



Infrastructure & Renewable Resources Dept. 

VIA EMAIL:

September 30, 2022

ATTN: Strengthening Financial Resilience Consultation

Ofwat
21 Bloomsbury Street
London, UK
WC1B 3HF

To Whom It May Concern:

RE: CONSULTATION ON STRENGTHENING FINANCIAL RESILIENCE

British Columbia Investment Management Corporation (BCI), as a long-standing investor in the UK water sector, appreciates the opportunity to comment on Ofwat's proposal to improve financial resilience in the water sector. We have concerns on the impact these license modifications will have to investors and the UK water sector.

We have been a long-standing investor in the UK water sector since our initial acquisition in 2006 of an interest in Kemble Water Holdings Limited ("Kemble"), which owns Thames Water Utilities Limited ("Thames"). We increased our interest in 2010 and 2011, participated in Thames' most recent £500 million equity raise, and at present hold an 8.7 per cent interest. BCI has an established track record of providing patient, long-term capital, and supporting Thames through its operational challenges, longer-term gearing strategy, and changing regulatory, macro-economic, and physical environment.

In our view, Ofwat's proposed license modifications will create an imbalance between risk and return for investors in the UK water sector. The proposal to change the cash lock-up threshold to BBB / Baa2 makes the UK water sector less attractive to investors as compared to other international regulatory jurisdictions. Further, the license modification of the dividend policy condition is unclear and will lead to potentially unsustainable dividends. Apart from the immediate negative financial impact to Thames, Ofwat's proposal will weaken investor appetite at a time when critical investment is required.

We ask Ofwat to reconsider this proposal and provide alternative options for water companies and their long-standing investors.

Sincerely,



Jerry Divoky
Senior Managing Director
Infrastructure & Renewable Resources