

20 June 2018

Rachel Fletcher
Chief Executive
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Dear Rachel

As you are no doubt aware there has been significant on-going dialogue between various water companies and with our investors on the proposals in Ofwat's "Putting the Sector Back in Balance" consultation paper.

As a result of this dialogue Northumbrian Water and Wessex Water are writing to set out our views as two top performing water and sewage companies, both of which have long-term, responsible, overseas investors.

We have each made our individual more detailed company responses to your consultation from which you will see that we fully understand and support Ofwat's drive to rebalance the industry.

Following discussion with our investors, we thought it would be helpful to set out the high level views which are shared by both companies and by our respective investors:

- Both Wessex and Northumbrian are conventionally financed with gearing levels which are below 70% and in our view neither company could be considered highly geared.
- Neither company supports the implementation of the sharing of financial outperformance as proposed in Ofwat's consultation paper for the reasons set out in our respective responses.
- We strongly support Boards being fully accountable for determining the level of dividends and in doing so taking into account all relevant information including performance against the final determination. However, we do not believe it is appropriate to require companies to justify dividends in comparison with a prescribed norm. To be clear we believe that company Boards should be expected to justify the dividend in the round (ie from zero upwards) not simply the variance from a 5% return (or any other figure).
- We would welcome clarification regarding Ofwat's dividend proposals, in particular that there will not be regulatory restrictions on dividend payments based on service performance over and above that which would naturally occur from the financial consequences of failure to deliver performance commitments and the requirement to rectify any failings in service.

We believe we are in the same place as Ofwat in seeking to establish greater legitimacy and transparency. It would be helpful to have confirmation of the above points so that we can continue to work with Ofwat to deliver the shared objectives with the full support of our respective owners.

Very best wishes,



CERI JONES
Assets and Assurance Director
Northumbrian Water



ANDY PYMER
Managing Director
Wessex Water