



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to:

**Consultation under sections 13 and 12 A
of the Water Industry Act 1991 on
proposed modifications to strengthen the
ring-fencing licence conditions of the
largest undertakers**

1. Introduction

- 1.1 CCW is the statutory consumer organisation representing water and sewerage consumers in England and Wales.
- 1.2 We welcome the opportunity to respond to Ofwat's consultation which firms up the issues Ofwat sought views on in its financial resilience discussion paper in December 2021. We have responded to the individual questions below. In short, we fully support strengthening the licence condition as Ofwat proposes. We agree with Ofwat that the current regulatory protections are not sufficient to protect the interests of customers.

2. Our response

Question 1 : We welcome views on our proposal to modify the cash lock-up licence condition to raise the cash lock-up trigger to BBB/Baa2 with negative outlook, as set out in box 3, proposed to take effect from April 2025.

We agree that the cash lock-up trigger should be raised to BBB/Baa2 with negative outlook, effective from 1 April 2025.

The consultation document makes it clear that no water company or equity investor that responded to the discussion paper expressed support for raising the trigger to BBB/Baa2 with negative outlook. Our concern is therefore whether companies will be unilaterally accepting of this licence modification.

Against a backdrop of all companies targeting a rating stronger than 'BBB/Baa2 with negative outlook' for their actual structure at PR19 – with 12 out of 16 targeting BBB+/Baa1 or stronger – it would be difficult to understand any company that was unaccepting of the licence modification.

Question 2 : We welcome views on our proposal to modify the dividend policy licence condition to require that dividend policies and dividends declared or paid should take account of service delivery for customers and the environment over time, current and future investment needs and financial resilience over the long term, as set out in box 4.

We agree that dividend policies and dividends declared or paid should take account of service delivery for customers and the environment over time, current and future investment needs, and financial resilience over the long term. Companies ought to be transparent about how they have taken these considerations into account in determining their dividends.

However, we suggest that this could go further and formalise in the licence that benefits accruing to equity from the consequences of high inflation (for example where fixed rate debt is in place) which are not linked to operational performance ought to be retained or reinvested and not distributed as outperformance. This aligns with the signals given in Ofwat's PR24 methodology.

Question 3 : We welcome views on our proposal to modify the licence to require companies to hold two issuer credit ratings, or to seek our agreement to an alternative arrangement, if proportionate, as set out in box 5

We agree with the proposal

