

WSX-R04 – Consultation on equity listing mechanism

Response to
Ofwat's PR24 draft
determination



Wessex Water
YTL GROUP

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Representation reference: WSX-R04

Representation title: Consultation on equity listing mechanism

CONTENTS

1.	Summary	1
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1. Summary

In general, we are supportive of the proposal to support new equity issuance.

Given the scale of equity required over 2025-30 we think that it is important that all forms of equity issuance are correctly and fully incentivised. Crucial to this will be setting an equity return that appeals to investors, and other forms of incentive such as this do little to correct a fundamental miscalibration of the allowed returns.

We also have concerns about the conceptual reasoning behind this proposal. Specifically:

- We don't agree with Ofwat's underlying view that listed companies will perform better, and
- We are concerned a greater number of listed companies has the potential reduce the strength of the check on Ofwat and the potential errors in its PRs (as economic theory would suggest a listed company is less likely to appeal an Ofwat determination).

We also have concerns with the potential retrospective nature of future claw backs if they are subject to future regulator discretion. It could represent a severe market failure if a company is locked into public listing due to fear of a capricious regulator.

Given its apparent preference for listed equity, we would urge Ofwat to use the data it currently has. Pure play Pennon data is still being excluded from calculation of betas. This seems to be at odds with this policy decision to encourage further listings, and the rationale for it.