

POSSIBLE LICENCE MODIFICATIONS

Ring fencing

- a condition prohibiting the regulated company in engaging in any activity other than those required to carry out its proper functions under the Act or the Licence;
- a condition to prohibit the transfer of assets and the giving or increasing of existing loans or guarantees to associated companies;
- a condition to prohibit the regulated company from raising finance on terms which include cross-default covenants; and
- a condition requiring the regulated company to use all reasonable endeavours to ensure that all loan facilities made available to it should secure and retain investment grade ratings or ensure an equivalent.

Procurement plan

- a condition that a competitive tendering process should be undertaken in an appropriate manner. A 'procurement plan' which must be approved by the Director must be prepared and revised to ensure that the procurement process would be undertaken in an open and transparent manner without favouring any party. In particular, all potential service providers should have access to the same information to prevent the incumbent service provider being at a competitive advantage in the bidding process; and

Corporate governance

- a condition requiring the owner of the regulated company (via a legally enforceable undertaking) to consult the DGWS of any proposed change to the Articles and Memorandum of Association for the company;
- a condition requiring the Board of the regulated company to maintain an incentivisation plan for senior executives linked to efficiency and service performance targets; and
- the regulated company's Board should adhere to the corporate governance principles as contained in the Principles of Good Governance and Code of Best Practice as required by the listing rules of the London Stock Exchange (LSE).
- a condition requiring that the composition of the regulated company Board should be such that it could act independently of the parent, and

the directors should act exclusively in the interests of the water utility if conflicts of interest arose and that they should not vote on contracts where they have interests by virtue of other directorships;

- a condition requiring that the regulated company's Board should contain at a majority of non-executive directors of standing with relevant experience who shall collectively have connections and knowledge of the area in which the regulated company serves and an understanding of the interests of the customers of the regulated company and how these can be respected and protected;
- a requirement that companies with the undertakings to the regulated company will refrain from any action which would/may cause the appointee to breach any of its obligations under the Act or the conditions of the appointment;
- a condition requiring executive directors to be publicly accountable on a regular basis.

Access to information and the role of the appointee's owners

- an undertaking from the owner to provide such information as is necessary for the regulated business to comply with the conditions of the appointment; and
- a condition requiring the owner of the regulated company to provide such information as the DGWS might reasonably require relating to the activities and financing of the company.