

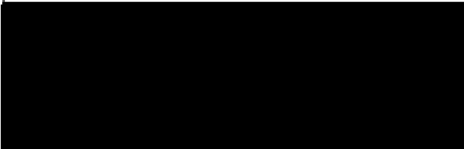
Order



ORDER NO: SER/0757

Date of Order: 19 March 2018

(To be quoted on all correspondence relating to this Order)

FROM (Customer): Water Services Regulation Authority Centre City Tower 7 Hill Street Birmingham B5 4UA Customer's Representative: David Young T: +44 (0) 121 644 7509 M: +44 (0)7515 190 764 E: david.young@ofwat.gsi.gov.uk www.ofwat.gov.uk	TO (Contractor): Deloitte LLP Athene Place 66 Shoe Lane London EC4A 3BQ Contractor's Representative:   www.deloitte.co.uk
SERVICES TO BE DELIVERED TO: Not applicable	INVOICE ADDRESS: finance@ofwat.gsi.gov.uk or Finance Team Water Services Regulation Authority Centre City Tower 7 Hill Street Birmingham B4 5UA
Any Contract arising from this Order shall be governed by the Call-Off Terms and Conditions as set out in the Ofgem Framework Agreement for Economic, Financial and Related Consultancy Services, between the Gas and Electricity Markets Authority and Deloitte LLP effective from 1 September 2015; the Customer's Invitation to Tender dated 21 February 2018; the Contractor's Proposal dated 9 March 2018 and email clarification questions dated 15 March 2018 on Ofgem Framework grades for Key Personnel and Audit and Advisory clients; and any enhancements thereto and provisions expressly listed herein.	

Lot/Sub-Lot: 4B – Cost of Capital & Financeability

Programme: Finance and Governance

Description of Services requirement:

Special Financial Support (PROC.01.0604) (Contractor 1)

To build resilience, Contractor 1, will be the primary Contractor, out of two Call-Off Contracts. This is largely to mitigate against suitable resources not being available or in case there are any actual or potential conflicts of interest that cannot be resolved. It is important Contractors recognise that due to the sensitivity of the information potentially being provided, the Customer reserves the right to make a decision about Conflict of Interest.

A description of the Services requirement is at Appendix A.

Term

Contract Commencement Date: 26 March 2018.

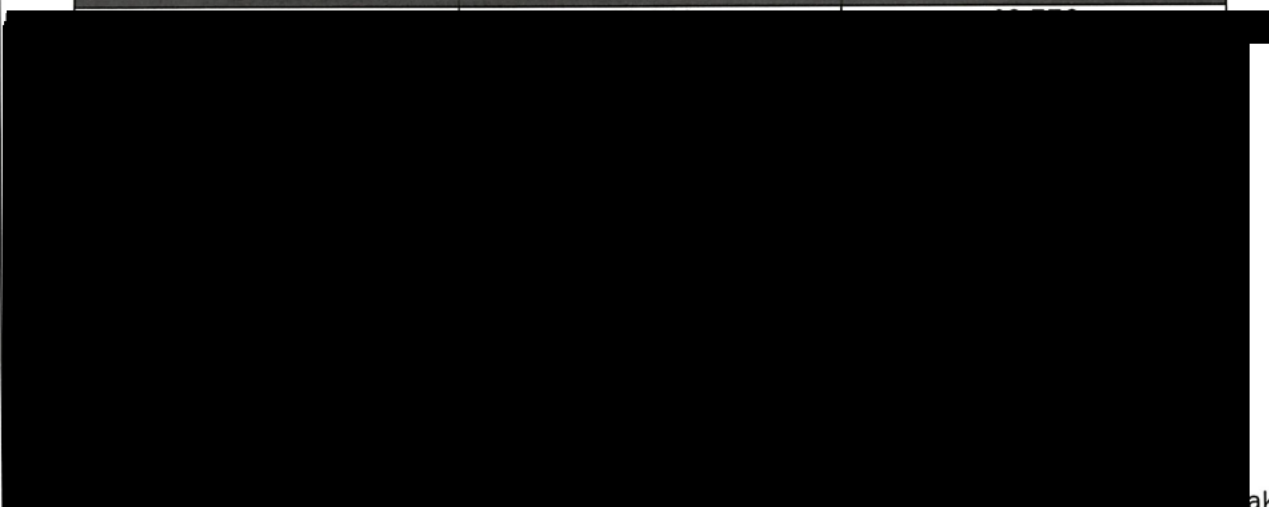
Contract expiry date: 26 July 2018

The Contract Period is for four (4) Months with the option for a two (2) Months extension.

Charges per Working Day

The table below provides the charges per Working Day for the Key Personnel involved in the performance of the Services.

Framework Grade	Discounted charges per Working Day* (£)	Maximum Framework charge per Working Day* (£)
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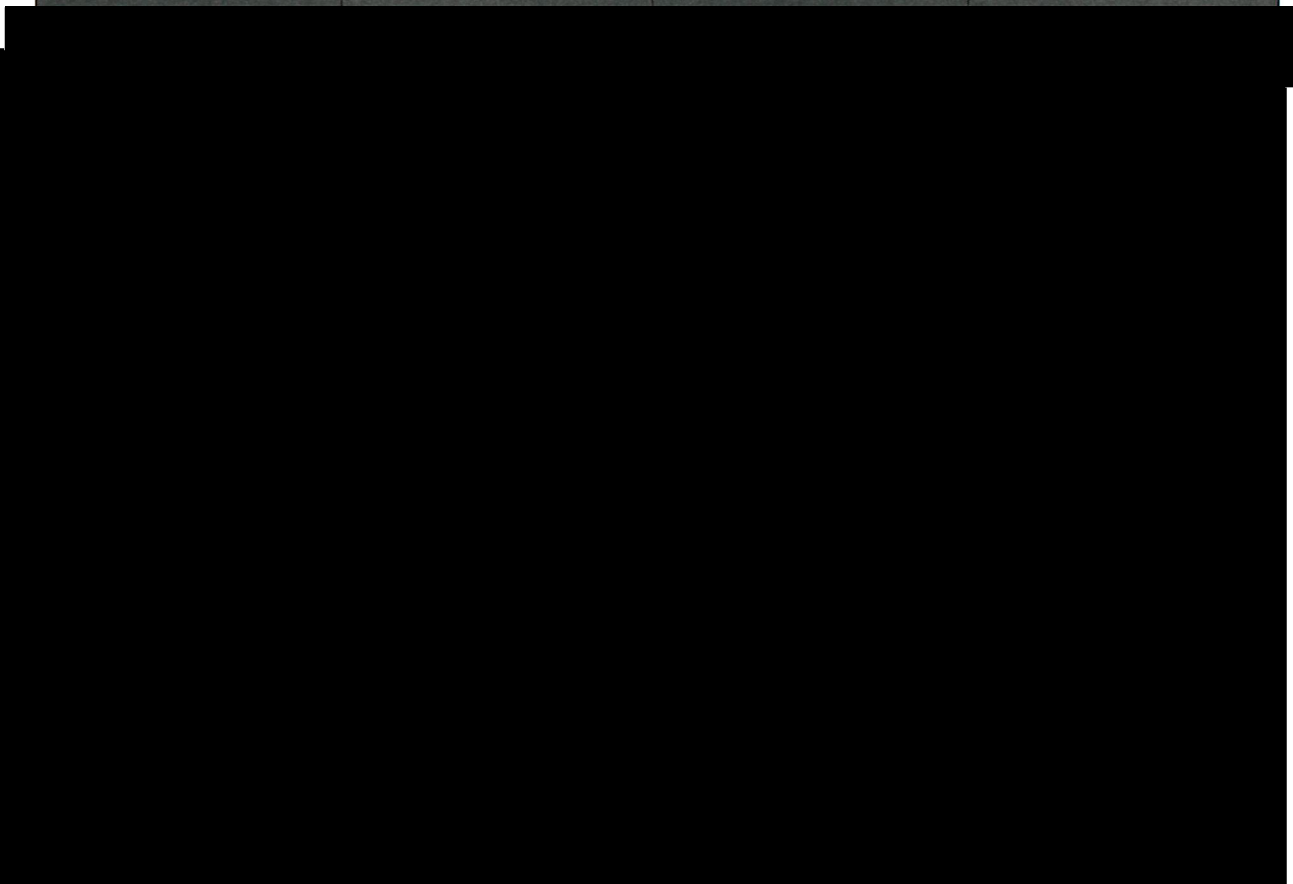


Working Day is 8 hours including travel time and training time must be taken.

Contract Capped Price

Customer spend for the overall total provision of the Services is capped at a maximum of **£180,000** excluding VAT and travel and accommodation expenses. Charges will remain fixed for the duration of the Contract term. Charges applicable to the Contract are set out below:

Key Personnel (Core Team)	Framework Grade	Discounted charges per Working Day* (£)	Maximum Framework charge per Working Day* (£)
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Additional junior resourcing (Senior Consultant, Consultant or Junior Consultant) may be required per work stream but to be no more than two additional junior resources per work stream per Call-Off.

As a result, the model is able to capture the effects of the various factors on the dependent variable. The model is estimated using the following equation:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \beta_6 X_{6i} + \beta_7 X_{7i} + \beta_8 X_{8i} + \beta_9 X_{9i} + \beta_{10} X_{10i} + \beta_{11} X_{11i} + \beta_{12} X_{12i} + \beta_{13} X_{13i} + \beta_{14} X_{14i} + \beta_{15} X_{15i} + \beta_{16} X_{16i} + \beta_{17} X_{17i} + \beta_{18} X_{18i} + \beta_{19} X_{19i} + \beta_{20} X_{20i} + \beta_{21} X_{21i} + \beta_{22} X_{22i} + \beta_{23} X_{23i} + \beta_{24} X_{24i} + \beta_{25} X_{25i} + \beta_{26} X_{26i} + \beta_{27} X_{27i} + \beta_{28} X_{28i} + \beta_{29} X_{29i} + \beta_{30} X_{30i} + \beta_{31} X_{31i} + \beta_{32} X_{32i} + \beta_{33} X_{33i} + \beta_{34} X_{34i} + \beta_{35} X_{35i} + \beta_{36} X_{36i} + \beta_{37} X_{37i} + \beta_{38} X_{38i} + \beta_{39} X_{39i} + \beta_{40} X_{40i} + \beta_{41} X_{41i} + \beta_{42} X_{42i} + \beta_{43} X_{43i} + \beta_{44} X_{44i} + \beta_{45} X_{45i} + \beta_{46} X_{46i} + \beta_{47} X_{47i} + \beta_{48} X_{48i} + \beta_{49} 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The Contractor will provide informal ad-hoc support to the Customer at no charge (prior to any formal engagement).

- Disbursement for travel and accommodation expenses;
- Value Added Tax.

- Any items which it regards as part of the Contractor's overheads (for example: word processing, secretarial time, cost of faxes and telephone charges);
- Any mark-up on disbursements; or
- Travelling time unless the Contract Manager has authorised in advance the payment of travelling time.

Invoices for payment will be in accordance with the provisions of Clause 3 of the Call-Off Terms for Economic, Financial and Related Consultancy Services.

4

Key tasks and Deliverables

The key tasks, Deliverable(s) and timescales for each specific requirement (Work Package) will be agreed in advance between the Customer's project manager and the Contractor's project manager. Although on occasion the Customer may require other key Deliverables which will be defined in each Work Package. The Customer will require an electronic copy of each report (interim and final, if applicable) and other key Deliverable(s).

The Contractor will also carry out any work necessary in Appendix A.

Call-Off of Services

The Contract will establish a process whereby the Customer can Call-Off the Services if and when required using the agreed daily charge rates to produce a pre-agreed cap price (quotation) for each Call-Off to be agreed in advance before commencement of Services.

Typically the Customer's Project Manager will select and contact a single Contractor to check whether they have the available resources for the case and to discuss with them the specific requirement, Work Package. For the avoidance of doubt, a Contractor may decline to submit a quotation for a specific case, if it does not have suitable resources available or it is aware of any actual or potential conflicts of interest that cannot be resolved. It is important Contractors recognise that due to the sensitivity of the information potentially being provided, the Customer reserves the right to make a decision about Conflict of Interest. A conflicts of interest check will be undertaken for each Work Package.

If the Contractor indicates that it is able to provide the Services, the Customer shall submit to the Contractor a written paper setting out its requirements (Requirements Paper). The Requirements Paper will set out full details of the Work Package including the Deliverables, corresponding delivery dates and payment profile.

Following the receipt of the Requirements Paper, the Contractor shall, within the time period specified by the Customer, either submit to the Customer its written quotation for the Services for the Customer's consideration; or notify the Customer of its inability to provide the Services pursuant to the Requirements Paper. The quotation will specify the Key Personnel, associated daily charge rates and anticipated time inputs.

The Contractor will be required to produce a timetable at the start of each Work Package and notify the Customer's named contact if there are any proposed changes to this.

Depending on the nature of the requirements, the Customer will Call-Off the Services from whichever appointed Contractor provides the most economically advantageous offer based on the award criteria used at the time the Contract was established, provided there are no conflicts of interest. These include capability, track record, qualifications/experience of Key Personnel and daily charge rates.

Invoicing and Work Packages

All invoices shall contain the following information:

- the Order number (as stated above);
- a summary of the Services; and
- the line value; total value excluding Value Added Tax (VAT), the VAT percentage and total value including VAT.

The Customer shall pay the Contractor within thirty (30) days of receipt of a valid invoice, submitted in accordance with the payment profile set out above and the provisions of this agreement.

Any travel and accommodation required in connection with the project must be in accordance with the Customer travel and accommodation rates attached at Appendix B. Supporting Information must be submitted with the invoices (e.g. copy of receipts, mile log to/from/date/meeting with (name)).

Invoices must not contain the Contractor's terms and conditions, nor can reference be made to the Contractor's terms and conditions. Invoices with the Contractor's terms and conditions printed on them or referred to therein will not be accepted by the Customer.

The Contractor must provide a quotation and breakdown of resource for each Work Package. The quotation will be the capped price payable by the Customer for each Work Package and will only be exceeded by agreement between the Parties. Such agreement will only be given by the Customer where cost overruns have arisen as a result of the work involved being over and above that reasonably anticipated prior to the Customer's approval to commence work on each Work Package. Where the resource costs incurred by the Contractor in performing the Services falls below the quotation, the Contractor shall invoice the Customer for the actual value of the Services provided according to the charging structure described in the Contract.

Invoices for payment will be due upon acceptance by the Customer of the Deliverable(s) associated with each Work Package, in accordance with the provisions of Clause 3 of the Call-Off Terms for Economic, Financial and Related Consultancy Services.

Contract management

David Young– Contract Manager (Customer)

T: +44 (0) 121 644 7509

M: +44 (0)7515 190 764

E: david.young@ofwat.gsi.gov.uk

Contractor's Key Personnel

Amendments

Any amendments to the Contract must be agreed in writing in accordance with the provisions of Clause 6.3 of the Call-Off Terms and Conditions as set out in the Economic, Financial and Related Consultancy Services Framework Agreement.

Formation of Call-Off Contract

BY SIGNING AND RETURNING THIS ORDER FORM THE CONTRACTOR AGREES to enter a legally binding contract with the Customer to provide the Services specified in the Service Order Requirements set out in this Order Form incorporating the rights and obligations in the Call-Off Terms and Conditions set out in the Framework Agreement entered into by the Contractor and the Gas and Electricity Markets Authority effective from 1 September 2015.

For and on behalf of the Contractor:

Name		
Position		
Signature		
Date		

For and on behalf of the Customer:

Name	Rachel Fletcher
Position	Chief Executive Officer
Signature	
Date	21 March 2018



Appendix A

Description of Services requirement

The objectives shall be:

- Provide the Customer support for a company experiencing:
 - (a) financial distress; AND/OR
 - (b) that has triggered the Special Administration Procedures;
- Provide the Customer with support and advice on financial and corporate issues at relatively short notice. This will include assessment of companies' financial positions, scenario analysis, and action plans;
- Provide the Customer with advice and support in dealing with potential financial distress at water companies including the approaches/actions/attitudes of external parties eg credit rating agencies, debt and equity investors; and
- Provide the Customer with technical financial advice in respect to financial, capital and corporate restructuring.

The nature of financial distress and / or Special Administration for a water company means it is unpredictable. Activation of the financial distress and / or Special Administration Procedures would require the Contractor to be mobilised within a very short period. Services are to commence within 2 Working Days once a Call-Off the Services is made.

The Contractor will also carry out any work necessary which may include:

For Financial Distress:

- Review and/or due diligence on the management base case, cashflow forecasts and underlying assumptions for the relevant period. Review of assumptions and outcomes of scenarios and sensitivities to the base case.
- Review and evaluate company plans for financial/capital restructuring including:
 - Fitness for purpose/ impact on service delivery and licence compliance.
 - Viability both short-term and long-term of the company.
 - Resilience of funding options in intermediate and holding companies.
 - Risks to deliverability (with reference to both internal and external factors including scaling of solutions).
 - Timescales (and impact of these on value erosion).
 - Wider industry impact.
- Review of capital (debt and equity) structure, including technical advice on debt covenants, lending terms & conditions, derivatives & hedging positions.
- Consider the potential outcomes of management's plans for different shareholders & debt investors and an assessment of likely shareholder & debt investors' behaviours.
- Review and provide advice on the attitude of credit rating agencies and potential approach in the short-term and long-term.

- Provide advice and recommendations to Ofwat on appropriate steps to take to protect customers.
- Provide advice on a media strategy, if needed.

For Special Administration:

- In addition to those areas outlined in Financial Distress, to assist the Customer in all aspect of the Special administration – including:
 - assist in planning and developing a strategy for managing the regulated business experiencing special administration.
 - assist in insolvency including:
 - selling the regulated business a going concern.
 - liaising with shareholders, bondholders, banks and other investors assuring them.
 - liaising with credit rating agencies.
 - liaising with HM Government – including Department for Environment, Food & Rural Affairs (DEFRA) and HM Treasury.

Other:

- The Contractor should have significant experience of insolvency, corporate finance and utilities.

A full description of the Services required is set out in the Customer's Invitation to Tender.

Appendix B

Travel and Accommodation rates

Receipts must be submitted with all claims and must be in accordance with these rates.

Accommodation:

Paid on actual expenditure within the following prescribed ceilings:

London	£165
Elsewhere	£115
Private residence	£25

These rates cover a 24 hour period for accommodation only, inclusive of VAT, receipts must be submitted.

Mileage Rates:

25p per mile.

Rail Travel

The actual cost of public transport (normally rail) may be reimbursed. Economy Class (second class) rail tickets should be purchased. Receipts must be submitted.