



The Thames Tideway Tunnel Project
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

14 August 2015

Dear Sirs,

Consultation on award of a project licence and issue of waiver notice to the infrastructure provider that will deliver the Thames Tideway Tunnel Project

I am responding on behalf of the Consumer Council for Water (CCWater) to the above consultation, published on 17 July 2015.

Given the technical and complex nature of this consultation, and the short timescale given to respond to it, we have not been able to address all the matters raised. CCWater does not have the legal or financial expertise to offer a view on the licence amendments or the financial, technical and legal competencies of BTL or its owners. The information provided in the documentation, in our view, provides only a partial insight into the highly complex relationships between the various holdings and how all this ultimately impacts on Thames Water's sewerage customers' bills.

This consultation is clearly not intended for a wide audience and is certainly not something that customers could hope to comprehend unless they were specialists in this field. This causes us particular concern as the project is going to be significant in terms of impact on customers' bills, [and in terms of setting a potential precedent for other major infrastructure projects]. At a time when Ofwat is placing huge emphasis on "trust and confidence" in the sector, there has been a concerning lack of transparency and clarity over the financial and legal arrangements being put in place, and the implications these have for Thames Water's customers.

We recommend that Ofwat provides greater clarity and transparency when it announces the final outcome of this procurement process.

We would like to raise a number of specific questions/queries that arise from the consultation documents.

Ownership Structure and Funding Arrangements

Page 10 sets out a multi layered ownership structure and states that BTL, and the Equity and Holdings Ltd companies are all UK registered and resident in the UK for tax purposes. It does not explain the tax status of Bazalgette Ventures Ltd.

Page 12 states that funding from each prospective owner will be in the form of 40% equity and 60% shareholder loans. On the basis that the Tunnel will cost £4.2bn (at 2011 prices) this would equate to £1.68bn equity and £2.52bn shareholder loans. As the table shows, the commitments of the investors fall well short of the equity required. [Note that the figures in red are estimates based on a commitment equivalent to that provided for Dalmore].

Investor	Shareholding (%)	Equity Required (£m)	Commitments (£m)
Allianz	34.26	575.6	446.5
Dalmore	33.76	567.2	440.0
IPP	15.99	268.6	208.5
DIF	10.66	179.1	139.0
Bazalgette Investments Ltd (Swiss Life)	5.33	89.5	69.5
TOTAL	100	1,680	1,303.5

Page 13 describes the “Ultimate Controller” as any person which, whether alone or jointly, is in a position to control or influence the IP. We do not understand why DIF and Swiss Life are not considered to fall into this category. Together they account for almost 16% of the shareholding, and if aligned to Allianz, could effectively control BTL. They would appear to be equally as influential, if not more so, than Amber Infrastructure Group Holdings Limited or Hunt ELP Ltd, neither of which have a shareholding but exercise influence via IPP.

On the basis of the information provided it is difficult to identify where the risks are and how well these have been mitigated. The proposal is to make the owners responsible for up to a 30% cost escalation before the government would intervene, but it is not clear where these additional funds would come from and

how they would be recovered under the financial agreement between Thames Water and BTL/the IP.

Waiver Notice

While we understand the desire to treat the IP as far as is possible as any other water and sewerage undertaker, it is not clear to what extent there will be any on-going close scrutiny of the contractual arrangements undertaken by the IP once the Licence has been awarded. Given the expressed commitment to ensure customers receive value for money, will it fall to Ofwat to ensure that commitments made and incentives designed to keep costs down are delivering the right outcomes, or will there be another form of third party/independent scrutiny?

I look forward to your response to the points we raise.

Yours faithfully,

Sir Tony Redmond
Chair CCWater London & South East