



## *Water Industry Act 1991, Section 13*

### *Proposals by the Director General of Water Services for the Modification of the Conditions of Appointment of Northumbrian Water Services Limited as a Water and Sewerage Undertaker*

#### *The process*

Ofwat is required to consult on proposed modifications to the conditions of appointment of Northumbrian Water Services Limited (Northumbrian Water). This notice seeks responses to those modifications described below. Any representations or objections 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 19 December 2003.

#### *Description of the modifications and the reasons for them*

On 17 May 2003, Aquavit plc announced that it had agreed to purchase 100% of the share capital of the parent company of Northumbrian Water Ltd (Northumbrian Water), the company regulated by Ofwat. Aquavit plc completed the acquisition on 23 May 2003 and changed its name to Northumbrian Water Group plc (NWG plc). The former owner of Northumbrian Water, Suez, received 25% of the share capital of NWG plc.

Northumbrian Water is a licensed water and sewerage undertaker supplying water and sewerage services to a population of approximately 2.6 million in the North East of England and water services to a population of approximately 1.7 million in Essex and Suffolk.

We issued a consultation paper on 10 June 2003. We invited views on any issues resulting from the acquisition and specifically invited views on:

- the financing of Northumbrian Water;
- the current arrangements for ring fencing of the regulated business;
- the new company's capacity to own a regulated water business; and
- whether incentives for efficiency have changed.

On the basis of responses to our consultation paper and our further analysis of the proposed financial structure, we consider that licence modifications are required.

#### *Ring-fencing of Northumbrian Water*

Ofwat wishes to ensure that Northumbrian Water's regulated business is ring-fenced from the other activities of Northumbrian Water Group. Northumbrian Water already has a number of the ring-fencing provisions. The following modifications will bring Northumbrian Water's licence up to the current standard for those companies recently involved in merger or corporate finance activity. They are:

The Appointee shall use all reasonable endeavours to ensure that it, or any Associated Company as issuer of corporate debt on its behalf, maintains at all times an issuer credit rating which is an Investment grade rating; and

The Appointee must maintain a listing of a financial instrument and shall use all reasonable endeavours to retain the listing of that financial instrument, whose market price should react to the financial position of the Appointee's Appointed Business, on the London Stock Exchange or another exchange of similar standing.

#### *The role of Northumbrian Water's owners*

All water companies need to have the active co-operation of their owners in carrying out their functions as water and sewerage undertakers and complying with the conditions of their Appointments.

Northumbrian 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;
- (c) ensure that the company's Board contains not less than three independent non-executive directors.

The text of this licence condition will be modified to require it to obtain such undertakings from its new owners NWG plc.