



Water Industry Act 1991, Section 13

Proposals by the Director General of Water Services for the Modification of the Conditions of Appointment of Cambridge Water plc as a Water Undertaker

The Process

Cambridge Water plc (Cambridge Water) is appointed as a water undertaker under the Water Industry Act 1991. We wish to modify the conditions of its Appointment. Before doing so, we are required to give notice of the proposed modifications and invite representations or objections. This notice seeks responses, which must be sent in writing to Keith Mason, Director of Regulatory Finance at 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 30 September 2004.

The proposed modifications and the reasons for them

On 29 April 2004, Cheung Kong Infrastructure Holdings Ltd (CKI) announced that it had acquired from Spanish group Union Fenosa all of Cambridge Water's equity for £51.4 million. Cambridge Water is a licensed water undertaker supplying approximately 110,000 homes and 10,000 business customers in a 1,200km² area that includes the city of Cambridge.

We wish to ensure that Cambridge Water's regulated business is ring-fenced from the other activities of its new owners. We revised Cambridge Water's licence to enhance the ring fencing conditions when it was acquired by Union Fenosa in 2000 and we consider that these conditions will continue to be sufficient to protect Cambridge Water's customers provided limited changes are made to reflect the particular circumstances of its new ownership.

CKI and Cambridge Water have agreed to these modifications. Cambridge Water has given undertakings that pending the changes it will act as if these modifications were already in place.

The role of Cambridge Water's owners

The company should have the active co-operation of its owners in carrying out its functions as a water undertaker and complying with the conditions of its appointment. Cambridge Water's licence currently requires it to procure from its previous owners legally enforceable undertakings that they will:

- a) give the company all information it requires to comply with its licence;
- b) refrain from any action which would be likely to cause or require the company to breach any of its obligations under the Water Industry Act 1991 or its licence as a water undertaker; and
- c) ensure that the company's Board contains not less than three independent non-executive directors.

The text of Cambridge Water's licence will be modified to:

- i) require it to obtain such undertakings from its new owners, CKI (its ultimate controller) and CKI UK Water Ltd (its new UK holding company);
- ii) define what is meant by the 'ultimate controller' of a water company; and
- iii) ensure that any successor companies to CKI and CKI UK Water Ltd are also covered by the licence condition.