

MARKET RELEASE

OFWAT PUBLISHES PROPOSALS TO FINE SOUTHERN WATER

15 November 2007, Sydney – Challenger Infrastructure Fund (ASX: CIF) advises that the UK Water Services Regulation Authority (Ofwat) has today published its proposals to fine Southern Water in relation to the company deliberately misreporting information prior to October 2005 and failing to meet guaranteed standards of service in this period.

The total amount of the proposed fines is £20.3 million. This was factored in by CIF on its acquisition of a 27% interest in Southern Water (for \$690m) in October 2007, and, therefore, does not impact CIF's forecast distributions or valuation of the asset.

The misreporting was discovered in October 2005 by the new Southern Water management team, which promptly reported the identified irregularities to Ofwat. Southern Water has since co-operated fully with Ofwat and, in agreement with the regulator, is reimbursing affected customers and improving service standards.

Copies of the Ofwat and Southern Water press releases are attached.

ENDS



news release

PN 42/07

Date: 14 November 2007

Ofwat proposes £20.3 million fine on Southern Water

Ofwat today published its proposals to fine Southern Water a total of £20.3 million.

The economic regulator plans to fine the company for deliberately misreporting information prior to October 2005 and because poor processes and systems meant customers received poor service. Customers also missed out on the payments they were entitled to because of these service failures.

Ofwat Chief Executive Regina Finn said: "Southern Water deliberately misreported its customer service performance to Ofwat and systematically manipulated information to conceal the company's true performance over an extended period of time.

"The company benefited directly from this misreporting at the last two price reviews, meaning Southern was able to increase its prices by more than it should have done. Customers received higher than necessary bills because of the company's deception.

"Southern Water's shareholders will bear the entire cost of this fine. It will not be passed on to its customers. The magnitude of this fine reflects the magnitude of the offence – deliberately misleading the regulator, failure of the Southern Water Board of Directors to pick up the deception, the resulting poor service to customers and damage to the regulatory regime, in general."

Ofwat notes that the company took prompt action once it discovered the misreporting. It reported the situation to Ofwat and the Serious Fraud Office, initiated its own investigation and co-operated fully with Ofwat's investigation.

The company's new management is overseeing action plans to address the issues found and has ensured customers received payments they were entitled to. Southern is also returning money to customers who paid higher bills than they should have done.

These factors have been taken into account when considering the amount of the financial penalty.

Notes to Editors:

1. The Water Services Regulation Authority (Ofwat) is the economic regulator of water and sewerage companies in England and Wales. It exercises its powers in a way that it judges will protect the interests of consumers, promote value and safeguard future water and sewerage services by allowing efficient companies to carry out their functions properly, and to finance them.

Centre City Tower
7 Hill Street
Birmingham
B5 4UA

2. Copies of the '[Notice of Ofwat's proposal to impose a penalty on Southern Water Services Limited](#)' and '[Notice of Ofwat's proposed variation of its proposal to impose a penalty on Southern Water Services Limited](#)', are available on the Ofwat website, www.ofwat.gov.uk or from the Ofwat Library by phoning 0121-625 1373.
3. Representations about or objections to the proposals to impose penalties should be made by **5pm on Friday, 21 December 2007** to Ingrid Olsen, Head of Enforcement Policy, Ofwat, 7 Hill Street, Birmingham B5 4UA, or by e-mail to Ingrid.olsen@ofwat.qsi.gov.uk
4. Customer service performance data allows Ofwat to identify best practice, incentivise companies to improve performance and take any necessary action where companies fall below acceptable standards.
5. Companies have a duty under their licences to ensure that the information they provide to Ofwat is reliable, accurate and complete. This allows Ofwat to compare information across the industry and fulfil its regulatory duties. This is essential where customers have no choice of supplier.
6. Ofwat plans to fine Southern Water a total of £20.3 million. This breaks down as follows:
 - £19.8 million (3.5% of 2006-07 turnover) for deliberately misreporting.
 - £0.47 million (0.1% of 2004-2005 turnover) for providing sub-standard services to customers by failing to meet Guaranteed Standards of Service (GSS).
7. A financial penalty may not exceed 10% of the company's turnover as set out in Water Industry (Determination of Turnover for Penalties) Order 2005 (SI 2005/477). Southern Water's regulated turnover for 2006-07 was £566.8m. The company's regulated turnover for 2004-05 was £467.6 million.
8. Penalties are paid into the Consolidated Fund and are not returned to customers. The requirements of the Water Act 2003 mean Ofwat may only impose a penalty covering a twelve-month period prior to taking certain specified steps. Additionally, it cannot impose a penalty in respect of any contravention or failure before its powers came into effect on 1 April 2005. The penalty proposed cannot therefore take account of the full scale and duration of the failures that have been seen in this investigation.
9. Statutory restrictions mean Ofwat can only impose penalties for two specific one-year periods, but problems have been found to go back to before 2000. Southern has already reduced its prices to return the money it should not have received at the 2004 price review. Bills will be reduced in 2008-09 to return the money it should not have received at the 1999 price review.
10. Ofwat announced earlier this year that it is proposing to impose a financial penalty on Southern Water for its failure to meet customer service standards (see Press Notice [PN13/06](#), 31 March 2006)

11. On 28 September 2007, Ofwat announced its proposals to fine Thames Water a total of £12.5 million for failing to provide robust information and poor customer service (see PN33/07)
12. Ofwat previously announced that it is proposing to impose a financial penalty on Severn Trent Water (see [PN 16/06](#), 8 June 2006) for their failures to meet customer service standards. This press notice is available on the Ofwat website. Ofwat will consult on the final scale of a financial penalty.
13. Customers of all water and sewerage companies are entitled to minimum guaranteed standards of service, which are set out by the Government. The Guaranteed Standards Scheme (GSS) applies to all water and sewerage customers, including potential customers, business customers, tenants and those in debt. Companies must inform billed customers of their rights under the scheme every year.

If a company fails to meet any of the guaranteed standards, it must make a payment to affected customers. Standards cover areas such as:

- a. making and keeping appointments;
- b. responding to account queries;
- c. responding to complaints;
- d. interruptions to the water supply; and
- e. informing customers about interruptions to water supply.

Ofwat monitors companies' performance against the customer service standards. Companies report their performance under the GSS to the regulator in an annual return (the June return).

14. Performance standards required in the GSS are set out in the Water Supply and Sewerage Services (Customer Service Standards) Regulations 1989 No.1159 and subsequent amendments Nos. 1383, 500, 3065, 2301 and 2035. Further information about the GSS can be found in Information Note: Guaranteed Standards Scheme, which is available on the Ofwat website, [http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/AttachmentsByTitle/gss_0607.pdf/\\$FILE/gss_0607.pdf](http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/AttachmentsByTitle/gss_0607.pdf/$FILE/gss_0607.pdf)
15. Media enquiries to Ofwat Press Office on: 0121 625 1496/1416/1442.

OFWAT FINE - RESPONSE

Southern Water fully acknowledges Ofwat's requirement to fine the company for its misreporting of customer service performance and failure to make all guaranteed standards payments.

The company is confident this will conclude a two-year investigation initiated by its new management team on discovery of the irregularities in October 2005.

This came about during a project to install a new billing system – ironically to improve customer service – and showed that figures reported to Ofwat, relating to response times to customers contacting the company's customer service centre, did not always match performance.

As a result the regulator is levying two substantial fines on the company for its misreporting of customer service statistics and its failure to make guaranteed standards payments to customers up until October 2005.

Chief Executive Les Dawson said: "I understand Ofwat's intention to fine us for what happened in the past. Today, I would like to reassure customers that those historically entitled to guaranteed standards payments have now been paid and that we are well on course to meeting a service improvement plan agreed with the regulator."

Southern Water continues to run a series of advertisements in the local press and on local radio to ensure customers are fully aware of the matter. The company has also updated the Government's Minister for the South East Jonathan Shaw MP.

NOTE TO EDITORS

In October 2005 the new management team at Southern Water discovered inconsistencies in the reporting of service standards and immediately brought them to the attention of Ofwat and the Serious Fraud Office. The company launched a joint inquiry with Ofwat, bringing in a specialist team of independent investigators from KPMG.

Thousands of paper records were reviewed and an independent company was appointed to review nearly 13 million microfilmed records from the previous nine years. As a result, Southern Water made payments of over £500,000 to customers who had been disadvantaged.

The SFO also launched an investigation but in April this year announced it would not be continuing its inquiry.

CONTACT: Southern Water Press Office 01903 272606