

5 June 2019

Trust in water

South Staffordshire Water: Conclusions on change of control

About this document

On 19 March 2019 we published a [consultation on Change of ownership for South Staffordshire Water plc](#) ('the consultation') which resulted from our consideration of a change in the ownership and control of South Staffordshire Water plc ('South Staffs Water').

The consultation closed on 16 April 2019. It set out:

- Our understanding of how the ownership structure of South Staffs Water has changed;
- Our assessment of each new owner and an existing owner newly identified as an Ultimate Controller as well as their capacity to be an owner of a regulated water company;
- Our understanding of how the board of directors of South Staffs Water has changed following the change of control;
- Our considerations in identifying the new Ultimate Controllers of South Staffs Water.

In this document, 'South Staffs Water: Conclusions on Change of Control', we summarise the response to the consultation.

Contents

1. Introduction: responses to the consultation.....	2
2. Summary of the response received in relation to each question.....	3
2.1 Assessment of the incoming investors of South Staffs Water	3
2.2 Ability of the new owners to run a regulated water utility	3
2.3 Concerns with the new owners	3
2.4 Our identification of the Ultimate Controllers.....	3
3. Next steps.....	4
A1 Response to the consultation.....	5

1. Introduction: responses to the consultation

On 3 July 2018 Arjun Infrastructure Partners Limited ('AIP'), an independent infrastructure asset management company, acquired a 75% equity stake in South Staffs Water from Kohlberg Kravis Roberts & Co. L.P. ('KKR'). KKR had held 75% of South Staffs Water since 2013. AIP immediately sold a 19.9% stake on to Mitsubishi UFJ Lease & Finance Company ('MUL'). The transactions resulted in the following ownership structure:

Owners of South Staffs Water from 3 July 2018

Owner	Percentage owned
Arjun Infrastructure Partners Limited ('AIP')	55.1%
Mitsubishi Corporation (existing owner)	25.0%
Mitsubishi UFJ Lease & Finance Company ('MUL')	19.9%

The consultation on the change of control at South Staffs Water set out the following questions:

Consultation questions

- 1) Do you agree with our assessment of the incoming owners?
- 2) What are your views on the ability of the new owners to run a regulated water utility?
- 3) Do you have any concerns with the new owners that might affect the ability of South Staffs Water to fulfil its statutory duties and obligations under its licence?
- 4) What are your views on our identification of the Ultimate Controllers?

We received one response to the consultation from the Consumer Council for Water ('CCWater'). A copy of the response can be found at Appendix A1.

2. Summary of the response received in relation to each question

No concerns were identified in relation to either the change of ownership or our identification of the ultimate controllers.

2.1 Assessment of the incoming investors of South Staffs Water

CCWater said they do not have any specific concerns about the assessment.

2.2 Ability of the new owners to run a regulated water utility

CCWater said it would not be appropriate for them to comment on the ability of the new owners to run a regulated water company.

2.3 Concerns with the new owners

CCWater noted that they had seen nothing that would indicate concerns from Ofwat's assessment. CCWater also noted that in South Staffs Water's PR19 business plan resubmission on 1 April 2019 they had provided Board assurance of the financeability of the plan and engagement with their investors, including details of the new owners and their involvement in the plan. CCWater also commented that it has seen no change in South Staffs Water's focus on shaping its business plan to deliver the priorities of its customers during, or following, the change in ownership.

2.4 Our identification of the Ultimate Controllers

CCWater noted that our identification of the Ultimate Controllers appears to have been applied methodically and in line with the principles we set out in the 2018 consultation on our [change of control – general policy](#)¹. They said they had no further comments on the Ultimate Controllers we identified. As noted in the consultation, South Staffs Water has already procured undertakings from each of the Ultimate Controllers.

¹ <https://www.ofwat.gov.uk/wp-content/uploads/2018/05/Change-of-control-general-policy-and-its-application-to-Thames-Water-final.pdf>

3. Next steps

No further steps need to be taken in relation to the change of ownership at South Staffs Water following the consultation on their Change of Control.

Historically, following a change of control, we have taken the opportunity to identify areas of an Appointee's Instrument of Appointment ('licence') that may need updating. However, we consulted in November 2018 on [strengthening the regulatory ring-fencing framework](#)² ('the ring-fencing consultation') and we are not proposing to modify South Staffs Water's licence beyond the changes proposed to the ring-fence in that consultation. The ring-fencing consultation closed on 8 January 2019 and our decision on the questions raised and the issues arising from the responses will be published in due course.

South Staffs Water's response to the ring-fencing consultation confirmed that the proposals have been discussed with their Board and that they support the proposed licence amendments. Following the publication of the ring-fencing decision we will commence the process to modify the licences of South Staffs Water and the other regulated companies.

² <https://www.ofwat.gov.uk/wp-content/uploads/2018/11/Consultation-on-strengthening-the-regulatory-ring-fencing-framework.pdf>

A1 Response to the consultation



Change in Ownership for South Staffordshire Water Plc- CCWater response to an Ofwat consultation

Introduction

1. The Consumer Council for Water (CCWater) is the statutory body representing water and sewerage customers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
2. We welcome the opportunity to respond to this Ofwat consultation on the change of ownership for South Staffordshire Water Plc. This follows the acquisition of a 75% equity stake in South Staffordshire Water Plc by Arjun Infrastructure Partners Ltd (AIP) from Kohlberg Kravis Roberts and Co.L.P (KKR) on 3 July 2018. AIP immediately sold a 19.9% equity stake on to Mitsubishi UFJ Lease and Finance Company (MUL). This now makes the current owners of South Staffordshire Water Plc AIP at 55.1%, MUL at 19.9% and Mitsubishi Corporation (MC) at 25%.
3. When there is a change in ownership for a water and/or sewerage company, CCWater expects to see a clear balance in the interests of the company with those of its customers. During the current price review (PR19), which will determine companies' business plans for 2020-25, there has been a greater focus on shaping plans to deliver the priorities of customers at a price that is affordable to them. South Staffordshire Water has increased the level of its customer engagement at PR19 and has also committed to carry out customer research as business as usual. It is important to retain the momentum in customer engagement, and we will be pressing the water company and its new owners to achieve that.
4. In addition, during PR19 and beyond, companies must be encouraged to continue to make progress on addressing the needs of vulnerable customers and of future generations through investment in resilience. We note South Staffordshire Water's commitments on these important issues, which are set out in detail in its business plan for 2020-25.
5. The CCWater Chair of the Central and Eastern region attends meetings of the South Staffordshire Water Plc Board on an annual basis. He will be attending the May 2019 meeting where he looks forward to meeting the new owners and will discuss with them their plans to meet customers' needs.

Response to consultation questions

Q1) Do you agree with our assessment of the incoming owners?

6. This consultation paper details the corporate structure and relationship with South Staffordshire Water Plc of AIP and MUL as incoming owners (and MU as the 'incumbent owner'). Ofwat's assessment includes investigation into their experience in water and the infrastructure sector and governance arrangements. The assessment appears thorough. Based on this and our discussions with South Staffordshire Water when the change in ownership happened in July 2018, we do not have any specific concerns about the assessment.

Q2) What are your views on the ability of the new owners to run a regulated water utility?

7. We note that, based on the information provided to Ofwat and through its own investigations, Ofwat has not found any issues associated with the new investors.

However, we do not feel it would be appropriate for us to comment on their ability to run a regulated water company.

Q3) Do you have any concerns with the new owners that might affect the ability of South Staffs Water to fulfil its statutory duties and obligations under its licence?

8. We note the experience of the new owners set out in this consultation paper, along with separate assurance provided to Ofwat that each owner will meet its obligations as an owner of an appointed water company. CCWater has not been provided with any information that would indicate concerns at this point in time, therefore, we cannot provide any further comments.
9. We acknowledge that in its Business Plan resubmission on 1 April 2019, South Staffordshire Water has provided Board assurance of the financeability of its plan and engagement with investors. This details the new owners and their involvement in the plan.
10. In addition, we saw no change in South Staffordshire Water's focus on shaping its business plan to deliver the priorities of its customers during, or following, last year when the change in ownership was happening.

Q4) What are your views on our identification of the Ultimate Controllers?

11. Ofwat has concluded that, based on its own due diligence of the new ownership structure of South Staffordshire Water, AIP Holdings Ltd is the ultimate controller. As Ofwat's assessment appears to have been applied methodically in line with the principles set out in its 2018 consultation proposals that apply to all companies, we have no further comments to add.

Enquiries

Enquiries about this submission and requests for further information should be addressed to:

Christina Blackwell
Policy Manager, Consumer Council for Water

Tel: 0121 345 1082

E-mail: christina.blackwell@ccwater.org.uk

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

June 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

