

Our Ref: JS
Your Ref:



23 November 2012

DL: 01634 276569
Email: Jo.stimpson@southeastwater.co.uk

Keith Mason
Director of Regulatory Finance
Office of Water Services
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Dear Keith

Section 13 Notice issued 26 October 2012 (the "S13 Notice")

The Board of South East Water Limited has met to consider the S13 Notice.

Whilst the Board accepts that licences will need to change over time and understands that price controls may need to be set in different ways from the current condition, the Board believes this requires a much more evolutionary approach than that reflected in the S13 Notice. Such an evolutionary approach would allow the flexibility enabled by licence changes to be commensurate with the extent and pace of each phase of regulatory reform ensuring a transparent and predictable regulatory framework. In contrast, the current approach of introducing significant amendments to the licence and signalling potentially extensive future changes, without providing clarity on what a revised approach might be and how it might be implemented, creates damaging levels of uncertainty which will undermine companies' ability to meet their on-going funding needs. This will, in turn, give rise to detrimental effects on customers.

The Board of South East Water Limited has decided therefore, with some regret, that South East Water Limited is unable to consent to the licence modification proposals set out in the S13 Notice and has asked me to convey that decision to you and the board of Ofwat.

The Board notes the final section of Ofwat's clarification notice issued on 20 November 2012 and the very recent discussion between Jonson Cox and various water company chairmen. We would appreciate the opportunity to discuss our position with Ofwat and how movement to an evolutionary approach, that goes beyond the immediate needs of PR14 but has an appropriately framed allowance for future flexibility, could be achieved.

I hope you find this letter helpful. Please let me know if you require any further information.

Yours sincerely

A handwritten signature in blue ink, appearing to read "J. Stimpson".

Jo Stimpson
Finance Director

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