

Consultation on strengthening the regulatory ring- fencing framework

Severn Trent Water and Hafren Dyfrdwy Response

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WONDERFUL ON TAP



Summary of response

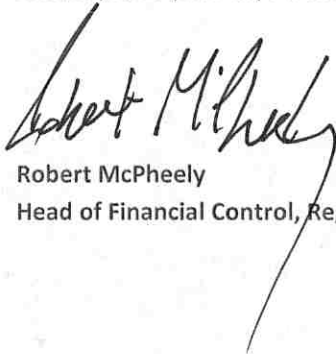
We welcome the opportunity to respond to the above consultation which forms part of a suite of Ofwat proposals to update and simplify the licence conditions under which water companies operate. We support the objectives to bring all licences up to the industry leading standard and provide consistency across the industry to support greater transparency for customers and stakeholders.

We believe that the Licence Conditions are important for protecting customers and holding companies to account, in particular the regulatory ring-fence condition affords a level of protection to Appointees, customers and stakeholders.

As part of the NAV agreement to amend the boundaries of Severn Trent Water (STW) and Hafren Dyfrdwy (HD), we agreed new regulatory ring-fencing conditions (Condition P) with Ofwat which are broadly aligned to the proposals as set out in the annex to the consultation document. Having recently agreed the terms of Licence Condition P we do not consider it necessary to amend the terms to exactly match the wording as shown in the annex to the consultation. However we do not object to the amendments if this would bring about a consistent approach across the industry.

We make some specific comments in respect to each of the questions raised in the consultation which are contained in the attached annex.

Should you require any further information please do not hesitate to contact me.



Robert McPheely
Head of Financial Control, Regulatory Reporting

Comments on specific consultation questions regarding strengthening the regulatory ring-fencing framework

Specific comments to consultation questions:

1) *In light of the summary of views expressed and our initial consideration of the points made to date, do you agree with, or have any further comments to make with respect to, the proposal that all Appointees' licences require that they "must ensure" they maintain an appropriate investment grade credit rating at all times? (See Annex: Condition P7) Do you think that this would give rise to any particular issues of a practical nature? If so, please explain and provide evidence of these impacts.*

A: This requirement is already incorporated in Condition P of both STW's and HD's Instruments of Appointment.

2) *Do you agree with the proposal to adjust the definition of issuer credit rating to explicitly allow for the use of a corporate family rating? (See Annex: Condition P7)*

A: The Instrument of Appointment for STW and HD does not currently contain the 'corporate family rating' adjustment to the 'issuer credit rating', but we see the wider benefit in adjusting the definition as this provides an extra level of protection to Appointees and customers under certain circumstances.

3) *Do you agree with, or have any further comments to make with respect to, the proposal to include the most up-to-date cash lock-up provisions for companies where they are currently not included? (See Annex: Condition P7)*

A: The cash lock-up provision is already incorporated in Condition P of both STW's and HD's Instruments of Appointment.

4) *What are your views on the changes we have set out to bring the provisions relating to ring-fencing certificates into line with industry-leading standards? (See Annex: Condition P9)*

A: This requirement is already incorporated in Condition P of both STW's and HD's Instruments of Appointment.

5) *Do you have any views about the form and consistency of information provided with ring-fencing certificates or our expectations in relation to these matters?*

A: This requirement is already incorporated in Condition P of both STW's and HD's Instruments of Appointment.

6) *Do you agree with our proposal to bring all licences up to the same standard in relation to the reporting of material issues, but not to develop guidance? (See Annex: Condition P10)*

A: This requirement is already incorporated in Condition P of both STW's and HD's Instruments of Appointment.

7) *Do you have any other comments on the issues discussed above or elsewhere in this consultation that you would like us to consider?*

A: Clauses 3.6 and 3.7 as shown in the annex to the consultation are not contained within Condition P of the Instruments of Appointment for STW or HD, however we do not object to the inclusion of these clauses within our licence condition P should this be required.

The terms of Licence Condition P for HD, agreed as part of the NAV, contains an additional clause 7.3 with which the company must comply if we agree with Ofwat that we won't comply with clause 7.2. Having recently agreed the terms of Licence Condition P we do not consider it necessary to amend the terms to match exactly the

wording as shown in the annex to the consultation. However we do not object to the amendments to bring about a consistent approach across the industry should this be required.