



Our Ref. AB/AE/KB

Ofwat
City Centre Tower
7 Hill Street
Birmingham
B5 4UA

25 February 2016

Dear Sir/Madam

CONSULTATION ON HOW COMPANIES SHOULD DEMONSTRATE LONG-TERM FINANCIAL RESILIENCE

We have outlined below our response to your updated proposals relating to the demonstration of Companies' financial resilience through the Long Term Viability Statement.

Overview

We welcome the revisions to the original proposals, including removing the requirement to publish the results of stress tests conducted on forward looking plans. We also accept that the Viability Statement, which we will publish for the first time this year-end, provides an effective mechanism for the Directors to detail their assessment of the prospects of the Company and the principal risks that it faces.

Whilst we fully support the principles of the Code and the disclosures required to be included in our financial statements, we note that certain of the Ofwat principles appear to stretch beyond the boundaries of the Code.

The comments below cover question 1 on page 6 of the consultation paper.

Viability statement content and assurance

The proposals on page 10 of the consultation document include the suggestion that management should both explain their selection of sensitivities and outline the actions that would be taken in the event that stress testing was to result in an unacceptable level of deterioration in the Company's financial metrics.

Cont'd/.....

We believe that these specific disclosure requirements exceed the requirements of the Code and could potentially lead to the disclosure of commercially sensitive information. Consequently our preference would be not to disclose these specific items in the Viability Statement.

Furthermore, we note your expectation that the assessments of financial resilience will be appropriately assured. Whilst we will deliver this assurance if mandated, we again believe that this requirement exceeds the requirements of the Code and the procedures that we would ordinarily expect our auditors to conduct on the Viability Statement.

These audit procedures will include documentation of their consideration as to how the Company has complied with the Code requirements and confirming that the forecasts used in the Viability Statement are consistent with other forecasts used by the Company, rather than conducting assurance on the detailed calculations underlying the assessment of financial resilience.

In response to Question 2, we do not believe that Ofwat needs to include any additional explicit requirements with regard to Viability Statement disclosures.

In the event that you have any queries on the above response we look forward to hearing from you, and can provide further detail as required.

Yours faithfully

A handwritten signature in black ink, consisting of a stylized 'A' followed by a long horizontal line extending to the right.

Andrew Bickerton
Finance Director