carry out the Regulated Activities;
- and
- (d) the Appointee demonstrates that it is complying with the requirements of this condition.

2 Conduct of the Appointed Business

2.1 The Appointee must, at all times, conduct the Appointed Business as if the Appointed Business were:

- (a) substantially the Appointee's sole business; and
- (b) a public limited company separate from any other business carried out by the Appointee.

2.2 For the purposes of paragraph 2.1, the Appointee must have regard in particular to:

- (a) whether the composition of the Board of the Appointee is such that the directors of the Appointee act exclusively in the interests of the Appointee and independently of the Ultimate Controller and any United Kingdom Holding Company of the Appointee;
 - (b) whether a director of the Appointee discloses, to the Appointee and to the Authority, any conflict between the director's duties as such a director and any other duty held by the director;
 - (c) whether, in any case where the interests of the Appointee have the potential to conflict with the interests of a Group Company, the directors of the Appointee have regard exclusively to the interests of the Appointee in carrying out their duties;
 - (d) whether directors of the Appointee are prevented from voting on a decision of the Board where the director has an interest in the decision by virtue of another directorship and whether this is underpinned by the Appointee's articles of association; and
 - (e) the Principles of Good Governance and Code of Best Practice.
- 2.3 The Appointee shall, at such times and in such ways as may from time to time be required by the Listing Rules of the Financial Conduct Authority, publish such information about its annual final results as is by those rules required to be announced by a company whose shares are for the time being listed on the London Stock Exchange.
- 3 The Role of the company's Ultimate Controller and United Kingdom Holding Company
- 3.1 The Appointee must ensure that, at all times:
- (a) there is an undertaking in place which is given by the Ultimate Controller of the Appointee in favour of the Appointee; and

- (b) where the United Kingdom Holding Company of the Appointee is not the Ultimate Controller of the Appointee, there is an undertaking in place which is given by the United Kingdom Holding Company of the Appointee in favour of the Appointee.

3.2 The Appointee must ensure that any undertaking given pursuant to paragraph 3.1 provides that :

- (a) those persons providing the undertakings will, and will procure that each of their subsidiaries (other than the Appointee and its subsidiaries) will give to the Appointee all such information as may be necessary to enable the Appointee to comply with its obligations under the Water Industry Act 1991 or the conditions of the Appointments;
- (b) those persons providing the undertakings will, and will procure that each of their subsidiaries (other than the Appointee and its subsidiaries) will refrain from any action which would or may cause the Appointee to breach any of its obligations under the Water Industry Act 1991 or the conditions of the Appointments;
- (c) those persons giving the undertakings will ensure that at all times after the Water Services Regulation Authority has given notice to the Appointee that it considers it appropriate the Board of the Appointee contains not less than two independent non-executive Directors, who shall be persons of standing with relevant experience and who shall collectively have connections with and knowledge of the areas within which the Appointee holds the Appointment and an understanding of the interests of the customers of the Appointee and how these can be respected and protected; and
- (d) those persons providing the undertakings will at all times immediately and on receipt of written demand from the Appointee, pay to the Appointee such money (up to a maximum aggregate liability of £2

million) as may be necessary to enable the Appointee to comply with its obligations under the Water Industry Act 1991 or the conditions of Appointments.

3.3 Where:

(a) an undertaking required to be given by a person in accordance with paragraph 3.1 is not in place; or

(b) there has been a breach of the terms of such an undertaking by the person that gave it and that breach has not been remedied,

the Appointee must not enter into any contract or arrangement with such a person or the subsidiaries of such a person other than subsidiaries of the Appointee, without the prior written approval of the Water Services Regulation Authority.

3.4 The Appointee must provide to the Water Services Regulation Authority such certified copies of any undertaking given pursuant to paragraph 3.1 as are requested by the Water Services Regulation Authority.

3.5 The Appointee must immediately inform the Water Services Regulation Authority in writing if the Appointee becomes aware that:

(a) an undertaking given by a person pursuant to paragraph 3.1 has ceased to be legally enforceable; or

(b) there has been a breach of the terms of such an undertaking by the person that gave it.

4 Assets, rights and resources

4.1 The Appointee must, at all times, act in a manner which is best calculated to ensure that it has in place adequate:

(a) financial resources and facilities;

- (b) management resources; and
 - (c) systems of planning and internal control,
- to enable it to carry out the Regulated Activities.

4.2 The Appointee must ensure that, as far as reasonably practicable, it has available to it sufficient rights and resources other than financial resources so that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage the affairs, business and property of the Appointee in accordance with the purposes of the special administration order.

4.3 For the purposes of paragraph 4.2, the Appointee is not required to amend the terms of any legal obligation which has been transferred to it in accordance with a scheme made under Schedule 2 to the Water Industry Act 1991.

4.4 Where rights and resources which are required to be made available pursuant to paragraph 4.2 are made available by a Group Company, the Appointee must ensure that if, at any time, a special administration order were to be made in relation to it, the rights and resources would be available to the special administrator for the purpose set out in paragraph 4.2.

5 Transfer Pricing and Cross-Default Obligations

5.1 The Appointee must ensure that:

- (a) every transaction between the Appointed Business and any Associated Company is at arm's length, so that neither the Appointed Business nor the Associated Company gives a cross-subsidy to the other; and
- (b) the Appointed Business neither gives nor receives any cross-subsidy from any other business or activity of the Appointee.

in accordance with Regulatory Accounting Guideline 5 (Transfer Pricing in the Water and Sewerage Industry) published by the Water Services Regulation

Authority and revised from time to time.

- 5.2 The Appointee must provide the Water Services Regulation Authority with any Information about the costs of an Associated Company which provides services to the Appointee which the Water Services Regulation Authority reasonably requests.
- 5.3 The Appointee must not, without the prior approval of the Water Services Regulation Authority:
- (a) give a guarantee in relation to any liability of an Associated Company;
 - (b) make a loan to an Associated Company; or
 - (c) enter into an agreement or other legal instrument incorporating a Cross-Default Obligation.
- 5.4 The Appointee must not continue or permit to remain in effect an agreement or other legal instrument incorporating a Cross-Default Obligation unless:
- (a) prior approval has been given by the Water Services Regulation Authority; or
 - (b) the Cross-Default Obligation would only arise on a default by a subsidiary of the Appointee and the Appointee ensures that:
 - (i) the period for which the Cross-Default Obligation is in effect is not extended;
 - (ii) liability under the Cross-Default Obligation is not increased; and
 - (iii) no change is made to the circumstances in which liability under the Cross-Default Obligation may arise.

6 Dividend Policy

6.1 The Appointee must, at all times, have in place a dividend policy which effectively embodies:

- (a) the principle that dividends declared or paid should not impair the ability of the Appointee to finance the Appointed Business; and
- (b) the principle that dividends should be an incentive which is expected to reward efficiency and the management of economic risk,

and has been approved by the Board of the Appointee.

6.2 The Appointee must ensure that any dividends are declared or paid in accordance with the current dividend policy made in accordance with paragraph 6.1.

7 Ring-fencing Statement and Certificate

7.1 The Appointee must publish with its audited accounts for each twelve month period a statement as to whether or not (as at the end of the period) the Appointee has available to it sufficient rights and resources other than financial resources, as required by paragraph 4.2

7.2 No later than the date on which the Appointee is required to deliver to the Water Services Regulation Authority a copy of each set of accounting statements prepared under Condition F, the Appointee must submit a Ring-fencing Certificate to the Water Services Regulation Authority.

7.3 Where the Board of the Appointee becomes aware any activity of the Appointee or any Group Company which does not form part of the Regulated Activities, and which may be material in relation to the Appointee's ability to finance the Regulated Activities, the Appointee must:

- (a) inform the Water Services Regulation Authority; and

- (b) within fourteen days of becoming aware of the activity, submit a new Ring-fencing Certificate to the Water Services Regulation Authority.

7.4 Where the Board of the Appointee becomes aware of any circumstances which would change its opinion such that it would not give the opinion contained in the Ring-fencing Certificate, the Appointee must inform the Water Services Regulation Authority of this in writing.

7.5 Whenever the Appointee submits a Ring-fencing Certificate to the Water Services Regulation Authority, the Appointee must submit a statement of the main factors which the Board of the Appointee has taken into account in giving its opinion for the certificate.

7.6 A Ring-fencing Certificate must be:

- (a) signed by all directors of the Appointee on the date of submission; or
- (b) approved at a meeting of the Board of the Appointee, convened in accordance with the Appointee's articles of association, in which case the certificate must:
 - (i) be signed by a director of the Appointee or the Appointee's company secretary; and
 - (ii) have appended to it a certified copy of the minutes of the approval.

8 Reporting of Material Issues

8.1 Where the Board of the Appointee becomes aware of any circumstance that may materially affect the Appointee's ability to carry out the Regulated Activities the Appointee must inform the Water Services Regulation Authority as soon as possible.

Condition L: [Not used]

Condition M: Provision of Information to Ofwat

Introduction

This condition requires the Appointee to provide information to Ofwat (subject to certain limitations) and to co-operate with certain investigations carried out by Ofwat for purposes relating to standards of performance.

Duty to provide Information

- M1 The Appointee must provide Ofwat with any Information that Ofwat may reasonably require for the purpose of carrying out its functions under any enactment.
- M2 The Appointee must provide any Information required by Ofwat by such time, and in such form and manner, as Ofwat may reasonably require.

Limits on the duty to provide Information

- M3 The Appointee is not required to provide Ofwat with Information for the purpose of Ofwat carrying out any function under section 14 or 201 of the Water Industry Act 1991, but if Ofwat requires it to do so the Appointee must provide reasoned comments on the accuracy of any information or advice which Ofwat proposes to publish under section 201 of that Act.
- M4 The Appointee is not required to provide Ofwat with any Information for the purpose of Ofwat carrying out an enforcement function if the Appointee could not have been required to provide that Information under section 203 of the Water Industry Act 1991.
- M5 The Appointee is not required to provide Ofwat with any Information that is protected by legal professional privilege.

Use of Information provided

M6 Ofwat may use or disclose any Information which it has received from the Appointee for the purpose of carrying out any of its functions under the provisions of any enactment, including its functions under sections 14 and 201 of the Water Industry Act 1991.

Relationship to other conditions

M7 Any duty on the Appointee to provide Information to Ofwat under any other Condition does not limit the duty of the Appointee to provide Information under paragraph M1.

M8 The requirement in paragraph M2, and the limits in paragraphs M4 and M5, also apply in any other Condition under which the Appointee has a duty to provide Information to Ofwat.

Standards of Performance

M9 Paragraph M10 applies in any case in which Ofwat notifies the Appointee that, for the purpose of deciding whether to make an application to the Secretary of State under either section 39 or 96 of the Water Industry Act 1991, it intends to investigate:

M9.1 any Information provided by the Appointee to Ofwat in relation to the Appointee's service levels in carrying out the Regulated Activities; or

M9.2 the means by which that Information was collated or recorded.

M10 Where this paragraph applies, the Appointee must co-operate fully with any investigation by Ofwat, including in particular by allowing Ofwat (at reasonable hours and on reasonable notice) to:

- M10.1 access any plant or premises used by the Appointee in carrying out the Regulated Activities;
- M10.2 while at the plant or premises, carry out inspections, measurements or tests, and take copies of any document or record held for the purpose of the Appointed Business; and
- M10.3 take with it any persons or equipment necessary for those purposes.

Condition N: Fees

Introduction

This condition provides for the payment of fees by the Appointee to cover costs incurred by Ofwat, the Consumer Council for Water and the Competition and Markets Authority and sets out how the amount of those fees will be determined.

Fees

N1 The Appointee must pay the following **Fees** to the Secretary of State in accordance with this condition:

N1.1 the Annual General Fee (or such part of the Annual General Fee as is payable under paragraph N2);

N1.2 the Special Fee (if any);

N1.3 the Interim Determination Fee (if any);

N1.4 the Consumer Council for Water Fee; and

N1.5 the Competition and Markets Authority Fee (if any).

N2 Where Ofwat notifies the Appointee of an amount which is payable towards the Annual General Fee, the Appointee must pay that amount no later than 30 days following the notification, provided that:

N2.1 the total of such amounts in a Charging Year may not exceed the Annual General Fee; and

N2.2 Ofwat may not give such a notification more than twice for a Charging Year.

N3 Where Ofwat notifies the Appointee of the amount of any Fee other than the Annual General Fee, the Appointee must pay that amount no later than 30 days following the notification, provided that Ofwat may not give such a notification in respect of any one of these Fees more than once in a Charging Year.

N4 In this condition any determination by Ofwat of a fair proportion of an amount may only be made in accordance with a method which Ofwat has disclosed to the Appointee in writing.

Annual General Fee

N5 The **Annual General Fee** is Ofwat's determination of a fair proportion of its estimate of costs incurred or likely to be incurred by it in the Charging Year in the carrying out of its functions under any enactment, provided that any such determination is subject to paragraph N13.

Special Fee

N6 The **Special Fee** is Ofwat's determination of a fair proportion of its estimate of any costs incurred or likely to be incurred by it which:

N6.1 could have been included in the estimate used by it to determine the Annual General Fee for the Charging Year; and

N6.2 were not included in that estimate,

provided that any such determination is subject to paragraph N13.

Interim Determination Fee

N7 The **Interim Determination Fee** is an amount determined by Ofwat which represents its estimate of any costs incurred by it in the previous twelve months in relation to any Interim Determination which it is required to make.

Consumer Council for Water Fee

N8 The **Consumer Council for Water Fee** is:

N8.1 Ofwat's determination of a fair proportion of its estimate of costs incurred or likely to be incurred by the Consumer Council for Water in the Charging Year in the carrying out of its functions under any enactment, provided that no such amount will exceed the amount calculated in accordance with paragraph N10; or

N8.2 where a direction has been given to Ofwat by the Secretary of State under section 37(8) of the Water Act 2003, any greater amount which Ofwat determines is necessary to give effect to that direction.

N9 Any estimates which are used in the determination of the Consumer Council for Water Fee will be arrived at following consultation with the Consumer Council for Water

N10 A Consumer Council for Water Fee determined under paragraph N8.1 shall not exceed an amount calculated as $G \times A$ where:

N10.1 G is the amount of £7.65 million, as increased from November 2015 to the November immediately before the Charging Year using the Retail Prices Index (for any period up to November 2019) and the Relevant Index (for any period thereafter); and

N10.2 A is the Appointee's Turnover Share for the Charging Year.

Competition and Markets Authority Fee

N11 The **Competition and Markets Authority Fee** is an amount determined by Ofwat (in accordance with paragraph N12) which is the sum of:

N11.1 Ofwat's estimate of the costs incurred by the Competition and Markets Authority in the previous twelve months in relation to any reference under section 12 or section 14 of the Water Industry Act 1991, where the reference related solely to the Appointed Business; and

N11.2 Ofwat's determination of a fair proportion of Ofwat's estimate of the costs incurred by the Competition and Markets Authority in the previous twelve months in relation to any reference under section 14 of the Water Industry Act 1991, where the reference related to the Appointed Business and the appointed businesses of other relevant undertakers.

N12 Any estimates which are used in the determination of the Competition and Markets Authority Fee will be arrived at following consultation with the Competition and Markets Authority.

Cap on Annual General Fee and Special Fee

N13 The sum of the Annual General Fee and any Special Fee in each Charging Year must not exceed an amount calculated as $S \times A$ where:

N13.1 S is, subject to paragraph N14, the amount of the income limit set by the Treasury for Ofwat for the Charging Year when Ofwat determines the amount of the Annual General Fee or any Special Fee; and

N13.2 A is the Appointee's Turnover Share for the Charging Year.

N14 If when Ofwat determines the amount of the Annual General Fee or any Special Fee the Treasury has not set an income limit for Ofwat for the Charging Year then S shall be the amount calculated in accordance with paragraph N15.

N15 Where this paragraph applies, S shall be the amount of the final income limit for the last Charging Year for which the Treasury set an income limit, as increased from the November immediately before that Charging Year to the November immediately before the Charging Year in which the Annual Fee or any Special Fee is payable using the Relevant Index.

Condition O: Termination and replacement appointments

Introduction

This condition, which sets out circumstances in which the Appointee can be replaced as the undertaker for its area, has effect under section 7(4)(c) of the Water Industry Act 1991.

Other circumstances of potential replacement are also set out at section 7(4) of that Act.

Circumstances when a replacement appointment may be made

- O1 An appointment replacing the Appointee as either water or (where applicable) sewerage undertaker in respect of the Area may be made where:
 - O1.1 the Secretary of State has given at least 25 years' notice to the Appointee of the termination of the relevant Appointment in respect of the whole of the Area; and
 - O1.2 the replacement appointment is to come into effect on the expiry of that notice.

Condition P: [Not used]

Condition Q: Interruptions in supply because of drought

Introduction

This condition sets out the payments that the Appointee must make where customers have their water supply interrupted because of a drought order.

Payments following interruption in supply

Q1 Subject to paragraph Q5, where the supply of water to Household Premises is interrupted under the authority of a drought order, the Appointee must make a payment to the customer who is liable to pay charges for water supply at the premises or credit that customer's account in accordance with paragraph Q2.

Q2 The Appointee must pay or credit an amount equal to $D \times d$, subject to a maximum of A in any Charging Year, where:

Q2.1 D is £10;

Q2.2 d is the number of days during which, or part of which, the supply of water to the premises is interrupted; and

Q2.3 A is the average water charge payable to the Appointee in respect of Household Premises for the Charging Year preceding the date of the interruption.

Q3 Subject to paragraph Q5, where the supply of water to premises other than Household Premises is interrupted under the authority of a drought order:

Q3.1 where the Appointee supplies water at the premises, it must make a payment to the customer who is liable to pay charges for that supply or credit that customer's account in accordance with paragraph Q4; and

Q3.2 where the premises are supplied with water by a Licensee with whom the Appointee has an agreement under section 66D of the Water Industry Act 1991, the Appointee must make a payment to the Licensee in accordance with paragraph Q4.

Q4 The Appointee must pay or credit (as the case may be) an amount equal to $B \times d$, subject to a maximum of N in any Charging Year, where:

Q4.1 B is £50;

Q4.2 d is the number of days during which, or part of which, the supply of water to the premises is interrupted; and

Q4.3 N is:

Q4.3.1 the amount of water charges which were payable in respect of those premises by the customer who is liable to pay such charges for the Charging Year preceding the date of the interruption (excluding any amount payable in respect of any separate supply which was provided solely for purposes other than domestic purposes); or

Q4.3.2 if the customer was not liable to pay those charges, £500.

Q5 The Appointee is not required to pay or credit (as the case may be) any amount under this condition if it can demonstrate that it took all reasonable steps to avoid the circumstances which gave rise to the making of the drought order.

Determination of disputes

Q6 Where there is a dispute between the Appointee and a customer, or between the Appointee and a Licensee, over a right to a payment or credit under this condition:

Q6.1 either party may refer the matter to Ofwat for determination; and

Q6.2 the Appointee must give effect to any determination which is made.

Condition R: Provision of combined and wholesale water supplies and sewerage services

1. [not used]

2. [not used]

3. [not used]

4. [not used]

Anti-competitive behaviour

5 (1) If and for so long as the Appointee is related to any Licensee it shall ensure that every transaction between the Appointed Business and that Licensee is at arm's length.

(2) For the purpose of this paragraph the Appointee is related to a Licensee if their enterprises are under common ownership or common control (within the meaning those expressions have in section 26(1) of the Enterprise Act 2002).

(1) The Appointee shall by notice inform the Authority if at any time it becomes, or ceases to be, related to a Licensee.

(4) This paragraph is without prejudice to anything contained in paragraph 5 of Condition K (Transfer Pricing and Cross-Default Obligations).

6 The Appointee shall ensure that its Appointed Business does not show undue preference towards, or undue discrimination against -

- (a) customers or potential customers (or classes of customers) of a Licensee, as compared with either the Appointee's own customers or potential customers (or classes of customers) or the customers or potential customers (or classes of customers) of any other Licensee; or
- (b) a Licensee, as compared with any other Licensee or the Appointee itself.

Obligations about information

- 7
- (1) Whenever the Appointee is -
 - (a) negotiating with a Licensee the period for which and terms and conditions on which it might discharge any of its duties under sections 66A to 66C, 117A and 117B; or
 - (b) discharging any of those duties, it shall ensure that legally enforceable terms exist about the confidentiality of information provided to or by it for those purposes.
 - (2) Without prejudice to the generality of sub-paragraph (1) above, the Appointee shall not use or disclose information received from or in relation to a Licensee in the course or contemplation of the discharge of its duties under sections 66A to 66C, and 117A to 117B or in the course or contemplation of its dealings with or in relation to that Licensee under sections 66A to 66C, and 117A to 117B except -
 - (a) for the purpose for which it was furnished and to the minimum extent necessary to discharge those duties or for those dealings;

- (b) where required or permitted by law; or
 - (c) where otherwise agreed with the Licensee.
- (3) Without prejudice to the generality of sub-paragraph (1) and (2) above, and subject to sub-paragraphs (2)(a), (b) and (c) above, the Appointee shall ensure that information received from or in relation to a Licensee in the course or contemplation of the discharge of its duties under sections 66A to 66C and 117A to 117B or in the course or contemplation of its dealings with or in relation to that Licensee under sections 66A to 66C and 117A to 117B is not used or disclosed or otherwise distributed or disseminated within the Appointed Business otherwise than for the purposes for which the information was furnished.
- (4)
 - (a) The Appointee shall have a Compliance Code which complies with Compliance Guidance issued by the Authority.
 - (b) Compliance Guidance means guidance -
 - (i) in relation to the matters specified in this paragraph; in relation to the Appointee's compliance with its obligations under this paragraph and under paragraph 5(1) above; and generally in relation to any obligation of confidentiality on the Appointee in relation to information provided to or by it under or for the purposes of this Condition or Condition S, and its compliance with those obligations; and
 - (ii) for the time being issued by the Authority where -
 - a. before issuing such guidance, the Authority has consulted such persons as it considers

appropriate; and

- b. the Authority has published such guidance in such a manner as it considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.

(c) Subject to sub-paragraph (d) below, the Appointee -

- (i) shall review its Compliance Code annually not later than the anniversary of the date upon which Compliance Guidance is first issued by the Authority; and

- (ii) may at any time revise it.

(d) If the Authority revises its Compliance Guidance, the Appointee shall revise its Compliance Code to conform to such revised guidance, within the timescales set out by the Authority, provided that the Authority has -

- (i) consulted such persons as it considers appropriate before revising that Compliance Guidance; and

- (ii) published that Compliance Guidance in such a manner as it considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.

8 (1) The Appointee shall provide to a Licensee such information as the Licensee reasonably requires -

- (a) to enable the Licensee to apply for, negotiate and conclude an

agreement under section 66D or section 117E;

- (b) to comply with any condition of its water supply or sewerage licence, or any statutory requirement imposed in consequence of its water supply or sewerage licence; or
 - (c) to comply with any reasonable request for information made by the Environment Agency.
- (2) The Appointee may impose reasonable conditions on the use which any Licensee makes of information provided under this paragraph.
- (3) Any question as to the reasonableness of -
- (a) any requirement to provide information under sub-paragraph (1); or
 - (b) any condition proposed by the Appointee under sub-paragraph (2);

shall be resolved by referring that question to the Authority for its determination.

- (4) A reference under sub-paragraph (3) shall have the effect of suspending the requirement so referred pending the Authority's determination.
- (5) The Appointee shall not be required under this paragraph to disclose any information or produce any document which it would be entitled to refuse to disclose or produce on grounds of legal professional privilege in proceedings in the High Court.

- (6) (a) The Appointee shall immediately inform the Licensee of relevant details if the Appointee is or becomes aware that a special consumer occupies or is likely to occupy any premises which the Licensee is proposing to supply.
- (b) For the purpose of sub-paragraph (a) above, a special consumer is a person or a member of a class of persons who -
 - (i) the Appointee and the relevant Licensee agree; or
 - (ii) the Authority specifically or generally determines by relevant notice, regularly requires water urgently on medical or other grounds.
- (7) Under sub-paragraph (6) -
 - (a) a determination shall not have effect unless, before making the determination, the Authority has consulted such persons as it considers appropriate; and
 - (b) a "relevant notice" is a notice published in such manner as the Authority considers appropriate and served on the Appointee.
- (8) (a) The Appointee shall immediately inform each Licensee which is
 - supplying water to premises in its Water Supply Area of every actual or potential incident which affects adversely, or is likely to affect adversely -
 - (i) water quality;

- (ii) water pressure;
- (iii) continuity of supply; or
- (iv) any other matter related to the Appointee's supply system as defined in section 17B(5);

but the foregoing obligation applies only if and to the extent that the supply or supplies being made by such Licensee to premises in the Appointee's Water Supply Area is or are, or is or are likely to be, affected by any such actual or potential incident; and

- (b) information provided by the Appointee under sub-paragraph (a) above shall be as detailed as the information which the Appointee uses or intends to use or would use, when dealing with complaints from its own customers arising out of the same matters.

- (9) For the purposes of sub-paragraph (8), an incident includes regulatory infringements which may put the Appointee or relevant Licensee at risk of supplying water which is unwholesome as determined under section 67 (standards of wholesomeness) or unfit for human consumption within the meaning of section 70 (offence of supplying water unfit for human consumption).

9 In so far as the provision of information to the Appointee is not provided for by or under any enactment, the Appointee shall not seek -

- (a) from a Licensee; or

- (b) from a person supplied or seeking to be supplied by a Licensee;
- more information than the Appointee reasonably requires -
- (i) for the purposes of carrying out its functions;
 - (ii) to ascertain whether the Licensee has sufficient product and public liability insurance for the activities authorised by its water supply licence;
 - (iii) to comply with any condition of the Appointee's appointment;
 - (iv) in relation to national security or civil emergencies; or
 - (v) to comply with any reasonable request for information made by the Environment Agency.

Application

- 10 (1) This Condition shall not apply to the Appointee in the circumstances and to the extent set out in this paragraph.
- (2) Paragraphs 1 to 9 of this Condition shall not apply if and for so long as the Appointee has no supply system, as defined in section 17B(5) or no sewerage system as defined in section 17BA(7).
- (3) Subject to sub-paragraph (4), the Appointee shall notify the Authority as soon as it has a supply system, as defined in section 17B(5) or a sewerage system as defined in section 17BA(7) .

- (4) If the Appointee has a supply system, as defined in section 17B(5) or a sewerage system as defined in section 17BA(7), on the Effective Date, it shall be deemed to have notified the Authority that it has a supply system at that date.

- (5) If and for such time as the Appointee has a supply system, as defined in section 17B(5) or a sewerage system as defined in section 17BA(7) -
 - (a) the Appointee shall notify the Authority immediately of the fact and terms of each request the Appointee receives from a Licensee to provide a supply of water or to permit the introduction of water into the Appointee's supply system pursuant to section 66A, 66B or 66C; or pursuant to 117A to 117B to permit the use of the Appointee's sewerage system; and

 - (b) paragraphs 1 to 9 of this Condition shall apply only from and for such time and to such extent as may be specified by the Authority from time to time by relevant notice.

- (6) Under sub-paragraph (5)(a) -
 - (a) a relevant notice shall not have effect unless, before making the relevant notice, the Authority has consulted the Appointee and such persons as it considers appropriate; and

 - (b) a "relevant notice" is a notice published in such manner as the Authority considers appropriate and served on the Appointee.

Condition R3 - MAC condition

Obligations in relation to the Market Arrangements Code

- (1) The Appointee must:
 - (a) be a party to and comply with the Market Arrangements Code; and
 - (b) take all steps within its power to ensure that the Market Arrangements Code remains a document that:
 - (i) is designed to facilitate the principles set out in Schedule 1 of the Market Arrangements Code (the “MAC Principles”);
 - (ii) conforms to the requirements of paragraph (2) of this condition in relation to the modification of the Market Arrangements Code; and
 - (iii) makes express provision for the matters described in paragraph (3) of this condition.

Modification of the Market Arrangements Code

- (2) The Market Arrangements Code shall contain procedures for its own modification (including procedures for the modification of the modification procedures themselves) which shall ensure that:
 - (a) change proposals for the modification of the Market Arrangements Code may be made by any member of the Panel constituted under the

Market Arrangements Code pursuant to paragraph 3(d) of this condition (“**the Panel**”), by the Authority and by such other persons or bodies as may be set out in the Market Arrangements Code;

- (b) every change proposal is brought to the attention of all parties mentioned in or pursuant to paragraph (a) above;
- (c) any and all representations made in respect of a change proposal are able to be properly considered by the relevant decision makers;
- (d) the question of whether any change proposal better facilitates the achievement of the MAC Principles is able to be properly evaluated by the parties to the Market Arrangements Code;
- (e) change proposals require Authority approval;
- (f) change proposals made by any of the parties stated in paragraph (a) which the Authority reasonably considers are necessary to comply with or implement any Applicable Law are:
 - (i) to be accepted into the Market Arrangements Code modification procedures by the Panel;
 - (ii) where they are raised by a person other than the Authority, not to be withdrawn without the Authority’s prior consent; and
 - (iii) to proceed in accordance with any timetable(s) directed by the Authority in relation to the raising of a change proposal, the completion of relevant procedural steps and the implementation of the change proposal.

- (g) a final report is prepared including:
 - (i) a proposed implementation date either:
 - A. in accordance with any direction(s) issued by the Authority under paragraph (2)(h); or
 - B. where no direction has been issued by the Authority under paragraph (2)(h), that would enable any proposed modification to take effect, as soon as reasonably practicable after the decision to implement it has been reached, taking into account the complexity, importance, and urgency of that modification and the most efficient timing for implementing the modification; and
 - (ii) a summary of and copies of all submissions made in respect of the change proposal;
 - (iii) an assessment of the extent to which the change proposal would better facilitate achieving the MAC Principles and a detailed explanation of the reasons for that assessment; and
 - (iv) an assessment of any potential impact on, or consequential amendment to, any other Retail Market Code.
- (h) the proposed implementation date may be altered with the consent of or as directed by the Authority;
- (i) parties to the Market Arrangements Code are able to consider and comment upon the change proposal report prepared in accordance with paragraph (g) and in particular whether the change would, as compared with the existing provisions of the Market Arrangements

Code, better facilitate the achievement of the MAC Principles;

- (j) the Panel, having regard to whether the change would, as compared with the existing provisions of the Market Arrangements Code, better facilitate the achievement of the MAC Principles, makes a recommendation to the Authority to approve or reject the proposed modification;
- (k) completion of each of the procedural steps outlined in this paragraph (2) to the extent that they are relevant, is in accordance with any timetable(s) directed by the Authority;
- (l) the change proposal report prepared in accordance with paragraph (g) (and submitted to the Authority pursuant to the procedures described in paragraph (g)) can be revised and resubmitted upon, and in accordance with, a direction issued to the Panel by the Authority where the Authority determines that it cannot properly form an opinion on the approval of the change proposal;
- (m) any proposals to modify the Market Arrangements Code must be designed to better facilitate the achievement of the MAC Principles; and
- (n) no modification of the Market Arrangements Code may be made unless the Authority, having had regard to the MAC Principles, directs the Appointee, in conjunction with every other Appointee and Licensee, to modify the Market Arrangements Code in such manner as is stated in that direction.

Contents of the Market Arrangements Code

- (3) The Market Arrangements Code shall make express provision in relation to the following matters:
- (a) the creation of an agreement, to which the Appointee, every other Appointee, and every Licensee shall be a party, and which binds the Appointee to comply with the terms of the Market Arrangements Code (the “**MAC Framework Agreement**”);
 - (b) the referral for determination by the Authority of any dispute arising as to whether a person seeking to be admitted as a party to the MAC Framework Agreement has fulfilled such trading conditions as are set out in the MAC Framework Agreement;
 - (c) terms that provide for the Appointee and such other parties to the MAC Framework Agreement to be contractually bound by some or all of the provisions of the Market Arrangements Code;
 - (d) arrangements for establishing and maintaining a Panel which is to be responsible, by way of such proceedings as may be set out in the Market Arrangements Code, for the governance and administration of the Market Arrangements Code and whose members are to be required as a condition of their appointment or election to act independently and not as delegates;
 - (e) arrangements for the establishment and funding at all times of a body to perform the role of Market Operator fulfilling the functions set out in the Market Arrangements Code; and
 - (f) a process by which the Panel can make recommendations to the Authority in relation to modifications of any code issued pursuant to section 66DA of the Act and/or section 117F of the Act.

Condition S: Introductions of water under the water supply licensing regime

Introduction

1. For the purposes of this Condition:
 - (a) **“Licensee”** means a water supply licensee;
 - (b) **“Primary Water Undertaker”** is a water undertaker whose supply system is or will be used for the purposes of enabling the Licensee to provide water supplies to premises in accordance with the Licensee’s retail or restricted retail authorisation;
 - (c) the **“Protocol”** means the "Customer Transfer Protocol" –
 - (i) complying with the requirements of paragraphs 8 to 11 below;
 - (ii) served by the Authority on the Appointee on or after the date on which this condition comes into force; and
 - (iii) as subsequently amended from time to time in accordance with this Condition;
 - (d) **“Secondary Water Undertaker”** is a water undertaker which, at the request of a Licensee, provides or will provide a supply of water to be introduced into the Primary Water Undertaker’s supply system, with the consent of the Primary Water Undertaker, to enable the Licensee to provide water supplies to premises in accordance with the Licensee’s retail or restricted retail authorisation; and
 - (e) **“Statutory Guidance”** means any code or guidance issued by the Authority under the Act that makes provision about the terms and conditions of an agreement for the performance of duties under

sections 66A, 66B or 66C of the Water Industry Act 1991 in relation to the introduction of water by a Licensee in accordance with its water supply licence.

2. (1) This Condition applies to, and makes provision about, circumstances where a Licensee with a wholesale or supplementary authorisation:
- (a) requests permission to introduce water into the Primary Water Undertaker's supply system in order to supply premises in accordance with the Licensee's retail or restricted retail authorisation; or
 - (b) requests a Secondary Water Undertaker to provide a supply of water to be introduced into the Primary Water Undertaker's supply system (with the consent of that undertaker) in order to provide water supplies to premises in accordance with the Licensee's retail or restricted retail authorisation.

The Access Code

3. (1) The Appointee shall have an Access Code which complies with paragraphs 4 to 6 of this condition.
- (2) The Appointee shall comply with its Access Code.
4. (1) The Access Code shall -
- (a) conform to any Statutory Guidance; and
 - (b) set out -
 - (i) the Appointee's procedure (including timetables) for dealing with a request to which this Condition applies, including requests under sections 66B or 66C of the Water Industry Act 1991, made to it by a Licensee (which procedure shall itself conform to any relevant guidance);

- (ii) the types of feasibility studies which the Appointee may undertake in response to any of those possible applications, including the method of calculation of any costs associated with any such study with a view to recovering them from any such applicant (all of which feasibility studies and the method of calculation shall themselves conform to any relevant guidance); and
 - (iii) the terms (including the basis for calculating charges) upon which the Appointee will offer to perform each relevant duty under sections 66A, 66B and 66C of the Water Industry Act 1991 and indicative charges for performing each such duty (which indicative charges shall themselves be calculated in accordance with any relevant guidance).
- (2) In this paragraph and in paragraph 5 below, "relevant guidance" means guidance -
 - (a) in relation to the matters specified in sub-paragraph (1)(b) above;
 - (b) for the time being issued by the Authority where -
 - (i) before issuing such guidance, the Authority has consulted such persons as it considers appropriate; and
 - (ii) the Authority has published such guidance in such a manner as it considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.

5. (1) Subject to sub-paragraph (2), the Appointee -

- (a) shall review its Access Code, and make any revisions to its Access Code consequent upon that review, annually not later than 15 October

in each year; and

(b) may also at any other time revise it.

(2) If the Authority revises Statutory Guidance, the Appointee shall revise its Access Code to conform to the revised Statutory Guidance within the timescales set out by the Authority.

(3) If the Authority revises any relevant guidance, the Appointee shall revise its Access Code to conform to such revised relevant guidance, within the timescales set out by the Authority, provided that the Authority has -

(a) consulted such persons as it considers appropriate before revising that relevant guidance; and

(b) published that revised relevant guidance in such a manner as it considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.

6. (1) The Appointee shall -

(a) include the text of its Access Code, as revised from time to time, on any Internet website which it may maintain; and

(b) in response to any request, provide a copy of it free of charge.

(2) The Appointee shall provide to the Authority -

(a) free of charge a copy of its Access Code; and

(b) within seven days of making them, written particulars of any modifications of it.

Customer transfer protocol

7. The Appointee shall comply with the Protocol.

8. In relation to circumstances where a Licensee proposes to introduce water in pursuance of its licence, or the cessation of such an introduction is proposed, the Protocol shall provide a clear, simple and standardised process for the timely and efficient transfer of supplies to premises of customers:
 - (a) between any water undertaker and any Licensee; and
 - (b) between any two Licensees.

9. The Protocol shall -
 - (a) make the same provision for all of the transfers referred to in paragraph 8 above; and
 - (b) include provisions for its amendment which shall -
 - (i) allow the Authority and such other persons as the Protocol shall specify to propose amendments;
 - (ii) subject to (iii) below, require the agreement of the Authority and such majorities, as the Protocol shall specify, of water undertakers and of Licensees with wholesale or supplementary authorisations, before any amendment can be made; and
 - (iii) in the case of such disagreements as the Protocol shall specify, about any amendment to the Protocol which has been proposed other than by the Authority, allow the Authority to determine whether that amendment shall be made.

10. The Protocol shall include provisions to the effect that, where -
 - (a) any water undertaker or Licensee ("the Old Supplier") is supplying water to the premises of a customer;
 - (b) that customer has failed to pay outstanding charges due to the Old Supplier in respect of that supply;

(c) those charges have been demanded by notice served on the customer;
and

(d) they have remained unpaid for 30 days or more after the date of that notice, the old supplier may suspend the transfer of the supply of water to those premises of that customer until satisfactory provision has been made for the outstanding debt to be paid to the old supplier.

11. Where the Authority so determines, the Protocol shall provide for such matters as are specified or are of a type specified in the Protocol to be referred to and determined by the Authority.

Application

12. (1) Paragraphs 1 to 11 of this Condition shall only apply from and for such time and to such extent as may be specified by the Authority from time to time by relevant notice.

(2) The Appointee shall notify the Authority immediately of the fact and terms of each request the Appointee receives from a water supply licensee to permit the introduction of water into the Appointee's supply system pursuant to section 66B or 66C.

(3) Under sub-paragraph (1) -

(a) a relevant notice shall not have effect unless, before making the relevant notice, the Authority has consulted the Appointee and such persons as it considers appropriate; and

(b) a "relevant notice" is a notice published in such manner as the Authority considers appropriate and served on the Appointee.

Consolidation Note - Does not form part of the Appointment

This document is a consolidated working copy of the Appointment, prepared using the original Appointment and modifications and variations which have been made to the Appointment. It does not include any explanatory notes or guidance documents (which do not form part of the Appointment). It is not a formal document and should not be relied on.

This licence has been consolidated to incorporate the following modifications and/or variations:

- 1 Modification to Condition A and insertion of conditions R, R3, R4 & R5 (effective on Retail Market Opening Date)
- 2 Deletion of Condition C (coming into effect on 20 October 2017).
- 3 Appointment of Severn Trent Services (Water and Sewerage) Ltd as a Water Undertaker, modifications to Schedule 1, Conditions A, B, C, D, E, F, I, O, R and insertion of conditions Q and S (effective on 23 July 2018)
- 4 Modification to Conditions A, D, E, G, H, I, M, O, Q and deletion of Conditions R4 and R5 (coming into effect on 1 January 2019)
- 5 Modification of Conditions F and N (coming into effect on 1 March 2019).
- 6 Modification of Conditions A and N (coming into effect on 1 January 2023)
- 7 Modification of Condition G (coming into effect 12 February 2024)