

07 December 2007

Rhiannon McHugh
PR09 Planning Team
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Dear Rhiannon

Re: Response to OFWAT's consultation paper

This letter outlines the response of Morley Fund Management Limited ("Morley") to OFWAT's consultation paper – "Setting price limits for 2010-15: Framework and approach" with emphasis on the issue of sector credit quality.

In the paper, OFWAT state the following:-

"We have described financeability in term of ensuring that, if reasonably efficient, a company's revenues, profits and cash flows should allow it to raise finance on reasonable terms in the capital markets" (page 49)

"We do not have a prescriptive view of the credit ratings that a company should maintain, as this is for markets and management to determine. But we will want to be sure that credit ratings lie comfortably within the investment grade" (page 49)

From the above, it is Morley's view that OFWAT will set price limits for the next regulatory period with the objective of ensuring credit quality in the UK water sector is maintained.

This, we believe, is an appropriate objective to pursue given the long dated nature of water assets and the high level of investment required in the sector as we enter the next decade.

In addition, by committing to maintaining sector credit quality, Morley and other long term real money debt investors, can have confidence in the underlying fundamentals of the sector and therefore, should be in a position to provide access to debt capital to assist funding of future investments.

Although, as stated, OFWAT does not have "...a prescriptive view of the credit ratings that a company should maintain", as debt market participants, it is our opinion that, to raise debt capital on "reasonable terms" – and therefore, provide value for UK water customers - credit quality should be set across the sector in line with a 'A3 / A-' rating for the long term.

Morley welcomes the open approach OFWAT takes with debt investors and the chance to respond on the issue of credit quality – one that we consider is important for the long term sustainability of the UK water sector.

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Morley is a business name of Morley Fund Management Limited, registered in England No. 1151805, Registered Office: No. 1 Poultry, London EC2R 8EJ. Authorised and regulated in the UK by the Financial Services Authority and a member of the Investment Management Association.

Morley is also a business name of Morley Fund Services Limited and Morley Pooled Pensions Limited. All are Aviva companies.

Telephone calls may be recorded for training and monitoring purposes.



Should you require any further information, please contact the undersigned.

Yours sincerely,

A handwritten signature in cursive script, reading "Q. J. Casey".

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A handwritten signature in cursive script, reading "T. C. Barker".

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