

July 2021

**Consultation under section 13 of the  
Water Industry Act 1991 on proposed  
modifications to Condition B of the  
licence of Severn Trent Water**

## About this document

This document invites comments on our proposal to modify Condition B of the Instrument of Appointment (licence) of Severn Trent Water Limited (Severn Trent Water). Our proposed licence modification would add a new performance commitment with an in-period ODI that will allow the company to receive green recovery in-period funding through a revenue adjustment as part of our in-period ODI determinations.

Under section 13 of the Water Industry Act 1991 (WIA91) we are able to modify the conditions of a company's licence if it agrees to the change we are proposing to make.

## Responding to this consultation

We invite Severn Trent Water and other stakeholders to comment on our proposed modification by no later than **12 August 2021**. We also ask Severn Trent Water to confirm by that date whether or not the company consents to the proposed modification. Subject to agreement and our consideration of responses, we aim to amend Severn Trent Water's licence by **1 September 2021**.

You can email your responses to [greenrecovery@ofwat.gov.uk](mailto:greenrecovery@ofwat.gov.uk)

We will publish responses to this consultation on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk), unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory [Code of practice](#) which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

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## 1. Background, effect and reasons

In July 2020, we – alongside the Department for Environment, Food & Rural Affairs (Defra), the Environment Agency, the Drinking Water Inspectorate (DWI) and the Consumer Council for Water (CCW) – invited English water companies to play their part in the green economic recovery from Covid-19.<sup>1</sup> We set out our ambition to build back greener from the pandemic: delivering lasting environmental improvements for current and future generations, while meeting the economic and social challenges England faces.

As part of our green recovery final decision<sup>2</sup> we agreed an allowance of £565.548 million for Severn Trent Water to deliver six schemes: to improve river quality by upgrading sewage treatment works, treating and reducing spills from storm overflows, and installing river quality monitoring; to increase water supplies in a low-carbon, reduced-chemical way, through a combination of supply- and demand-side solutions; to trial the creation of two bathing rivers, including reducing harm from storm overflows by reducing spills into the area during the bathing season; to protect homes from flooding through nature-based solutions; to replace and repair customer supply pipes, reducing health risks from lead pipes in two trial areas; and to help customers save water by installing smart water meters. The allowance also includes Severn Trent Water's contribution to the ceramic membrane at Hampton Loade water treatment works scheme in South Staffs Water's region. As the company provided evidence to demonstrate that notional financeability would be adversely impacted by delaying full cost recovery until our 2024 price review (PR24), we agreed to allow Severn Trent Water to receive £84.832 million as funding from customers during the current (2020-2025) price control period.

This funding will be allowed through an in-period revenue adjustment under Part 3A of condition B of the company's licence, operating in a similar manner to an in-period outcome delivery incentive (ODI). We consider that using this existing mechanism is the most practical and proportionate way of delivering in-period funding to companies. In order for such a revenue adjustment to be made for 2022-23 and subsequent charging years, we need to set a performance commitment. We can then include payments associated with this performance commitment when we make changes to the companies' price controls in relation to in-period ODIs.<sup>3</sup>

Our 2019 price review (PR19) final determinations did not include performance commitments for green recovery schemes and the deadline in condition B for setting performance commitments with in-period ODIs for the current price control period was 31 December 2019. Consequently, we propose to modify Severn Trent Water's licence to add a new performance

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<sup>1</sup> Ofwat, Defra, Environment Agency, Drinking Water Inspectorate and CCW, '[Green economic recovery – the water industry's role in building a resilient future](#)', July 2020.

<sup>2</sup> [Green economic recovery: Final decisions](#)

<sup>3</sup> Further detail of how the reconciliation of in-period ODIs works is set out in our [PR19 Reconciliation Rulebook: Guidance Document](#).

commitment with an in-period ODI that will allow us to make revenue adjustments as part of our in-period ODI determinations. The modification will only add the new performance commitment to those that were notified to the company for the purposes of Part 3A of Condition B in December 2019. The modification will not make any other changes.

The new performance commitment will be for the company to have accepted our green recovery final decisions by 8 August 2021 and to report on progress in subsequent years. Fulfilling these requirements will allow an in-period revenue adjustment to be made for the following charging year, equal to the company's relevant green recovery in-period allowance.

## 2. Proposed modification

We are proposing to insert the following text:

- At the end of Condition B after Part IX:

“Part X                    Changes to Performance Measure Adjustments

22                    Part 3A of this Condition shall have effect as if the notification to the Appointee in December 2019 that Price Controls may be adjusted to reflect the Appointee’s performance in relation to specific Performance Commitments included the Performance Commitment listed in Appendix 1 to this Condition.”

- At the end of Condition B the following Appendix:

“Appendix 1 – New Performance Commitment

**Purpose:** This performance commitment is designed to provide the company with in-period funding for the green recovery schemes it has agreed to deliver. This is set out in our green recovery final decisions document, published in July 2021.

**Benefits:** This performance commitment will ensure that the company is able to deliver its green recovery schemes, while continuing to be able to finance the proper carrying out of its functions.

<b>Unique Reference</b>	PR19SVE_GR	
<b>Definition of performance measure</b>	The company will need to fulfil the following requirements to receive the allowed in-period revenue adjustment in each charging year:	
	<b>Charging year</b>	<b>Requirement</b>
	<b>2022-23</b>	The company has accepted the green recovery final decisions by 8 August 2021.
	<b>2023-24</b>	The company has reported on the progress of its green recovery schemes for charging year 2021-22.
	<b>2024-25</b>	The company has reported on the progress of its green

		recovery schemes for charging year 2022-23.
<b>Measurement timing</b>	Reporting year	
<b>Financial adjustments</b>	Revenue	
<b>Timing of financial adjustments</b>	In-period	
<b>Price control allocation</b>	Water resources: 5.72% Water network plus: 37.15% Wastewater network plus: 57.13%	

<b>Charging Year</b>	<b>Allowed Revenue adjustment (£m)</b>
2022-23	25.257
2023-24	29.446
2024-25	30.129

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

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