

**WATER INDUSTRY ACT 1991, SECTION 13  
PROPOSALS BY THE DIRECTOR GENERAL OF WATER SERVICES FOR THE  
MODIFICATION OF THE CONDITIONS OF APPOINTMENT OF  
PORTSMOUTH WATER LIMITED AS A WATER UNDERTAKER**

**THE PROCESS**

This Notice seeks comments on the proposed modifications described below. Any representations or objections must be sent in writing to the Director General of Water Services, 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 4 November 2005

**DESCRIPTION OF THE PROPOSED MODIFICATIONS AND THE REASONS FOR THEM**

Portsmouth Water Limited (the Company) holds an appointment as a water undertaker under the Water Industry Act 1991.

On 23 February 2005, Secondary Market Infrastructure Fund UK LP announced that it had acquired a 36% equity interest in South Downs Capital Limited, the ultimate holding company of the Company and a number of small unregulated businesses, from Abbey National Treasury Services Overseas Holdings. This acquisition did not result in any major change in the way the Company is financed or managed. In June 2005 we issued a consultation paper on the transaction. The purpose of this consultation paper was to consult solely on any regulatory issues arising from the acquisition and whether any modifications should be made to the Company's appointment. We received no substantive responses.

The Director General of Water Services (the Director) wishes to ensure that the Company's regulated business is ring-fenced from other activities that may be carried out by its Group. 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 appointment currently contains the majority of ring-fencing conditions that are consistent with other water undertakers of a similar size and structure.

The Company's appointment already contains Condition P, which requires it to obtain from its ultimate holding company and its ultimate controller(s) legally enforceable undertakings, applicable to all other companies in the group. These undertakings are designed to ensure that the Company has the active co-operation of its owner and ultimate controller in complying with the conditions of its appointment and with the proper discharge of its functions as a water undertaker. They also ensure that the Company's Board has no less than three independent non-executive directors. However there has been a change of ownership and the Company's appointment needs to

reflect the identity of its new owners. We will therefore amend Condition P to reflect the current ownership structure of the Company and to accommodate automatically future changes in the Company's ownership.

**Office of Water Services**  
**7 October 2005**