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By email and post

Adrian Page
Group Chief Executive
South Staffordshire Plc
Green Lane
West Midlands
Walsall
WS2 7PD

19 July 2019

Dear Adrian,

REPAYMENT OF INTERCOMPANY LOAN

I am writing to confirm that Ofwat is content with the action that South Staffordshire Water Limited (“South Staffordshire”) has taken to address our concern that South Staffordshire did not have consent from Ofwat for a loan made by South Staffordshire to an Associated Company.

Background

All companies have a condition in their Instrument of Appointment (‘licence’) that prohibits them from making a loan to an Associated Company without the consent of Ofwat. These loans are referred to as intercompany loans. We have set out the relevant condition (from Condition 18 of South Staffordshire’s licence), along with further background on the relevant loan arrangement in the Annex to this letter.

Our concern and South Staffordshire’s response

We recently became aware that South Staffordshire, without seeking or obtaining consent under Condition 18 from Ofwat, had novated a £15 million loan to a different Associated Company. When we raised this matter with South Staffordshire, you indicated that you were keen to address our concerns and you entered into a dialogue with the loan counterparty in respect of a possible early repayment of this loan before its contractual maturity date. On 24 May 2019, the loan was repaid in full to South Staffordshire together with accrued interest.

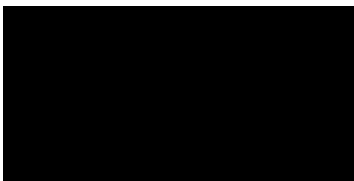
In addition, South Staffordshire has provided the following confirmations to Ofwat:

- 1) The repayment was not facilitated by South Staffordshire paying a dividend but by funds raised by the loan counterparty from outside of South Staffordshire;
- 2) In line with normal practice that reflects the performance and financial position of South Staffordshire, the directors of South Staffordshire will consider the payment of any dividends towards the end of the financial year.

Our view

We have taken into account the way in which South Staffordshire has positively engaged on this matter and the speed with which you addressed our concerns about compliance with Condition I8. We are also satisfied that the repayment of the intercompany loan has had a positive impact on the financial resilience of South Staffordshire. We confirm that we will not pursue this matter further.

Yours sincerely



Aileen Armstrong
Senior Director Finance and Governance

Annex:

FURTHER BACKGROUND

Relevant Licence Condition and Related Definitions

Condition I8

The Appointee shall not, without the consent of Ofwat:

I8.1 give any guarantee of any liability of any Associated Company; or

I8.2 make to any such company any loan.

Related definitions

Associated Company means any Group Company or Related Company;

Group Company means any subsidiary or holding company of the Appointee and any subsidiary of any holding company of the Appointee (other than the Appointee);

Related Company means any company in relation to which the Appointee or any Group Company has a participating interest within the meaning of paragraph 11 of Schedule 10 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 or which has such a participating interest in relation to the Appointee or any Group Company and for this purpose references in that paragraph to a "company" shall be deemed to include references to any body corporate.

Background to the loan

In 2005, Ofwat granted consent to South Staffordshire to make a £15 million intercompany loan to South Staffordshire Water Plc ('SSPlc').

On 13 March 2008, this loan was novated from SSPlc to Aquainvest Ventures Limited ('Aquainvest'), a holding company higher in the corporate structure, so that the creditor balance was now in Aquainvest as opposed to SSPlc. The concern arose that the novation of this loan meant that South Staffordshire had made a new intercompany loan to Aquainvest and that Ofwat's consent was not sought in relation to this new loan arrangement or the substitution of the new loan counterparty.