Dear Sir or Madam

17th May, 2018

Putting the Sector back into Balance

I write on behalf of the Bristol Water Challenge Panel in response to the consultation on the above document. Thank you for asking for our comments. As a Customer Challenge Group, we note that financial matters such as gearing, dividends and other related matters are not part of our, and as such, the Challenge Panel itself has not discussed these matters in any great depth. It is also important to note that our current membership and skills mix does not include those with the appropriate level of financial expertise to challenge the company. Given that Bristol Water has one of the lowest levels of gearing of all the companies in the sector, a matter we have discussed at the Challenge Panel, it could be said that this broad issue is not of the same level of relevance to them as other companies in the sector with a track record of high dividends, executive pay and gearing. However, we feel that it is essential for the water sector to have the trust of its customers and that it is not without reason that customers in our geographical area will have some interest in the financial resilience of the company that provides water services to it and might be tainted by the lack of confidence customers have in other water companies.

We understand the balance of risk borne by customers and companies is a key principle of water regulation. However, with the proposals set out, might there be a perverse incentive for companies, their parent or holding companies to increase their gearing in order to appear to give customers a mechanism to share financial gains?

Responses to selected consultation questions:

Q1. Yes, this is a reasonable approach.

Q 2. Yes, the company should have an opportunity to establish a sharing mechanism. In the absence of such a mechanism, Ofwat should be able to impose one. It should be noted that, at this late stage in the business plan development, it is unlikely that companies will have an opportunity to consult their customers on the type, scope, anticipated outcomes and methods of assessing their value in a transparent way for such a mechanism, etc.

Q3. We consider sharing financial outperformance with customers is an excellent proposal. We would like customers to have a view regarding the range of projects to which monies could be allocated based on customer recommendations, a fair and transparent assessment of priorities for such projects, and clearly reported outcomes achieved and lessons learned from any projects so funded.

Q4/Q5. We support the proposal that PR19 business plans should contain transparent policies on dividends and performance-related pay for senior executives; based on reasonable comparators in water and other sectors, clear and transparent definition of targets, achievement and any ‘soft’ assessments that go alongside the making of decisions.

However, having a dividend policy may be missing the wider point. Some business models may be designed to provide the quality of infrastructure and operational delivery that are resilient and innovative. Such cost efficiencies may lead to an enlightened approach to finance, dividend, executive performance-related pay and other matters. Hence, the entire corporate responsibility policy may be a better context into which to fit the dividend question and assessment.

Q6/Q7. Where water companies are subsidiaries of a holding company, parent company or other entity, it is important to also understand the overarching goals and demands made of that holding or parent firm. For example, in some sectors private equity firms demand a rapid return on investment and can be quite aggressive in ensuring this policy is enacted. The revised question may not necessarily uncover the information or assurances you seek.

I trust these responses have been helpful in refining or assessing the regulatory framework for PR19.

Yours faithfully

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