



Regulatory Ring-fencing
Ofwat
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Strategy & Regulation

Name Nick Fincham
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8 January 2019

Dear Sir or Madam

Consultation on strengthening the regulatory ring-fencing framework

Thank you for the opportunity to respond to your proposals to strengthen the ring-fencing requirements on appointed companies in England and Wales. We have already accepted the new ring-fencing requirements and we are, therefore, supportive of Ofwat's work to strengthen and align ring-fencing conditions across all companies' licences. Given we have already accepted the new licence conditions, we have only responded to the consultation questions by exception. Please find our response attached to this letter.

Yours faithfully

A handwritten signature in black ink that reads "Nick Fincham".

Nick Fincham
Director of Strategy & Regulation

Thames Water response to Ofwat's consultation on strengthening the regulatory ring-fencing framework

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 have already accepted the proposed change, and therefore we have no further comments on this proposal.

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 support the amendment of the definition of Issuer Credit Rating to allow the use of corporate family ratings. More generally, a wider definition of Issuer Credit Rating could be implemented to recognise that there may be situations where a company has neither an Issuer Credit Rating nor a Corporate Family Rating but does have rated debt. We recommend, therefore, that Ofwat considers expanding the definition of Issuer Credit Rating to include the following:

"where the Appointee does not have an Issuer Credit Rating as defined in a) or b) above, a credit rating assigned by a Credit Rating Agency to Relevant Debt of the Appointee or a Financing Subsidiary of the Appointee

"Relevant Debt" means debt of the Appointee, or of a Financing Subsidiary of the Appointee and guaranteed by the Appointee, where such debt is ranked as senior issued or guaranteed (as the case may be) and providing that such debt: comprises the majority of the debt of the Appointee (where debt of the Appointee shall include debt guaranteed by the Appointee) listed on the London Stock Exchange or on another exchange that the Water Services Regulation Authority agrees is of similar standing; and meets the requirements set out in paragraph of 5.2 of Condition P."

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)

We agree with the proposal to include up-to-date cash lock up provisions in all companies' licences in order to ensure all customers receive the same level of protection.

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 have already accepted the proposed change, and therefore we have no further comments on this proposal.

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?

While the introduction of guidance on the form of the ring-fencing certificate might be helpful, it is important that any guidance does not inadvertently narrow the scope of companies' thinking of the relevant factors the certificate needs to take into account. Instead the onus should be on companies to demonstrate their certificates meet the requirements in the licence.

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 have already accepted the proposed change, and therefore we agree with the proposal to bring all licences to the same standard in relation to the reporting of material issues. With regards to whether additional guidance is needed, we agree with the conclusion that guidance would not offer any substantial benefit.

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 do not have any further comments.