

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

T: [REDACTED]

By email to: OfwatPando@ofwat.gov.uk and [REDACTED]

9 July 2020

Dear Sir or Madam,

Re: Section 13 consultation on proposed modification to licences for ring-fencing

Further to my letter of 25 June 2020, please accept this letter as an updated response from Yorkshire Water Services Limited regarding Ofwat's proposals to modify the regulatory ring-fence provisions within company licences, as detailed in the statutory consultation published on 15 May 2020. This update is provided to remove any possible ambiguity in respect of the company's position.

Having reviewed the final proposals provided by Ofwat and the text modifying conditions A, I, K and P of the Conditions of Appointment of Yorkshire Water Services Limited, we note that you have requested us to provide consent to modify the licence conditions in this way.

We remain concerned that Ofwat has not included a period of time for companies to address any issues that may arise. We believe that a grace period should be in place to prevent companies from being in breach due to circumstances beyond their control leading to a failure to maintain an investment credit rating.

Failing a grace period, a remedy period immediately after breach could be used to examine the cause of the breach as well as the remedies. This was requested by YWS in previous consultation responses but is not included in the consultation proposal. We remain of the view that a remedy or grace period should be included as this would have provided a legitimate protection for situations beyond management control.

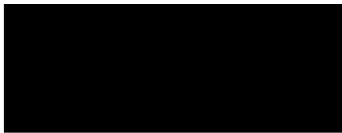
In the absence of such a protection we will rely on Ofwat's position that in the event of a potential breach it will act in accordance with its Enforcement Guidance to provide the *"details of the things we [Ofwat] would take into account in the event of a breach"*. This would include

whether circumstances genuinely outside of a company's control led, or contributed, to a breach.”¹

We have received confirmation from Ofwat via email regarding the ratings that will be monitored in line with the “Issuer Credit Rating” definition. We are grateful to have received confirmation that the ratings Ofwat will monitor under limb (b) are Moody’s corporate family rating and S&P Global Class A rating under limb (c).

We have presented the finalised proposals to our Board and are able to confirm that we have no objections to the modifications as drafted and thus consent to them being made. We understand Ofwat plans to amend company licences by 23 July 2020.

Yours faithfully,



Nevil Muncaster
Chief Strategy and Regulation Officer

¹ <https://www.ofwat.gov.uk/wp-content/uploads/2020/05/Consultation-under-section-13-of-the-Water-Industry-Act-1991-on-proposed-modification-to-the-largest-undertakers'-licences-for-ring-fencing-FINAL.pdf> Page 8