

8 January 2019



Regulatory Ring-fencing
Ofwat
Centre City Tower
7 Hill Street
BIRMINGHAM
B5 4UA

Registered Office:
Portsmouth Water Ltd
PO Box 8
Havant
Hampshire PO9 1LG

Tel: 023 9249 9888
Fax: 023 9245 3632
Web: www.portsmouthwater.co.uk

Please ask for
Our Ref HMGO/KL
Your Ref

Dear Ofwat

Consultation on strengthening the regulatory ring fencing framework

Thank you for the opportunity to comment on this consultation.

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.

As we noted last summer, as part of our change of ownership consultation, we have significant concerns regarding the revision of the requirement to retain an investment grade credit rating from "all reasonable endeavours" to "must ensure".

We stated then, and can confirm again now, that whilst the Board continues to recognise the importance of maintaining a sound, financeable business model including focus on retention of credit rating it also believes that many factors that affect a credit rating are entirely outside the control of the business/management.

In particular, we noted that recent changes to the regulatory economic model have not been mirrored by rating agency methodology. For example regulatory levers which may, legitimately, be used by companies to manage financeability are disregarded for ratings purposes as are net ODI rewards. This is resulting in growing divergence between the regulatory and ratings models. As a consequence business economics, which are financeable, may not be recognised as such by the rating agencies – putting the ratings under pressure. Accordingly we have concerns that this could create a "cliff edge" whereby changes in ratings activity, beyond the Company's control, result in a breach of licence condition. We have however accepted this position within our licence.

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)

We agree with the proposal to adjust the definition of issuer credit rating to explicitly allow for the use of a corporate family rating.

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)

Please see our comments to Q1.

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)

We agree with this requirement; we accepted these proposals as part of our licence change in 2018.

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?

Again, we accepted these proposals as part of our licence change in 2018. We note the discussion relating to Retail businesses, and agree it is sensible not to require such ring fencing if companies have exited the NHH retail market.

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)

We agree with the principle to bring all licences up to the same standard and believe the expectations re-stated in the consultation for reporting of material issues remain clear. If Ofwat have any concerns that the Company is not meeting its expectations we would expect feedback as part of the annual Monitoring Framework.

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

We have no further comments to make on this consultation, thank you.



**Helen Orton
Finance & Regulation Director**