

Yorkshire Water
Western House
Halifax Road
Bradford
BD6 2SZ

12 October 2022

Elinor Mathieson
Ofwat
21 Bloomsbury Street
London
WC1B 3HF

Dear Elinor,

Request for financial consent

In 2008 and 2009, Yorkshire Water Services Limited (“YWS”) were given prior approval by Ofwat in respect of two loans it made to Associated Companies, the first to Saltaire Water Limited and the second to Kelda Holdco Limited. In 2014/15, following a restructure of companies within the Kelda Group, the loans were novated, on the same terms as those which were originally consented to, to another associated company, Kelda Eurobond Co Limited. This novation effectively created new loans (“the Loans”). YWS did not seek consent from Ofwat for the Loans and accordingly no such consent is in place for the Loans. YWS has since provided full details in relation to the Loans to Ofwat in correspondence in December 2018 and subsequently in further letters dated 18 and 30 May 2022.

I am writing to you on behalf of YWS, pursuant to Condition P21 of the YWS Instrument of Appointment to seek consent in respect of the Loans on the basis of them being repaid as set out below.

As you are aware, following detailed discussions between YWS and Ofwat, it has been agreed that the Loans will be repaid by 2027 on the following basis (“the repayment plan”)

- At least, but an accepted repayment amount of, £300m by the end of June 2023;
- At least, but an accepted repayment amount of, £200m by the end of March 2025;
- The balance of the Loans, c£440m, (to be defined by repayments made by the end of March 2025) by the end of March 2027.

As is clear in the repayment plan, such repayment will take place over a number of years and the approval is sought for the period for which the repayment plan is in place. The repayment of the Loans will strengthen the financial resources of the regulated company, this being in the interests of YWS customers.

Finally, and in summary, as the Loans to Kelda Eurobond Co Limited already exist, repayment of the Loans will reduce the regulatory gearing level to no higher than 72% by the end of April 2025 (subject to external factors beyond the control of YWS and beyond the existing regulatory expectation that all water companies manage their financial resilience to ensure they can withstand economic and cost shocks, excluding any agreed early start investment for AMP8 and also to exclude any accelerated investment in AMP7 as a result of the request by the Secretary of State and Defra in October 2022).

Additionally, payments of dividends by YWS will fully consider company performance and benefit sharing from service and efficiency performance. YWS will deliver a base dividend recognising the management of economic risks and capital employed. YWS will ensure compliance with its Dividend Policy at all times.

YWS considered a number of options in respect of repayment of the Loans. After consideration of all of the options, the proposal in this letter will enable repayment in the most efficient way.

As the recipients of the Loans are not able to repay the Loans immediately, YWS have agreed a repayment plan (as set out in this letter) which will see the Loans repaid by April 2027. The consent for the Loans will enable this repayment plan to be delivered and for the Loans to be repaid.

I would be grateful if you could confirm the approval to the Loans accordingly.

Yours sincerely,

Chris Johns
Chief Finance Officer