



From the Managing Director

Ms Regina Finn
Chief Executive
Ofwat
City Centre Tower
7 Hill Street
BIRMINGHAM B5 4UA

23 November 2012

Dear Regina

Response to Consultation on Ofwat's section 13 proposals to modify company Licences (issued on 26 October 2012)

I am writing in response to the above consultation in which you invited companies to indicate their acceptance or otherwise of the proposed Licence modifications.

I have been keeping the Board closely informed and they have been very grateful for the additional time to explore the issues more fully since the original section 13 notice served in December last year. Nonetheless, we are unable to agree to the proposals that Ofwat has set out in its Consultation, but we remain willing to accept future changes that protect customers and maintain investor confidence.

Our fundamental concern with the form of Licence that Ofwat has proposed is that it allows for further significant and unspecified change to the way in which the industry is regulated without giving companies the right to appeal the basis for those changes prior to their implementation. We do not believe that this amounts to 'modest and evolutionary' change but consider, rather, that it is disproportionate and premature. We think that Ofwat should defer changes to the Licence until they can be more appropriately calibrated. In particular, there must be clarity about the treatment of areas being moved out of the wholesale control and greater detail as to Ofwat's regulatory approach in response to future challenges and changes in legislation and Government policy.

In the meantime, we do not consider that the benefit of the significant discretion that Ofwat is seeking outweighs the additional finance costs which are likely to arise in response to regulatory uncertainty.

We acknowledge that the introduction of separate price controls for retail and wholesale has been canvassed by Ofwat for some time and that water companies have been given the opportunity to respond to consultations on retail price controls and wholesale incentives for the 2014 price review. As you are aware, we are, therefore, willing to accept such Licence modifications as are necessary to implement separate retail and wholesale price controls at PR14.

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We have also noted the clarifications of its proposals that Ofwat issued on 20 November. We do not think it is in the interests of either Ofwat or the industry to refer to the Competition Commission their differences with regard to the proposals subject to the consultation, and so we would welcome the opportunity to consider afresh with Ofwat how the fundamental concerns which we set out above could be addressed once the Consultation has closed.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter', with a long horizontal stroke extending to the right.

Peter Simpson

cc Keith Mason

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