



South Staffs Water

Green Lane, Walsall WS2 7PD
www.south-staffs-water.co.uk

By email: [REDACTED]

29 September 2022

Dear Ofwat,

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

Thank you for the opportunity to respond to the above consultation. We also appreciate the chance to discuss our thoughts with your financial resilience team on the 15 September.

With regards the cash lock-up provisions, we understand the importance for the sector on maintaining credit quality, but this is a responsibility for both Company and Regulator. Ofwat has a key role in making sure efficient water companies are funded at a level that allows them to maintain a target credit rating. Key to this is an appropriate cost of capital and a notional capital structure that reflects rating agency guidance. After PR19, most of the sector was placed on negative watch which demonstrates the important role that Ofwat play in influencing credit ratings.

Under the proposed licence condition, if a company's credit rating fell to trigger a cash lock-up, it would require Ofwat to approve any distributions. Generally, ratings are reviewed following a Price Review and may not change for the duration of the period. This would mean that the process would not be short term. If several companies were in that position, Ofwat would have to take on the burden of approving dividends every six months, perhaps for many years.

With regards to the dividend policy licence modification, we think this should be left to the Board to determine what is appropriate. We recognise that this needs to be transparent for stakeholders and so companies should set out the criteria used to determine the level of dividend payment and how it takes into consideration service and future investment needs with maintaining investor confidence. We think that the dividend disclosure we set out in our 2022 APR are sufficient to demonstrate this.

Yours sincerely

[REDACTED]
Philip Saynor
Director of Regulation