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Seymour McConnell,  
Corporate Finance Team,  
OFWAT,  
Centre City Tower  
7 Hill Street,  
Birmingham B5 4UA

Dear Mr McConnell,

**Consultation:**  
**The Consolidation of Cambridge Water into South Staffordshire Water**

OFWAT has requested comment with respect to the consolidation of Cambridge Water into South Staffordshire Water.

Firstly, I am a customer of neither, .....thank goodness!

Cambridge Water is a small water utility, which has been prudently managed financially over recent years, that is, until it was sold by Cheung Holdings in mid-2011 to HSBC and later Alinda. Cambridge's leverage at 60-65% has been much lower of late than for many other English water utilities. South Staffs on the other hand, has much higher leverage, over 95% by their published Accounts.

Further, in recent years, South Staffs, owned by Alinda Capital LLP, a Delaware, USA corporation, - 6 levels removed from the licenced utility, - has been paying shareholders higher dividends than it generates After Tax Profits. Some call this "asset stripping". Condition F terms seem to be failing! Meanwhile, South Staffs debt rises continuously. Cambridge might be concerned that the same might happen to them!

| <b>Year</b> | <b>After Tax Profit<br/>[£mn]</b> | <b>Dividends Paid<br/>[£mn}</b> | <b>Tax Paid<br/>[£mn]</b> |
|-------------|-----------------------------------|---------------------------------|---------------------------|
| 2007        | 9.9                               | 18.7                            | 3.1                       |
| 2008        | 12.9                              | 13.0                            | 2.1                       |
| 2009        | 9.2                               | 8.5                             | 3.4                       |
| 2010        | 10.2                              | 9.0                             | 2.8                       |
| 2011        | 11.5                              | 15.4                            | 1.4                       |
| 2012        | 9.4                               | 10.3                            | 3.2                       |

Secondly, as I mentioned in my response to the Consultation over the acquisition of South Staffs by Alinda in Mar 2008, I am concerned as to the strength (or weakness) of the Condition P requirement held by Alinda Capital LLP on behalf of South Staffs and Cambridge.

Delaware corporations are used by many multi-nationals and international investment funds, as well as some unsavoury investors, as the domicile for their activities, since governance and accountability requirements are less stringent there than in normal Western markets. Hence, should for whatever reason Alinda have to be brought to account under their Licence, that task could be most difficult, if not impossible.

One, therefore, questions the strength and integrity of the Condition P Licence in this case. After all, South Staffs and Cambridge are private sector, UK public service monopolies.

Yours sincerely,

Martin Blaiklock,  
Consultant, Infrastructure & Energy Project Finance