



Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham  
B5 4UA

3 August 2015

Dear Sir or Madam,

**Consultation on financial monitoring framework**

We welcome the opportunity to respond to the above consultation and to contribute to Ofwat's important work in this area. I am pleased to respond as the Chairman Designate of Bazalgette Tunnel Limited, the infrastructure provider (IP) that will deliver the Thames Tideway Tunnel project.

We recognise the importance of corporate and financial resilience in the water sector and are supportive of the development of an appropriate financial monitoring framework to promote trust and confidence in the sector. We welcome the application of a monitoring framework to our regulated business, Bazalgette Tunnel Limited, which builds on the successful elements of the regime and the arrangements that have been put in place for the IP. For example, reporting plays an important role in promoting confidence, which is reflected in agreed Liaison Committee reporting requirements for the IP. We are also considering the process for deciding with our new owners and stakeholders what information will be made publicly available.

A well-constructed financial monitoring framework would complement existing tools, including the regulatory ring fencing conditions in company licences and Ofwat's board leadership, transparency and governance principles. The regulatory ring fence has proved to be successful in the past at protecting regulated entities and their customers from financial problems at the holding company level. In the light of this success, we would welcome a financial monitoring framework that is focused on regulated entities.

We support Ofwat's proposal to bring together relevant financial information in an annual report reflecting the financial health of the sector. We believe there is significant value in drawing together company reporting on governance and ring fencing (e.g. in relation to licence conditions F, K and P), as well as financial issues, to set financial information in context. The development of Ofwat's governance principles and associated reporting should be taken into account in developing the financial monitoring framework, given the interdependencies between these areas.

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We are keen to engage further with Ofwat as it develops the scope of the financial monitoring framework and set of financial metrics used. We welcome Ofwat's commitment to focus on existing information provided by companies, which will reduce the regulatory burden of the framework and promote value for money for customers.

The inclusion of stress testing within the framework raises some issues around data assurance and confidentiality, which will need careful consideration as proposals are developed. Furthermore, we would need to consider how the approach would apply to the IP given that stress testing will be based on companies' business plans.

The proposed inclusion of retailers within the framework is welcome and we agree that this will play an important role in identifying and mitigating risks to regulated companies and customers following non-household retail market opening in 2017.

We are looking forward to engaging further with Ofwat and the rest of industry in this area. Please do not hesitate to contact me if you would like to discuss this response further.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'N. Simms', with a stylized circular flourish at the beginning.

Sir Neville Simms

Chairman Designate of Bazalgette Tunnel Limited