

Change of Control
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6 June 2018

Dear Ofwat

Consultation on Change of Control – General Policy and its application to Thames Water

We are grateful for the opportunity to comment on Ofwat's proposals in relation to changes in control of a statutory appointee.

- 1) What are your views on the introduction of notification requirements on change of control into the licence information requirements?*

This will be a welcomed change, especially so where a change of control results in a new party to the water sector having overall control of a licenced appointee.

- 2) What are your views on the proposed obligation to provide us with information?*

This is sensible. It will allow all parties to understand the potential for any issues before a transaction is completed.

- 3) What are your views on the information that may be helpful for our assessment of change of control?*

It would be helpful for future investors if Ofwat were to include in the guidance what it considers to be the maximum shareholding that can be held across more than one appointee. This could prevent any unintentional conflicts arising.

In the event that a CMA merger clearance is required, the information required should be similar, such that both Ofwat and the CMA can make their respective decisions based on the same information.

4) *What are your views on the proposed obligation to require the Appointee to comply with any direction from Ofwat to enforce an Ultimate Controller's undertaking?*

Providing there are clear and sufficiently detailed circumstances included in the provision of such an amendment, we would be, in principle, agreeable to such a requirement.

5) *What are your views on bringing all the licences up to the same standards, including introducing a requirement to meet the BLTG principles?*

In the current BLTG principles, there is the recognition that small companies (including NAVs) are not currently expected to comply with these requirements.

As long as this expectation is maintained in the future, we would have no objection to the imposition of the same requirements across all companies.

Although this is the case, we would not simply disregard the principles and would seek to meet or exceed the requirements where it is possible to do so.

6) *Are there aspects of the most up to date provisions which you think we need to revisit or amend?*

We do not believe there are any amendments required at this time.

7) *What are your views on how the ring fencing conditions need to be further strengthened? In particular, in relation to:*

a. Maintaining an appropriate credit rating and how and when the lock-up conditions are triggered?

We note the Ofwat's intention with regards to their requirement for maintaining an investment grade credit rating.

While we agree this is appropriate for the larger WOCs and WASCs, we do not believe it will be appropriate for NAV companies, as NAVs are likely to be small privately-owned companies, not listed on the London Stock Exchange (or similar). The requirement to maintain an investment grade credit rating is likely to overly burdensome on NAVs and may have the effect of stifling the NAV market.

b. Whether there needs to be a more explicit requirement to inform us of particular events affecting the Appointee?

We believe the current requirements are sufficient and allow companies to make their own judgement taking into account the specific circumstances at their company.

However, if Ofwat believe an amendment is required, we suggest that a principles-based approach is adopted, rather than a strict list of rules.

c. Managing potential conflicts of interest where there are cross-shareholdings?

We do not have any particular concerns regarding this issue. However, if Ofwat believes there is the potential for an unwanted share of information between appointees, we would, in principle, be broadly supportive of guidelines outlining acceptable minority shareholdings across a number of appointees.

d. Safeguarding the autonomy of the Appointee?

We do not believe an update is required to the operation of the appointed business as if it were a sole business and publicly listed.

e. Any other issues?

There are no other issues to which we wish to draw Ofwat's attention.

Remaining questions regarding assessment of Thames Water

We have no objections or concerns regarding Ofwat's assessment of the incoming investors of Thames Water, or of the proposed amendments to their licence.

We hope you find our comments useful and do not hesitate to contact me if you would like to discuss our comments further.

Yours faithfully



Mike Leeke
Finance and Regulation Manager