

**Ofwat**  
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07 February 2022

**DWS Infrastructure’s Letter of Support to Global Infrastructure Investor Association’s (“GIIA”) Letter: *Response to the Ofwat PR24 Discussion Papers: Financial Resilience and Risk and Return* (dated January 2022)**

Dear Sir / Madam,

DWS Infrastructure is part of DWS, the independently listed asset manager, investing third party capital on a fiduciary basis in private infrastructure assets and businesses. We are one of the largest and most successful infrastructure investors with a +25 year investment track record, over 100 equity assets acquired and a global team of 44 investment professionals. DWS Infrastructure has a unique perspective on investor return requirements from managing c.€24bn in assets invested in private infrastructure, listed infrastructure securities and infrastructure debt.

We are a long-standing investor in Kelda, the owner of Yorkshire Water (“the Company”), having made our initial investment into Kelda in February 2008. Today, we manage 23.37% of the equity of Kelda on behalf of our investors – comprised of like-minded and long-term UK and international investors such as (public sector) pension funds, insurers and sovereign wealth funds. Together, over the years, we have maintained the view that Kelda is a top tier, well-managed and continually growing company at the core of both UK infrastructure and of millions of households and businesses in the North of England.

With this in mind, we refer to the Ofwat’s recent discussion papers ‘financial resilience in the water sector’ and ‘risk and return’ published December 2021. While DWS Infrastructure will not be submitting an individual response to these papers, we are publishing this letter to officially register our full support of the content included in GIIA’s letter (dated January 2022) – which covers well the perspective of institutional infrastructure investors on the topics raised by Ofwat. The GIIA is an organisation founded by DWS Infrastructure and other infrastructure investors to promote the benefits of private capital invested in infrastructure.

We re-iterate the merits and positive outcomes highlighted by GIIA on the role of private investment and ownership in the UK Water Sector. If the UK’s water sector is unable to attract future investment and finance itself appropriately, the consequences will be considerable. Without investment and appropriate financeability, both short-term (retaining and attracting high performing management teams and investing to improve efficiency, performance and resilience) and long-term challenges (e.g. green recovery ambitions, the levelling up agenda and net zero) will become unattainable targets which will have a long-term damaging impact on Yorkshire Water’s customers, its environment and communities as well as its resilience. Communication and collaboration between the UK water companies, Ofwat and investors will be critical in setting the sector on the right flightpath that unlocks

the required level of investment that enables the UK water sector to deliver the transformational agenda items mentioned in the GIIA letter (e.g. Net Zero and climate resilience).

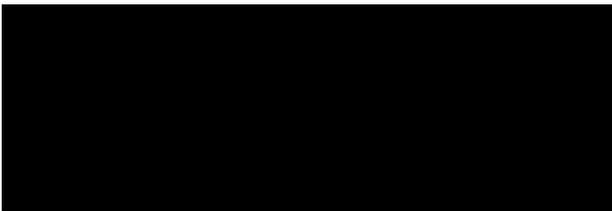
As mentioned in the GIIA letter, the ability for companies and their shareholders to make decisions around financing and target efficient capital structures, which are idiosyncratic to each company, is critical in the context of financeability. We are therefore disappointed that the CMA's conclusions on the lack of any evidence link between company capital structures and increased risk for customers (and subsequent rejection of the gearing outperformance sharing mechanism ("GOSM")) have not been taken into consideration in Ofwat's latest publications. This same disappointment can also be said about Ofwat's view on the weighted average cost of capital ("WACC"). We would have hoped that the CMA Determination on PR19 would have acted as a vital inflection point, enabling a change in the way of thinking at Ofwat – i.e. to work collaboratively with water companies and their investors within a transparent and stable regulatory framework, in order to unlock the deliverability of the wider objectives and investment requirements sought by the UK Government.

We would also support Yorkshire Water in noting that the piece-meal approach to targeted consultations is not helpful. It prevents any meaningful dialogue between the water companies and Ofwat. The WACC and capital structure are just two elements which underpin what will become PR24 and, without any consideration given to the full picture of AMP8 to-date, Ofwat's continued focus on these two specific agenda items does perhaps evidence the worrying degree of narrow-mindedness, pointed out in GIIA's letter, with regards to Ofwat's current approach to PR24.

With Brexit now behind us, many countries and investors will be looking to the UK as it redefines itself as a global investment hub – still at the heart of Europe. We cannot stress enough that policy makers and regulators such as Ofwat have a critical role with regards this redefinition of the UK, and to that extent the trajectory and quality of the UK's development over the coming decade.

We look forward to our continued collaboration with Ofwat and the UK Government, as well as our full support for Yorkshire Water.

Yours faithfully,



Global Head  
DWS Infrastructure