

Aileen Armstrong  
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Ofwat  
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Direct Line: [REDACTED]

25 June 2020

*Dear Aileen*

**Consultation on the ring-fencing framework under Section 13 of the Water Industry Act 1991**

Thank you for your notice seeking to modify the ring-fencing conditions in our licence.

We discussed the proposals at a full meeting of the Board on 1 June and I now write on behalf of the Board.

We are pleased that during our discussions on this topic over the past two years, Ofwat has always confirmed that it has no issue with YTL's ownership of Wessex Water or the way in which YTL has conducted itself since buying Wessex Water in 2002.

We understand Ofwat's objective of improving protections for customers through the regulatory ring-fence. Indeed, our own customers benefited from this protection when our previous owner, Enron, collapsed in 2001.

As you know, in terms of licence modifications, we are really talking about whether licence changes are necessary or desirable in the context of YTL's ownership. If there is ever a change of ownership, licence conditions can be revisited as appropriate at that time in the usual way.

Governance of the regulated business has always been strong under YTL's stewardship and at the leading edge both by reference to the sector and by reference to corporates more generally. YTL as owner and the Board with statutory responsibility for the regulated business have valued the flexibility we have had to ensure the best governance for Wessex Water in its particular circumstances.

A part of our strong governance is the maintenance of our financial resilience. As a long term-term owner, YTL has always demonstrated its firm commitment to the regulated business and to maintaining its financial resilience. As you know, it has been the practice of the Board and of YTL as owner to withhold payment of dividends in circumstances where that could lead to a credit rating downgrade. This demonstrates that the protections and assurances that Ofwat

seeks to obtain through licence modifications are already in place through the basics of good governance and stewardship without the need for or inflexibility of pre-scripted solutions. YTL has assured the Board that there has been no change in its approach to stewardship and that none is intended.

Accordingly, after careful consideration, the Board has decided not to consent to the proposed licence modifications. We do, however, remain willing to work constructively with you on issues of financial resilience into the future.

With best wishes,

Andy

Andy Pymer  
Executive Director – Finance & Regulation