

Ofwat to name LEK Consulting as Thames Water 'policeman'

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Sky News has learnt that Ofwat is expected to announce LEK's appointment within days.

The move was triggered in August when Thames Water lost two investment grade credit ratings, which compromised one of the conditions it must fulfil in order to maintain its operating licence.

The ratings downgrades were triggered by growing expectations that the company will need to be nationalised in the coming months amid a battle to raise new capital from private investors.

Last week, Sky News revealed that lenders holding £12bn of Thames Water's debt had held face-to-face talks with Ofwat to pitch a rescue deal that they believe would avert its nationalisation.

The syndicate is racing to find a solution that would allow a restructuring that would incorporate a massive debt-for-equity swap and see fresh equity injected into the crisis-hit utility, which serves about 15m customers in London and the south-east.

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A deal needs to be agreed by the middle of November because Ofwat is due to sign off its final regulatory determination for the company's business plan at a board meeting in the second half of the month.

Creditors argue that Ofwat needs to demonstrate flexibility in its consideration of Thames Water's business plan in order to make the company investible.

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Further details of the creditor group's proposals are unclear,

although flexibility in relation to customer bill increases will inevitably be a component.

Thames Water is also facing a litany of regulatory fines over its poor customer service performance and dire record on sewage and water leaks.

Plans for an emergency liquidity facility of more than £1bn are also being drawn up, although they are yet to be finalised.

That finalising would buy Thames Water several months more to finalise a rescue plan.

In August, David Black, Ofwat's chief executive, said: "We are clear that Thames Water needs to remedy its licence breach, turnaround its operational performance and secure backing from investors to restore its loss of investment grade credit rating.

"These enforceable commitments will include our putting an independent Monitor into the business, to report back to us on what is happening to drive meaningful change in performance, and to ensure appropriate expertise is added to their board.

"We will continue to monitor progress very closely and will not hesitate to take any further action if necessary."

Bankers at Rothschild have been trying to drum up investment in new Thames Water stock in recent months, but with little success amid a lack of visibility about the company's survival prospects.

Sky News reported last month that Carlyle, the American investment giant, has become the latest global fund to weigh an investment in Thames Water.

Its future remains so shrouded in uncertainty because the industry watchdog, Ofwat, has rejected the company's initial spending plans for the next five-year regulatory period.

If new investment into Thames Water is not forthcoming before it runs out of cash, the government will have little choice but to sanction the temporary nationalisation of the company.

This would be done through a Special Administration Regime (SAR), a procedure tested only once before when Bulb Energy collapsed in 2021.

As part of its contingency planning for implementing a far-reaching restructuring, Thames Water has booked court dates in November to progress a rescue deal.

Shareholders have long since written off their investment in the company and will not play a role in any rescue deal.

Ofwat and Thames Water declined to comment.