

Date: 8 January 2019

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

By e-mail: FinanceAndGovernance@ofwat.gsi.gov.uk

Dear Sir or Madam

CONSULTATION ON STRENGTHENING THE REGULATORY RING-FENCING FRAMEWORK

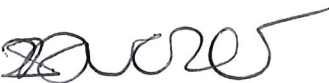
Thank you for providing us with the opportunity to respond to the consultation on strengthening the regulatory ring-fencing framework. We are supportive of the direction of travel the proposed licence modifications take the industry.

We also welcome the confirmation that South West Water's licence will continue to incorporate the exemption to maintain an investment grade rating through the existing licence requirement that achieves an equivalent level of protection under Condition P7.3.

Appendix A sets out our responses to the specific consultation questions, as well as some final minor points and company-specific observations.

We hope that you find our comments helpful. Please contact us if you would like further detail.

Yours faithfully



Iain Vosper
Regulatory Director

D: [REDACTED]

E: [REDACTED]

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.**

We note that page 9 of the consultation states that this requirement will not apply to South West Water and our understanding is that P7.3 of South West Water's current licence will be retained. We welcome this.

We have no comments on the proposals for the other Appointees.

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)**

Please see the company's response to question 1.

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)**

As the proposed modifications to Condition P7 already reflect South West Water's licence we have no comments on the text of the condition.

Please see below for our comments relating specifically to South West Water's licence.

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 recognise that other Appointees' licences already contain the proposed P9.7 requirement and confirm that we accept this modification.

However, the proposed text contains reference to 'sub-paragraph 9.3 of condition F'. As this was removed from licences as part of the simplification project we believe that the revised reference should probably be to 'sub-paragraph 6.1 of condition F'.

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?**

The most effective way to bring about consistency would be to issue guidance to companies, however it could also constrain companies' approaches.

We therefore agree that formal guidance is not required but welcome Ofwat's restatement of its expectations.

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)**

The proposed modifications to Condition P10 already reflect South West Water's licence therefore we have no comments on the text of the condition.

Condition P10 has already proved workable for South West Water without dedicated guidance.

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

Dividend policy – South West Water Condition P8

We note that the consultation does not propose introducing a Condition P8 on Dividend Policy into all licences.

As this condition is already in the licences of South West Water and Thames Water we query why, as a matter of consistency, Condition P8 is not being introduced for all Appointees.

Consistency with simplification project

The proposed licence text does not incorporate some of the simplification and consolidation changes – such as the change from ‘Water Services Regulation Authority’ to ‘Ofwat’. It may be helpful to align the text.

