

# The PR09 Price Review

An Ofwat – CIWEM Conference

29 November 2007, London

**glas**  
Glas Cymru Cyfyngedig

**Finance – a water company view**  
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## Topics to cover:

- ▶ Long-term planning horizon – Strategic Direction Statement (SDS)
- ▶ Ofwat PR09 consultation paper
- ▶ Recent developments in the debt markets

## Welsh Water: our sustainable future



**Over the next 25 years, we will constantly be striving to provide better value for money for our customers. Our vision is that customers should be able to look forward to:**

- even higher quality standards – for drinking water, customer service and the protection of the environment,
- a zero tolerance approach to pollution and service failure,
- at least a 50% cut in greenhouse gas emissions, and
- the lowest possible customer bills – lower than those of other equivalent UK water companies

**To deliver this vision, we will need to pursue a genuinely sustainable, long-term strategy**

## Financing the business (long-term)

### Our goal

*“Minimise the burden of financing costs on our customers for years to come by offering a high credit quality to long-term investors”*

### Our strategy

*Stable ‘A’ grade corporate rating*

*Gearing level stable at 70%*

*Sustained growth in ‘customer dividend’*

## **Ofwat consultation paper -** Financial assumptions for setting price limits

### ***Ofwat are consulting on a wide range of possible innovations:***

- ▶ Indexing cost of debt to a market benchmark?
- ▶ No small company premium?
- ▶ Claw-back of tax benefits from refinancing?
- ▶ Financeability adjustment?
- ▶ Change to the notified index?
- ▶ Form of the price control?

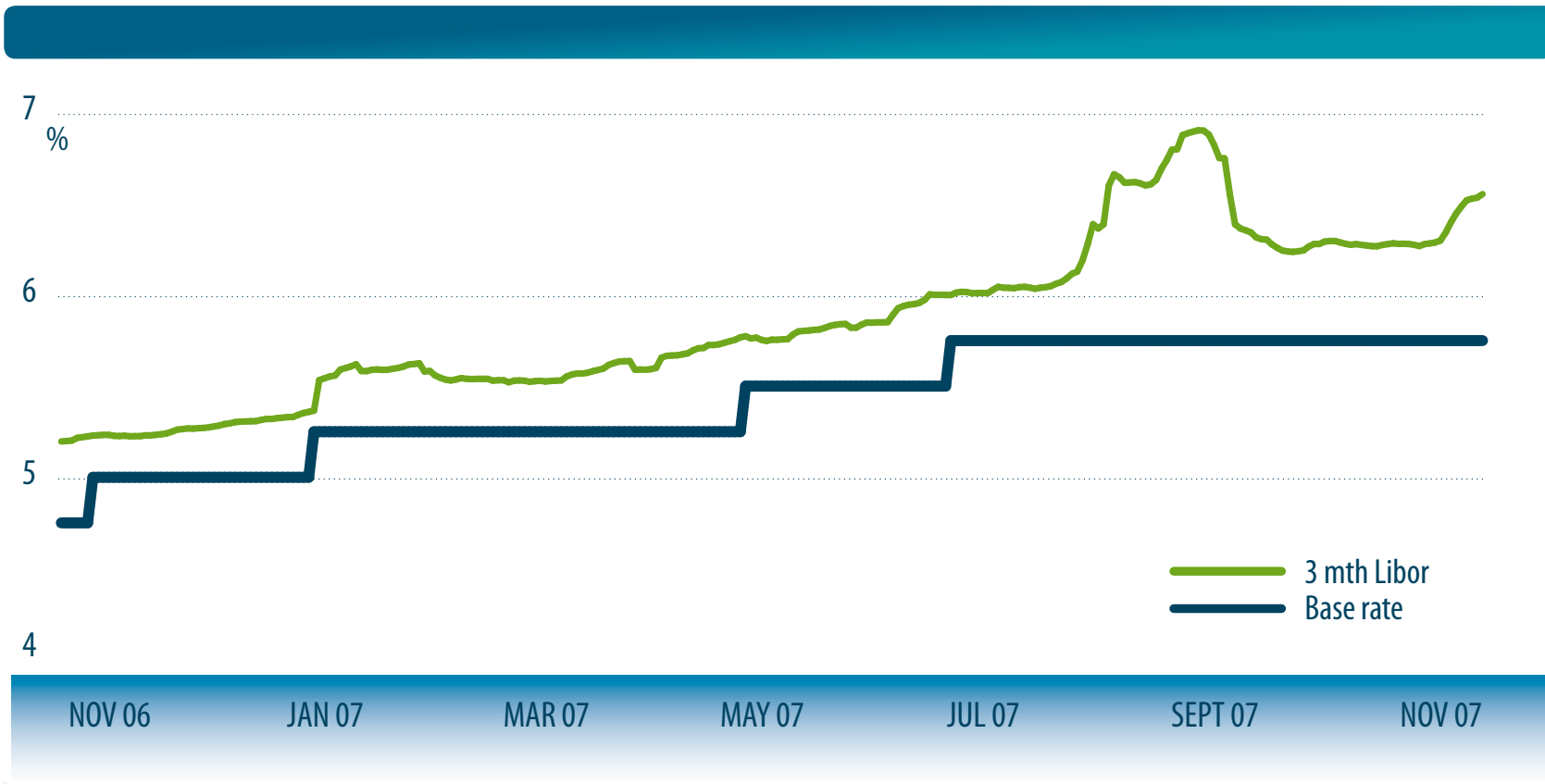
## Ofwat consultation paper - continued

### *Ofwat proposals need to be judged against:*

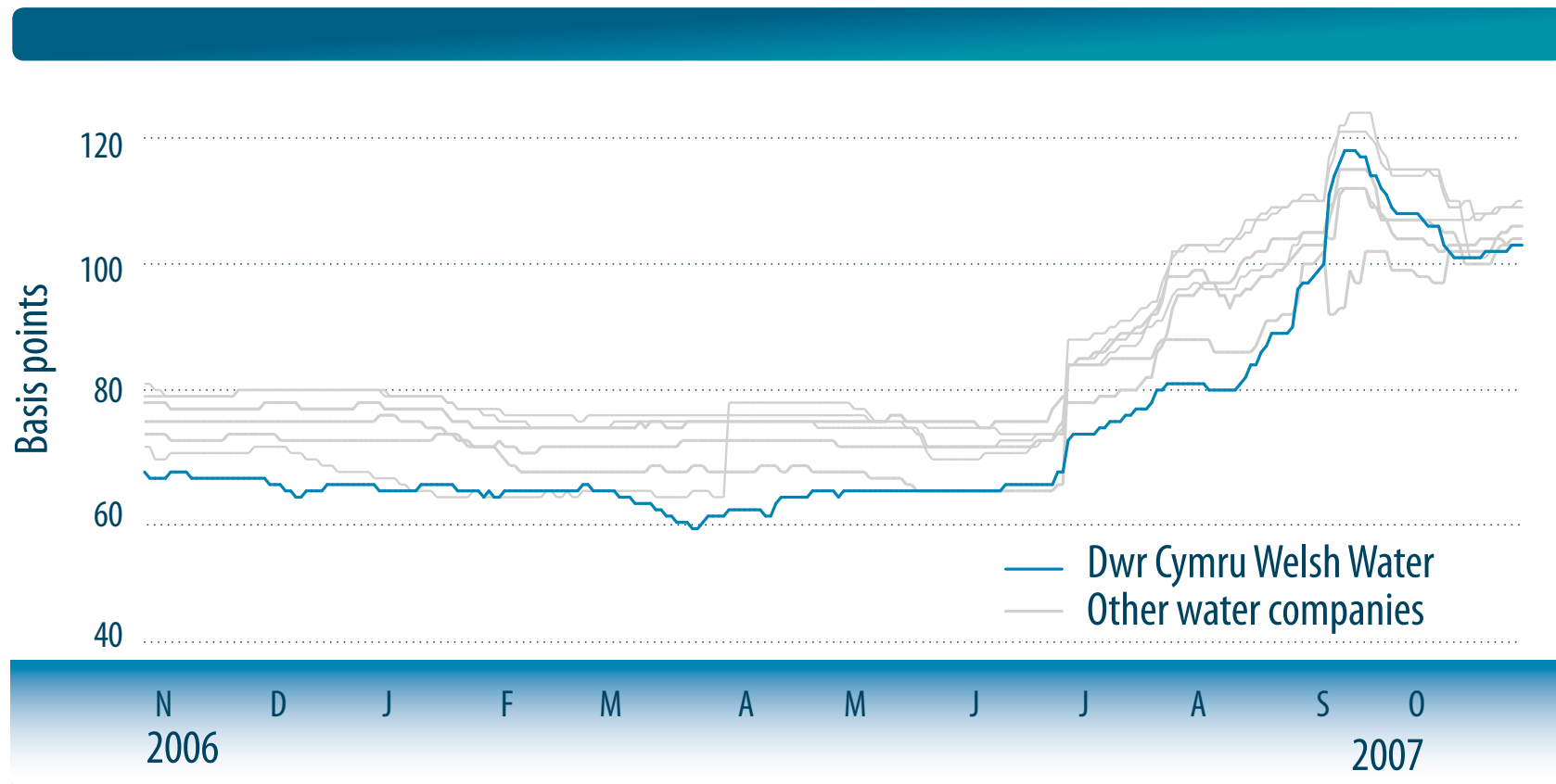
- ▶ Their individual, detailed merits
- ▶ The “law of unintended consequences”
- ▶ The risk of too much change
- ▶ Current turmoil in financial markets

*(Ofwat request responses by 24 January 2008)*

## Turmoil in debt markets



## Bond performance



## Concerns over monoline insurers



## Conclusion

### *Key requirements for investors in regulated water company debt:*

- ▶ Stable, consistent and transparent regulation
- ▶ Commitment to credit ratings “comfortably within the investment grade” ...

*will also deliver best value to water customers in the long-term*