

Notice

October 2021

Reasons for the modifications to Condition B of the licences of Severn Trent Water and South Staffs Water

This notice explains the background and reasons for the modifications that the Water Services Regulation Authority (**Ofwat**) made to Condition B: Charges of the appointments (**licences**) of Severn Trent Water Limited (**Severn Trent Water**) and South Staffordshire Water plc (**South Staffs Water**) with effect from 1 September 2021. These modifications have been made under section 13 of the Water Industry Act 1991.

Modifications

Following the notices of the [proposal to modify the licence of Severn Trent Water](#) and the [proposal to modify the licence of South Staffs Water](#) (both published on 15 July 2021), this notice confirms that Ofwat has modified Condition B of each company's licence. For each company the modification adds a new performance commitment with an in-period outcome delivery incentive (**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. The wording of the modification is the same as that set out in the notices of the proposals.

Background 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-19.¹ 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 decision² we agreed allowances for Severn Trent Water and South Staffs Water to deliver agreed schemes. As the companies provided evidence to

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

² '[Green economic recovery: Final decisions](#)', July 2021.

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 and South Staffs Water to receive £1.970 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 each company's licence, operating in a similar manner to an in-period ODI. We consider that using this existing mechanism is the most practical and proportionate way of delivering in-period funding to the companies. In order for such a revenue adjustment to be made for 2022-23 and subsequent charging years, we needed to set a performance commitment for each company to allow us to include payments associated with the performance commitment when we make changes to the companies' price controls in relation to in-period ODIs.³

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 have modified the licences of Severn Trent Water and South Staffs Water to add a new performance commitment with an in-period ODI for each company that will allow us to make revenue adjustments as part of our in-period ODI determinations.

The new performance commitments are for each 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.

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