

Date: 24 September 2008  
Our Ref: 080924 AS MP OC7  
Your Ref:

Mark Powles  
Managing Director  
Scottish Water Business Stream  
55 Buckstone Terrace  
Fairmilehead  
Edinburgh EH10 6XH

Dear Mark

**Ordinary Licence Condition 7 – Constraints on unlicensed activities**

Thank you for your letter of 4 September 2008 with your request that ordinary licence condition 7 be removed from both the water services and sewerage services licences held by Business Stream.

I have read the letter dated 7 January 2008 from Scottish Ministers to Scottish Water confirming that Business Stream may, without the need for prior approval from the Scottish Government, undertake activities:

1. closely aligned to core business competencies; or
2. affinity partnerships aligned to the customer base,

where the maximum net financial exposure to Business Stream is no greater than £0.5m. I enclose a copy of the letter from Ministers for reference.

As you rightly set out in your letter of 4 September 2008, Ministers' concession allows Business Stream to diversify its activities, but significant changes to your strategy will continue to require approval by Ministers. Accordingly, given that restrictions on the activities in which Business Stream may engage will continue to exist, we believe that it would be premature to remove ordinary licence condition 7 completely.

This letter will therefore serve as notice that pursuant to paragraph 6 of Ordinary Licence Condition 7 of the water services licence and the sewerage services licence granted to Business Stream on 11 January 2008, the Commission hereby grants its

Water Industry Commission for Scotland  
Ochil House  
Springkerse Business Park  
Stirling FK7 7XE

Chairman Sir Ian Byatt

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consent to Business Stream carrying out the activities approved by the Scottish Government in its letter dated 7 January 2008.

Yours sincerely

A handwritten signature in black ink, appearing to read "Alan D A Sutherland".

Alan D A Sutherland  
Chief Executive

Water Industry Commission for Scotland  
Ochil House  
Springkerse Business Park  
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Ronnie Mercer Esq  
Chair  
Scottish Water  
Castle House  
6 Castle Drive  
Dumfermline KY11 8GG

7 January 2008

Dear Ronnie,

**Business Stream – Business Plan 2007-2010**

Thank you for sending me the Business Stream Business Plan for 2007-2010 in October. We have of course already responded on the aspect relating to the setting up of the Holdings company so as to allow Business Stream to apply for its permanent license.

From our review it is clear that a lot of work has gone into the development of the strategy put forward, and the plan to deliver that strategy. A clear message is that the business is being driven hard to ensure it is well placed for the start of competition.

I am pleased to inform you that Ministers are content with the strategic direction outlined in the business plan. They also found the arguments put forward as to the need to remove the restriction imposed in September 2005 persuasive and consider that it is no longer appropriate for a blanket restriction on undertaking new activities to be in place.

There is a need for the Government, as owner, to exercise proper governance over Business Stream. In practice this means that Ministers need to be content with the strategy of the company. As a subsidiary of Scottish Water, Business Stream is covered by the corporate governance directions that are in place. You are aware that we are in the process of updating these, with the intention being that approval of a business plan is the main route by which the owner ensures it is content with the strategy and direction that is proposed.

While the business plan is therefore of central importance there may be occasions when developments occur in year. Significant changes to strategy would require approval by Ministers, which could be achieved either by an ad hoc request or through an update to the Business plan. However such routes would be overly cumbersome for minor developments. Conscious of this, Ministers have agreed that Business Stream can undertake activities closely aligned to core business competencies, or affinity partnerships aligned to the customer base, where the maximum net financial exposure to Business Stream is no greater than £0.5m, without the need for prior approval from the Scottish Government.

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I would appreciate if you could pass on my thanks for all those involved in the preparation of this plan. Ministers look forward to seeing Business Stream successfully entering the new market and achieving the targets set out in the plan.

Yours sincerely,



Bob Irvine

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