

6 March 2014

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Dear Ingrid

BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE – HOLDING COMPANY PRINCIPLES

Thank you for circulating the consultation document setting out proposed holding company principles. Northumbrian Water Group Limited (NWGL) is the UK holding company of the licensed company Northumbrian Water Limited (NWL). Accordingly, NWGL has reviewed your proposals carefully.

We welcome and fully support Ofwat's focus on governance at both the licensed and holding company levels and we agree that a consistent standard of transparency and disclosure across the sector can benefit the customers of the regulated companies. Our ultimate shareholders are listed companies in their own right in Hong Kong, so the principles of robust and transparent governance are already firmly embedded within our group.

As you are aware, the Board of NWL has already expressed its broad support for Ofwat's proposals on governance at the NWL level. Moreover, NWL already complies with existing best practice governance disclosure (due in part to it previously being the dominant part of a UK listed company and further enhanced by the appointment of a Senior Independent Non-executive Director to its Board). As NWL's owner, we strongly encourage NWL to continue these practices. We agree, however, that it will be helpful to have a clear statement of Ofwat's expectations at the holding company level in this regard. Whilst Ofwat does not have jurisdiction over holding companies, NWGL is willing to consider additional disclosures on a voluntary basis, if they can be shown to be in the interests of customers; indeed, we have already adopted this approach in our most recent audited financial statements. We very much appreciate the fact that you have addressed the holding company principles alongside those proposed for regulated companies, which will enable the two documents to be sensibly dovetailed.

We believe the principles are likely to result in more focused and useful disclosures if some of the drafting can be made more precise. We have, therefore, marked up the document with a small number of comments and suggestions, which we hope you will find constructive. It is important that disclosure and reporting obligations at the holding company level are only increased to the extent that the information to be provided is of real benefit to customers. Whilst some of your proposals could well result in disclosures which may be of interest to customers of the licensed company, the benefit to be derived is not always apparent; nor is it clear how such disclosures would enhance the legitimacy of the sector, as you suggest. It is therefore important that the right balance is achieved in this regard and we look forward to working with you to achieve that outcome. We make the point in our detailed comments that it is NWL's experience that customers (and customer groups) are very focused on the quality and value of the service being delivered, rather than the upward structure of the group in which NWL sits.

Finally, we suggest that the principles should have the flexibility to recognise that some owners of regulated companies are already subject to extensive governance and disclosure obligations. In particular, indirect shareholders which are themselves listed entities in other jurisdictions must comply with comprehensive governance and reporting requirements. It should therefore be recognised that it would be very difficult for such entities to assume further reporting obligations as a result of these principles.

We look forward to discussing these matters with you further, in due course.

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized 'A' followed by a long horizontal line.

Andrew J Hunter
Chairman