

24 October 2013



Jonson Cox  
Chairman  
Ofwat  
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Please ask for   Neville Smith  
Our Ref            NS/KL  
Your Ref

Dear Jonson

### **Board Leadership, Transparency and Governance - Principles**

The Board of Portsmouth Water Limited have actively followed and participated in the recent debate on Governance of the Water Industry. You will recall that you and I had a meeting in June where we discussed the subject in general and specifically for Portsmouth Water.

We support the principles outlined in your paper (with one clarification highlighted below), indeed we believe we are already compliant with most of, if not all of them.

When we met in June you said that Independent Non-Executors should represent 50% or more on the Board. The principles outlined in your paper include "We expect that Independent Non-Executive Directors to be the largest single group on the Board, compared to Executive and Non-Executives that are independent". The principles also indicate that Executives should be limited to the Managing Director and Finance Director.

At Portsmouth Water, we have three Independent Non-Executives and three Executive Directors with no group representation and with remuneration committee being comprised of solely Independent Non-Executives and a nomination committee with a majority of non-executives. We believe this to be an appropriate balance for a small water only Company.

We suggest that the principle should be as per our discussion, that 50% or more of the Board should be Independent Non-Executives. This assures independence which the principles set out in the paper do not achieve as being the largest single group does not guarantee a majority in the Board. For example, a Board with three Independents, two Executives and two Group Directors complies with the principles but surely does not meet the desired objective.

Our business is about delivering a water service to customers and therefore we would suggest that the individual responsible for Operations has a role on the Board, and therefore we would not favour a principle that excludes this.

In general therefore we support the principles but would ask you to reconsider or provide further clarity on Board balance and representation.

Yours sincerely

TERRY LAZENBY  
Chairman