

**WATER INDUSTRY ACT 1991, SECTION 13
PROPOSALS BY THE WATER SERVICES REGULATION AUTHORITY (OFWAT) TO
MODIFY THE CONDITIONS OF APPOINTMENT OF BRISTOL WATER PLC AS A
WATER UNDERTAKER**

THE PROCESS

This Notice seeks responses to the proposed modification described below. Any representations or objections must be sent in writing to Keith Mason, Director of Regulatory Finance and Competition, Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA (fax, 0121-625 3609 or e-mail keith.mason@ofwat.gsi.gov.uk) to be received no later than 5.00pm on Monday 25 September 2006

DESCRIPTION OF AND REASONS FOR THE PROPOSED MODIFICATION

On 15 May 2006 Sociedad General de Aguas de Barcelona, S.A. (Agbar) acquired Bristol Water Group plc. Bristol Water Group plc was the ultimate parent and owner of 100% of the ordinary share capital of Bristol Water plc. Bristol Water plc (the Company) holds an appointment under the Water Industry Act 1991.

We issued a consultation document in June 2006 in which we invited views on:

- the capacity of Agbar to be the owner of a regulated water business;
- whether the entities that will provide Condition P undertakings to the Company are the appropriate entities to do so; and
- the need for modifications to the Company's instrument of appointment (its 'licence') to ensure that, whoever its owners, it has sufficient financial and managerial resources to carry out its functions as a water company and is appropriately ring-fenced from the rest of the Agbar group.

We received no substantive responses on the need for licence modifications.

The proposed modification to Condition P of the Company's licence relates to the ring-fencing provisions for the appointed business of the Company. Ofwat wishes to ensure that the Company's appointed business is ring-fenced from other activities which may be carried out by its group. Under its current licence, the Company must not, whether through its involvement in those other activities or by its dividend policy, put at risk its ability either to carry out its functions as a

water undertaker or to finance them. The Company's ring-fencing licence conditions are already consistent with those of other water undertakers of a similar size and structure.

As part of the current licence, the current version of Condition P requires the Company to obtain from its ultimate holding company legally-enforceable undertakings in favour of the Company. These are designed to ensure that the Company has the active co-operation of its ultimate holding company in complying with the conditions of the Company's appointment, including the ring-fencing provisions, and with the proper discharge of its functions as a water undertaker.

Under the proposed modification, the existing Condition P will be amended to require the Company to obtain these undertakings from an Ultimate Controller and where the Ultimate Controller is not the UK holding company, from the UK holding company. The condition will also be amended to include a successor clause that requires the Company to obtain new undertakings in the event of a change of control.

Ofwat
25 August 2006