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182 Broom Road,
Teddington,
Middlesex TW11 9PQ.

Tel: 0208-255-3851
Fax: 0208-255-3851
e-mail: tmblaiklock@aol.com

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24th March, 2008

Emma Cochrane,
Head of Corporate Finance,
OFWAT,
Centre City Tower
7 Hill Street,
Birmingham B5 4UA

Dear Ms. Cochrane,

Consultation:
Acquisition of: (a) Southern Water, and (b) South Staffordshire Water

I write to object to the above two acquisitions.

You will know that I have exchanged various letters with OFWAT over the last two years on similar issues. Hence, this objection may not come as unexpected! However, these two acquisitions have taken place since the Conditions F & P were tightened last year, and there have also been changes in the financial markets.

Both the above two companies are to be owned and controlled by offshore investors over which OFWAT will have no knowledge, control or sanction. The ultimate owners in both cases, Alinda Capital for South Staffs and Greensands for Southern, are also unquoted and operate under governance regimes which are less stringent than those in the UK. There could be changes in ownership, control, company statutes, etc., which you will never hear about or know. The 'wedding cake' corporate structure shown for both these acquisitions says it all: corporately it may satisfy the investors' financial needs, i.e. to minimise UK tax and to preserve anonymity, but operationally it is opaque and unaccountable.

Secondly, you will be aware that in recent times the financial markets have contracted. The cost of debt has risen and financiers have become more risk averse. The Private Equity model for public services, which is largely based on highly leveraged financial structures, has run out of time, so to speak.

The flurry of acquisitions in the UK water sector in recent times have all ended up with higher indebted financial structures with a concomitant reduction in "ratings", towards non-investment or "junk" bond status. Sooner or later one of these water companies will find that it cannot refinance its debts at the low rates anticipated, and the cash-flows will be seen as insufficient to cover higher debt service payments, (as for the BAA refinancing, etc.). Such water company will inevitably slip into non-investment grade status without a lifebelt.

The Northern Rock collapse, which left the Financial Regulator with accusations of incompetence and heaps of embarrassment, was in the main due to financing a long-term business, i.e. mortgages, with short-term money. The same trend is happening in the water sector, - generically, a long-term business, - which gives rise to major concerns for customers as well it should for OFWAT.

Further, the highly 'geared' equity structure based on shareholder loans at inflated interest rates, e.g. 16% for Southern's 2038 mezzanine debt, will be seen as unacceptable not only by the Inland Revenue, but also customers.

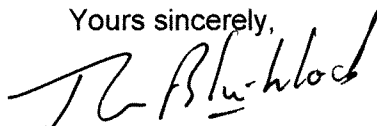
One concludes, therefore, that the only reason why such deals such as for Southern and South Staffs are being pursued is to satisfy the on-going management costs of the Private Equity managers, not for the customers benefit. It is time for OFWAT to take a grip of such downward trends, not least for the customers' benefit!

Non-UK investment in public service utilities may well be a welcome trend, but not at the expense of loss of financial control and accountability. The current licence regime does not, in my view, provide the protection customers deserve, and OFWAT should insist upon such investments being made directly in the licensed corporate vehicle under a 'fit and proper person' test for investments exceeding, say, 2 or 5%, and not via a raft of dubious, offshore investment funds.

Finally, given that the UK's Corporate Manslaughter Act has also now become effective, it is even more paramount that public service monopolies are set up so as to be responsive to the legal requirements of this law. The current proposals for both South Staffs and Southern, in my view, do not meet the standards of disclosure and accountability required to be in compliance with such law.

I trust that you will take these comments into account in your deliberations for Southern and South Staffs.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M Blaiklock', written in a cursive style.

Martin Blaiklock,
Consultant, Infrastructure & Energy Project Finance

cc. CC Water