



Change of Control
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

8 June 2018

Dear Sir/Madam

Change of control - general policy and its application to Thames Water

Thank you for the opportunity to comment on this consultation. Please find below our preliminary views on the matters raised. We will of course provide a substantive response to Ofwat's developed proposals for licence condition modifications in due course.

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

We support the proposal to formalise the arrangements currently followed for notification of changes of control.

2. What are your views on the proposed obligation to provide us with information?

We do not object to there being a licence obligation to provide information to Ofwat in these specific circumstances.

However, we note that appointees are already required by Condition M to provide Ofwat with information reasonably required for the purpose of Ofwat carrying out its functions under the Water Industry Act 1991. Accordingly, we question the need for an additional condition.

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

No comments.

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?

We agree with the proposed condition.

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

We agree that all appointees should be subject to the same licence conditions relating to the regulatory ring fence, except where differences can be objectively justified.

We understand that Ofwat is expecting to issue a policy consultation on BLTG at the end of June 2018 and we will respond to those proposals in due course. Our initial view, however, is that appointees should not have an absolute obligation to meet Ofwat's corporate governance principles (as revised from time to time) as there could, in specific cases, be good reason for a departure from the principles. It would be preferable and provide more flexibility for the obligation to be cast as an obligation to have regard to the corporate governance principles issued by Ofwat from time to time and to explain publicly any departures from those principles.

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

No, we consider the most up to date ring fencing provisions remain appropriate.

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?
- b. Whether there needs to be a more explicit requirement to inform us of particular events affecting the Appointee?
- c. Managing potential conflicts of interest where there are cross-shareholdings?
- d. Safeguarding the autonomy of the Appointee?
- e. Any other issues?

We will consider Ofwat's proposals in this regard as they are developed over the coming months alongside its review of the BLTG principles.

8. Do you agree with our assessment of the incoming investors of Thames Water?

No comments.

9. What are your views on the ability of the new investors of Thames Water to run a regulated water utility?

No comments.

10. Do you have any concerns with the new investors of Thames Water that might affect the ability of Thames Water to fulfil its statutory duties and obligations under its licence?

No comments.

11. What are your views on the proposed modifications of Thames Water's licence?

The proposed modifications fall into two categories:

- (a) modifications bringing their licence up to the same standard of ring fencing provisions Ofwat currently seeks for all companies; and
- (b) further strengthening of the ring fencing provisions.



In respect of the first category, it is our understanding that the ring fencing provisions in the Affinity Water licence are the same in substance, as those proposed for Thames Water, although we have not in the time available for this consultation been able to confirm this.

In respect of the second category, we have set out our thinking in our responses to the relevant consultation questions.

12. What are your views on our assessment of the Ultimate Controllers under the current arrangements?

No comments.

Please do let me know if you have any questions arising from this response.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Tim Monod'.

Tim Monod
Company Secretary