Wessex Water
YTL GROUP

Mr David Black
Chief Executive
Ofwat
21 Bloomsbury Street
London WC1B 3HF

Direct line: [redacted]
Email: [redacted]

29 September 2022

Dear David

**Ofwat consultation on ringfencing licence conditions**

Thank you for the opportunity to respond to this consultation, which the Board of Wessex Water Services considered in depth at its meeting on Monday 26 September. We have previously resisted proposals to bring our licence in line with others and are still of the view that there is no justification for the proposed ratings related dividend lock up or the framework of requirements to be considered when paying dividends. We already have an obligation in our current licence to maintain a strong investment grade credit rating and our dividend policy already requires consideration of service and environmental performance when declaring any dividend. In respect of both of your proposals, we see a high risk of unintended consequences that would in fact undermine financial resilience in the sector to the detriment of customers.

YTL is the longest single owner of any water company in the UK and has demonstrably been a responsible steward of Wessex Water and its financial resilience since 2002. On acquiring Wessex Water, YTL committed to maintain a simple financial structure with gearing below 70%. This has been unchanged since then and YTL have resisted incentives to gear up or use derivatives and swaps, so we cannot understand why Ofwat appear intent on making these changes, particularly since you have not provided any evidence of why our current provisions are no longer fit for purpose. And, of course, Ofwat did not appeal our previous decision not to accept similar proposed changes in our licence. As you rightly explain, responsible financing is the duty of the Board and if we look at the history of Wessex Water's credit rating under YTL's ownership, the only downgrade was the one that resulted from Ofwat's last price review.

I do wonder whether your team have thought through the potential consequences of tightening the credit rating requirements. It is quite common in the run up to a price review for companies to be placed on negative outlook because of the uncertainty around the outcome of the review. Under your proposals, this could mean a company not being able to pay dividends for up to two years, then if the rating were to be restored when the outcome of the review is known, paying out the withheld dividends!

Wessex Water
Claverton Down
Bath BA2 7WW

Tel 01225 526 000
Web wessexwater.co.uk

Wessex Water Services Limited registered office
Registered in England No 2366648

Turning then to dividend policy, we agree that dividend policies and dividends declared/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. Our dividend policy already explicitly covers these points as well as a range of other factors. Perversely, Ofwat's proposals focus on narrow and selective areas and also ignores the statutory duty that all company directors have to act in the long term interests of the company and for the benefit of its members as a whole. So the proposed licence obligation is both unnecessary and in conflict with directors' existing statutory duties.

Both you and your previous Chair have explained that the reason for the proposed licence modifications is not because of concerns about YTL or Wessex Water, but because of the actions of other investors and companies. This surely cannot be a justification for changing the licence of a good company with an exemplary owner - particularly at a time when the UK needs good, long term investors. I repeat our point of principle that responsible financing is a duty of the Board and that these proposals are unnecessary and fail to reflect the full scope of the Board's statutory duties.

I do hope this can be resolved by discussion, but since it may be necessary to resort to the CMA, our detailed response to the consultation is set out in the following pages.
Very happy to discuss at any time.

Best wishes.

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Colin Skellett
Group Chief Executive