

## GLAS CYMRU'S PLANS FOR WELSH WATER

### INTRODUCTION

On 3 November 2000, Glas Cymru Cyfyngedig ("Glas Cymru") announced that it had reached agreement with Western Power Distribution ("WPD") on terms for Glas Cymru to acquire Welsh Water from WPD. The agreement, which is subject to contract as well as regulatory and other approvals, values Welsh Water at approximately £1.8 billion. Glas Cymru expects to become the new owner of Welsh Water early next year.

Welsh Water is the regulated water and sewerage business serving much of Wales and some adjoining areas of England, which WPD acquired following the take-over of Hyder plc in September 2000.

Glas Cymru is a new and independent company, registered and based in Wales, which was formed earlier this year for the sole purpose of acquiring and owning Welsh Water. The board of Glas Cymru currently comprises Lord Burns as Chairman, together with two executive directors, Nigel Annett and Chris Jones, who were until recently directors of Welsh Water, and two non-executive directors, Geraint Talfan Davies and Alison Carnwath.

The acquisition of Welsh Water by Glas Cymru will ensure that the ownership and control of Welsh Water is secured for the long term. The Board of Glas Cymru believes that this will be in the best interests of Welsh Water, its customers and the environment of Wales.

In summary, Glas Cymru's plans will:

- offer the prospect of lower bills for Welsh Water customers. The Board of Glas Cymru believes its offer will allow Welsh Water to reduce customer water bills before the next regulatory review in 2005;
- ensure that Welsh Water retains overall responsibility for providing safe drinking water and protecting the environment;
- secure continued investment in the water industry and environment in Wales;
- create a stable, long term ownership structure for Welsh Water, ensuring that customers' interests are fully recognised;
- ensure that ownership and control of Welsh Water remains in Wales; and
- focus the management of Welsh Water exclusively on, and hold them directly accountable for, the efficient provision of high quality services to Welsh Water customers at the lowest available cost.

Glas Cymru's plans are mainly concerned with the overall direction of Welsh Water, and in particular the way in which Welsh Water is financed and governed in the long term. This document sets out Glas Cymru's plans for Welsh Water. Glas Cymru will be consulting widely over the coming weeks to ensure that Welsh Water's customers - and all who rely on or have an interest in Welsh Water - are content with its plans.

## KEY BENEFITS FOR WELSH WATER AND ITS CUSTOMERS

The Board of Glas Cymru believes its plans will yield significant benefits for Welsh Water, its customers and the environment. Under Glas Cymru's ownership:

- **Water bills will be lower.** The Board of Glas Cymru believes that as a result of its plans there is scope to announce a reduction in water bills prior to the next regulatory price review in 2005, over and above the reductions recently announced by Ofwat. The cost of financing Welsh Water's assets already absorbs nearly a third of its revenues. With Welsh Water's continuing investment programme this proportion will increase. Glas Cymru will finance Welsh Water's assets with high quality bonds, and this will reduce the cost of financing Welsh Water's assets. The benefit of any reduction in costs will go to Welsh Water customers.
- **Financial surpluses will be re-invested.** Glas Cymru is a company limited by guarantee and owned and controlled by members instead of ordinary shareholders. Glas Cymru will not therefore pay ordinary dividends, which means that financial surpluses arising from lower costs will be re-invested for the benefit of Welsh Water, its customers and the environment.
- **Customers will continue to enjoy the same legal and regulatory protections as now.** Like all other water companies, Welsh Water operates under a strict legal and regulatory framework which ensures that safe drinking water supplies cannot be compromised. This will not change. Welsh Water will continue to be regulated in the same way as all other water companies.
- **Safety and quality of service will remain the top priority.** Welsh Water will retain responsibility for providing safe drinking water and protecting the environment, and it will also retain the people and resources necessary to ensure this primary responsibility continues to be met. The integrity of the water supply system will not be compromised. By ensuring that Welsh Water has a sound financial basis, Glas Cymru can ensure that Welsh Water's £1.2 billion investment programme to improve service reliability and water and environmental quality – recently agreed with the National Assembly, Ofwat, the Environment Agency and the Drinking Water Inspectorate - is carried out as planned.

- **Customers will not assume any new risks.** Under Glas Cymru's plans, customers will not own Welsh Water, nor is there any question of customers being asked to meet Glas Cymru's or Welsh Water's liabilities. Glas Cymru is not a "mutual". Glas Cymru will have substantial financial reserves which will protect Welsh Water and its customers against the risk of adverse trading conditions.
- **Management will be focused and accountable.** Glas Cymru's sole purpose will be the financing of water assets in Welsh Water's area of appointment and letting commercial contracts for the operation of those assets and the delivery of service to customers. Glas Cymru's constitution prohibits the company from diversifying into any other activity. The Board of Glas Cymru will ensure that Welsh Water has a high quality management team and staff strongly incentivised to secure the delivery of high quality services to Welsh Water customers at the lowest available cost. A key ingredient of Glas Cymru's plans is that the highly qualified and experienced management team that currently runs Welsh Water will stay with the business. The Board of Glas Cymru will themselves be open and accountable to Welsh Water's customers and their representatives, including the National Assembly.
- **Ownership and control of Welsh Water will remain in Wales.** Welsh Water provides an essential public service, and it is important that Welsh Water's ownership is in "safe hands". Glas Cymru's ownership will ensure that Welsh Water remains a distinctly Welsh enterprise located in and run from Wales. As now, Welsh Water will place equal importance on its customers in England who will similarly benefit from Glas Cymru's plans. Customers will benefit from the fact that the customer and environmental policies of Glas Cymru will have a local focus and will be highly responsive to local priorities.

## BACKGROUND ON WELSH WATER

### Welsh Water

Welsh Water is the regulated business that provides water and wastewater services to over three million people living and working in Wales and some adjoining areas of England. Welsh Water has over 1.1 million household customers and 100,000 business customers.

Welsh Water operates 84 impounding reservoirs, 113 water treatment works and 4 bulk supplies, and supplies on average 1,000 million litres of water every day through a network of 26,800km of water mains, including 630 water pumping stations and 740 service reservoirs. Welsh Water collects wastewater through a network of 17,500km of sewers, including 1,650 sewage pumping stations, which is treated at 850 sewage treatment works located next to rivers and along the coast of Wales.

The water industry is very capital intensive. Welsh Water employs assets worth over £12,000 million, which is more than £10,000 for every household customer. In addition, Welsh Water is investing around £230 million every year to repair and upgrade its assets. In the period to March 2005 Welsh Water needs to raise around £600 million from investors to help finance its investment programme. The cost of paying a return on this money raised from investors is one of Welsh Water's biggest costs.

Like all the other water companies in England and Wales, Welsh Water operates within a special regulatory framework. Ofwat, the economic regulator, is responsible for setting limits on prices that can be charged and overseeing general service performance. The regulator for drinking water quality is the Drinking Water Inspectorate. The Environment Agency oversees environmental performance, especially with regard to the way in which companies abstract water from rivers and reservoirs and then return wastewater to the environment after it has been treated. All aspects of water and wastewater operations are subject to extensive performance monitoring against targets set by the regulators, who publish regular reports on comparative performance. All of the regulators have strong powers at their disposal which can be used in the event that a company's performance is not up to the required standard.

Ofwat sets prices so that the water companies have enough revenue to cover:

- day to day running costs (power, chemicals, manpower, rates, licences, etc);
- the cost of replacing worn out assets; and
- paying a return on capital invested, including any new money raised from investors to fund investment in new or upgraded assets.

The allowance Ofwat makes for each of these costs includes demanding targets for annual improvements in cost efficiency. These targets for lower costs are accompanied by targets for higher quality standards and levels of service.

To date Welsh Water has managed to achieve or better the targets set by regulators. Since privatisation in 1989, Welsh Water has

- cut its "like for like" day to day running costs by more than a quarter; and
- invested over £2,500 million - a rate of investment which is over three times what was achieved in the 1980s - replacing worn out assets and building new assets to improve water quality and environmental standards and levels of service.

As a result of these efforts, water quality compliance has risen steadily; bacterial quality at the tap is now 99.8%, leakage is down by 30% since 1996, river quality has improved from 79% in 1990 to 92% now, and under the Green Seas Partnership Wales has 22 Blue Flag beaches, 6 Blue Flag marinas and 25 Green Coast Awards. The management team that has been responsible for this performance will stay with Welsh Water following the change of ownership.

Welsh Water is currently owned by WPD. WPD acquired Welsh Water as part of the takeover of Hyder plc which was completed in September 2000. WPD is also the holding company of South Western Electricity plc, the electricity distribution business for South West England.

### Welsh Water's future financing requirements

Ofwat sets Welsh Water's prices every five years. The last periodic review of prices, covering the five year period to March 2005, was completed at the end of 1999. This price determination allowed for continued high levels of investment and included demanding targets for further improvements in cost efficiency. Prices are set according to the RPI±K formula, whereby prices in any year are allowed to increase by general price inflation (ie RPI) plus or minus the "K factor" adjustment.

#### Ofwat's determination of prices for Welsh Water

Financial year ending 31 March	2001	2002	2003	2004	2005
"K factor"	-10.5	-0.5	0.0	+1.2	+1.0
	£m	£m	£m	£m	£m
Revenues	429	425	424	428	431
Day to day running costs	193	188	182	175	168
Replacing worn out assets	99	102	101	102	106
Return on "Regulatory Asset Value"	137	135	141	151	157
	429	425	424	428	431
New asset investment	163	115	117	106	98
"Regulatory Asset Value"	1,882	1,980	2,080	2,235	2,365
Return on "Regulatory Asset Value"	7.3%	6.8%	6.8%	6.7%	6.7%

Source: Ofwat, December 1999. NB May 1999 prices and before any allowance for general price inflation

The price limits set by Ofwat for Welsh Water assume:

- Continued growth in household demand of around 1% each year offset by the continuing downward trend in water use by industry.
- On average 20,000 households (ie around 2% of all households) switching each year to paying by meter; currently only 9% of Welsh Water's household customers pay by meter. (Welsh Water has recently asked for an interim determination of its K factor because the rate of meter switching is higher than was assumed by Ofwat when the price limits were set.)
- Day to day running costs being cut by more than 15% in real terms by 2005; large new wastewater treatment works opening at Cardiff, Newport, Afan/Baglan, Holyhead and Prestatyn will actually increase annual running costs by some £10 million and this increase in costs will have to be absorbed.
- Total capital investment, covering both replacement of worn out assets and new assets, of £1,130 million over the five year period. Allowing for likely general price inflation and also planned refinancing of existing debt, Welsh Water will have to raise new capital of around £600 million in the period to March 2005. In cash terms in each of the five years to March 2005 Welsh Water will actually spend on average some £130 for every £100 it gets from customers.
- Due to the continuing heavy investment programme, Welsh Water's "Regulatory Asset Value" ("RAV") will grow in real terms by over 5% every year so that by 2005 well over a third of revenues will be used to pay a return on this RAV. The RAV is calculated by Ofwat and is based on the value placed on Welsh Water by investors at privatisation plus the value of net capital investment since then. The return on RAV that Ofwat allows when setting prices is intended to be sufficient to allow Welsh Water to attract and raise new money from investors to fund its investment programme.
- Welsh Water will improve drinking water quality by replacing over 2,200km of water mains, improve river and coastal water quality by dealing with 690 unsatisfactory intermittent sewer discharges, improve environmental water quality by upgrading 150 wastewater treatment works and ensure that all sewage sludge is recycled to new higher legal standards.

The big challenges facing Welsh Water are therefore cutting its costs and raising substantial new capital from investors, while at the same time achieving all the targets for improved water and environmental quality and levels of customer service. Glas Cymru's plans are designed to allow Welsh Water to meet these challenges. Indeed, by

reshaping and improving the way in which Welsh Water is owned and governed, and the way in which Welsh Water delivers services and finances its assets, Glas Cymru aims to reduce Welsh Water's costs beyond the targets set by Ofwat. Because Glas Cymru has no ordinary shareholders these additional cost savings will go to Welsh Water's customers.

## **BACKGROUND ON GLAS CYMRU**

### **Glas Cymru's offer for Welsh Water**

Glas Cymru is a new and independent company, based in Wales, which was formed earlier this year for the sole purpose of acquiring and owning Welsh Water.

Glas Cymru's offer values Welsh Water at approximately £1.8 billion, which represents around 95% of Welsh Water's "Regulatory Asset Value", and is expected to comprise:

- the assumption of existing Welsh Water indebtedness;
- the assumption of new bonds to be issued by Welsh Water in conjunction with Glas Cymru early next year; and
- an amount of deferred consideration expected to be paid to WPD no later than 31 March 2005.

Both Glas Cymru and WPD recognise that the prospect of lower bills for Welsh Water customers – which are anticipated as a result of the new way in which Welsh Water will be financed and governed under Glas Cymru's ownership – is a key objective of the transaction. Glas Cymru and WPD have therefore agreed that the deferred consideration should enable WPD to share in Glas Cymru's success in actually cutting customer water bills in the period to 31 March 2005, thereby creating a strong alignment of interests to achieve this key objective.

### **Glas Cymru's ability to raise low cost capital**

Fundamental to Glas Cymru's plans is being able to finance Welsh Water's assets with long maturity, strong investment grade bonds on attractive terms. This means putting in place plans and structures which together clearly demonstrate to bond investors that Welsh Water is very low risk and that there are virtually no circumstances under which Welsh Water could get into a position where it could not pay interest or principal due on the bonds. This is what Glas Cymru's plans are intended to achieve.

At a time when investors are generally nervous of committing new capital to the privatised water industry, Glas Cymru's plans will re-establish Welsh Water's credentials as the provider of a low risk and essential public service. This will allow Welsh Water to raise the new capital it needs to fund its investment programme and also keep overall costs as low as possible.

Ways in which Glas Cymru will reduce the risk of investing in Welsh Water include:

- **No ordinary shareholders.** Glas Cymru is owned by members instead of ordinary shareholders, and financial surpluses will be re-invested for the benefit of Welsh Water, its customers and the environment. Glas Cymru's ownership of Welsh Water therefore removes the fundamental tensions that can arise from ordinary shareholder ownership of a monopoly providing an essential public service.
- **No diversification risk.** Glas Cymru's constitution limits its purpose to that of only financing water assets in Welsh Water's area of appointment and letting commercial contracts for the operation of those assets so as to ensure the proper carrying out of its functions and responsibilities in accordance with Welsh Water's licence. The worry that Glas Cymru might diversify into other risky activities is removed.
- **Strong reserves.** Glas Cymru will start with reserves of over £100 million and the board of Glas Cymru intends that these will build up to over £300 million by 2005, representing some 15% of Welsh Water's "Regulatory Asset Value". This level of reserves will cover the financial cost of possible "shocks", such as a major drought.
- **Competitive Procurement Plan.** Welsh Water already out-sources its annual £230 million capital investment programme. Glas Cymru will extend this approach by also out-sourcing the day to day operation of assets and the provision of customer services. This means that the proportion of Welsh Water's annual cash expenditure carried out by specialist contractors will increase from 60% currently to just over 80%. These service providers will give Welsh Water the benefits of competition, best practice and best value, and will assume much of the risk of variations in day to day running costs. The remaining 20% of costs are largely fixed and cover items such as rates, licence fees, environmental fees and other company-wide costs which are not related to day to day operations.
- **Licence changes.** Glas Cymru will agree with Ofwat to a package of licence changes to Welsh Water's regulatory licence which will reinforce the independence and "ring-fencing" of Welsh Water and emphasise the creditor and customer protections provided by the current regulatory and legal framework given the essential public service nature of water and sewerage services.

Glas Cymru's plans are focused on revealing the low risk nature of Welsh Water's regulated water and sewerage activities. The Board of Glas Cymru is confident that it will be able to reduce the overall cost of capital of Welsh Water. Equity interest in Welsh Water's activities is maintained via the out-sourcing contracts for asset operation and delivery of service. The Board of Glas Cymru believes that it will be able to secure for Welsh Water a strong investment grade rating which will in turn allow it to raise long term capital on attractive terms.

## Procurement Plan

Glas Cymru will implement a Procurement Plan whereby Welsh Water will out-source the day to day operation of its assets and delivery of service (as well as billing and customer contact management) to specialist Service Providers under competitive commercial contracts. The Procurement Plan will be published annually and will be submitted to Ofwat.

Welsh Water already out-sources its annual £230 million capital investment programme to specialist private sector contractors. In recent years, as part of the Hyder Group, Welsh Water has developed this out-sourcing approach by putting in place Service Level Agreements with other parts of the Hyder Group. Glas Cymru's Procurement Plan will extend this approach so that the proportion of Welsh Water's annual cash expenditure carried out by specialist contractors and service providers will increase from around 60% currently to just over 80%.

This approach to delivering services is the way the water industry is managed in many other countries. It will allow Welsh Water to get the best available prices and best practice from the most competitive operators in the marketplace. This will benefit Welsh Water's customers. It is an effective way to introduce further competition into the water industry, which is a Government objective (see, for example, the Government's consultation paper "Competition in the Water Industry in England and Wales" April 2000).

Welsh Water itself will at all times retain the key skills and resources to retain overall control of its operations in accordance with its legal responsibilities.

Glas Cymru will publish its Procurement Plan. It will set out:

- how the technical competence and service record of potential Service Providers will be assessed during the tendering process;
- how tendering procedures will ensure a competitive outcome;
- how Glas Cymru will ensure that service providers follow specified policies and working practices (eg the ISO9002 water quality system already operated by Welsh Water);
- how Welsh Water will monitor the performance of service providers (including regulators' requirements for access to information); and
- Welsh Water's step-in rights in the event of poor service performance and stand-by procedures for alternative service provision.

A service provider's reputation, credit standing and record on performance will be an important ingredient in its success in winning future contracts with Welsh Water and with other water enterprises in the UK and elsewhere. This will give a powerful and direct financial incentive to provide a high quality service and to avoid shortfalls in standards.

### **Glas Cymru's board, management and advisers**

The Chairman of Glas Cymru is Lord Burns, former Permanent Secretary to the Treasury and currently non-executive director of Legal & General plc, Pearson plc and British Land plc. Lord Burns has recently been appointed Chairman of the National Lottery Commission.

The non-executive Directors are Geraint Talfan Davies, former Controller of BBC Wales and current Chairman of the Institute of Welsh Affairs, and Alison Carnwath, who has held a wide range of senior posts in the City, is Chairman of Vitec Group plc and is currently a non-executive director of the Nationwide Building Society and Skillsgroup plc. Further non-executive Directors will be appointed in due course.

The two executive Directors of Glas Cymru are Nigel Annett and Chris Jones who until recently were directors of Welsh Water. The experienced and highly qualified management team currently running Welsh Water will stay with the business, and Mike Brooker, Managing Director of Welsh Water, will join the Board of Glas Cymru on completion of the transaction.

The Board of Glas Cymru has received independent financial advice in relation to the acquisition of Welsh Water from Lexicon Partners Limited, legal advice from Linklaters & Alliance and regulatory and economic advice from National Economic Research Associates.

### **Corporate governance**

Glas Cymru was formed earlier this year for the sole purpose of acquiring Welsh Water. Glas Cymru's constitution strictly limits its purpose to that of financing water assets in Welsh Water's area of appointment and letting commercial contracts for the operation of those assets so as to ensure the proper carrying out of Welsh Water's functions and responsibilities in accordance with its licence.

Glas Cymru is a company limited by guarantee, registered under the Companies Act 1985, and owned and controlled by members instead of ordinary shareholders. Glas Cymru will initially have up to 50 members who, like ordinary shareholders, will own and control the company. However the members will not receive dividends nor have any other financial interest in Glas Cymru.

The Board of Glas Cymru will be accountable to its members. Members will be individuals from across the region served by Welsh Water with backgrounds in a variety of sectors including industry, commerce, finance, small business, education, health, the environment, charities and local government. Members will be put forward by an independent panel following an open selection process based on "Nolan principles". The panel will consist of one Glas Cymru Non-executive Director and a number of independent appointees, including the chairman.

All members must be prepared to act in accordance with the constitution of Glas Cymru, and in particular will have a duty to support the company's primary object of providing high quality water and wastewater services at least cost to the community. They must also be able to play an active role in providing a critical oversight of the Board's performance. They will be assisted in this task by an annual "members report" on the performance of the company and bi-annual members' conferences. In the event of serious under-performance by directors, the members will have the power to remove them and elect replacements.

Glas Cymru will be obliged to act at all times as though it was listed on the London Stock Exchange which will impose additional reporting and other obligations. Glas Cymru will also be subject to the Companies Act framework and will act in accordance with the Principles of Good Governance and Code of Best Practice as required by the listing rules of the London Stock Exchange.

### **Incentives for performance**

An important question for Glas Cymru is the extent to which efficiency incentives in service delivery will be preserved in the absence of ordinary shareholders. The Board of Glas Cymru will ensure that Welsh Water has a high quality management team and staff strongly incentivised to deliver results for customers.

Indeed, the Board of Glas Cymru believes incentives for performance will be enhanced under its plans for Welsh Water in ways which include:

- **Glas Cymru's constitution requires that the Board has a majority of non-executive directors.** These will be individuals of standing with proven commercial track records. The Board will set the policy and targets for executive management, and will be publicly accountable for performance. The performance of executive directors will be measurable against industry benchmarks, including "league tables" on all aspects of service delivery which are published annually by regulators. The Board will have every incentive to replace executive management if Welsh Water is not performing. Glas Cymru will disclose details of the way in which directors' remuneration is linked to service performance, in line with the new obligations imposed on other utility companies under the Utilities Act 2000.
- **Directors and managers of Welsh Water will be strongly incentivised to improve services and cut costs.** Building on the principles of the Cadbury and Greenbury Committees on executive remuneration, a significant proportion of maximum pay will be linked to performance, not just in comparison with fixed or historical benchmarks, but also in comparison with the rest of the water industry. Significant weight will be

given to Welsh Water's success in cutting bills and improving service, and achieving water and environmental quality targets. In this way, managers will have a strong direct incentive to run the company as efficiently as possible in a way which benefits customers. As many of Welsh Water's staff as possible will participate in these incentivisation arrangements.

- **Around 80% of Welsh Water's activities will be out-sourced through competitive bidding.** Glas Cymru will benefit from market competition to deliver the most efficient cost and service delivery performance. Service providers will have their own incentives to meet Welsh Water's customers' requirements as efficiently as possible, both at the time they submit their bids, and in discharging their obligations under the contracts.
- **Glas Cymru will be accountable to its customers.** Glas Cymru's primary object is to provide high quality water and wastewater services at the least cost to the community. Glas Cymru will distribute financial surpluses to customers as bill reductions where it prudent to do so. In this way, customers will have a direct interest in the efficiency with which Glas Cymru is run. Directors and managers will be subject to scrutiny by customers and their representatives. The way in which Glas Cymru is managed and governed will ensure that the company is open and accountable, explaining performance and consulting widely on policies. The Chairman and Board will be regularly held to account by the Ofwat Customer Service Committee and the National Assembly.
- **Glas Cymru will be subject to the same legal and regulatory framework of enforcement and sanctions as other water companies.** The information produced by the regulatory framework, which provides measures of performance across the industry on key parameters, will be available to the Board of Glas Cymru, allowing it to judge executive management's performance relative to other companies in the sector.
- **Under Glas Cymru's ownership Welsh Water will continue to be financed by substantial "at risk" capital.** Glas Cymru will be subject to continuous scrutiny by the ratings agencies which will publish credit ratings for Welsh Water's bonds and an explanation of their underlying rationale. The bond investors will themselves also have important "step-in" rights in the event of defined circumstances which will include the ability to require the Board of Glas Cymru to make certain changes or, in some circumstances, to remove the Board itself.

- **Glas Cymru will comply with the reporting and best practice obligations required of companies listed on the London Stock Exchange.** Glas Cymru will operate as if it were a publicly listed company in all important respects as regards corporate governance and reporting.

The Board of Glas Cymru believes that the pressures and incentives on executive directors and managers to perform efficiently will be at least as great as those that are found in ordinary shareholder owned companies.

## **OFWAT'S REQUIREMENTS FOR NEW OWNERSHIP STRUCTURES IN THE WATER INDUSTRY**

In June of this year Ofwat consulted on possible new ownership structures in the water industry. This consultation set out the issues raised by these new structures, identified the potential advantages and indicated the key requirements that would have to be met for regulatory consent. Following proposals by Kelda, Ofwat set out on 25 July specific regulatory requirements that would have to be met to secure regulatory approval.

The Board of Glas is confident that it can meet the regulatory tests set out by Ofwat. In particular:

- the Board of Glas Cymru is independent of Hyder and WPD, and it has engaged its own independent financial and legal advisers in the course of the preparation of its offer to purchase Welsh Water;
- Glas Cymru is not a "mutual", and Glas Cymru's acquisition of Welsh Water will not mean any transfer of ownership or liabilities to Welsh Water's customers;
- Glas Cymru will operate with strong commercial incentives to deliver efficient and low cost water and sewerage services to Welsh Water's customers. Glas Cymru will implement a Procurement Plan which will ensure that Welsh Water achieves the full benefits of competitive prices and best practice;
- the transaction agreed by Glas Cymru and WPD depends on Welsh Water having strong financial prospects which allow it to raise new capital and maintain a strong investment grade rating; and
- the Board of Glas Cymru believes that it will be able to provide a highly efficient service to customers and that there will be scope to announce a reduction in water bills prior to the next regulatory price review in 2005, and as such Glas Cymru's acquisition of Welsh Water will deliver tangible benefits for Welsh Water's customers.

Glas Cymru will agree with Ofwat to a number of changes to Welsh Water's regulatory licence which will reinforce the independence and "ring-fencing" of Welsh Water, and which will require Welsh Water to carry out its functions in an open and accountable manner, to procure services efficiently and competitively, and to maintain a investment grade rating so that Welsh Water can raise capital to finance efficiently its ongoing investment programme.

## **NEXT STEPS**

Glas Cymru will be consulting widely on its plans for Welsh Water. Glas Cymru wants to be sure that Welsh Water's customers are content with these plans and Glas Cymru's ownership of Welsh Water. Customer support is crucial. The Board of Glas Cymru believes firmly that its ownership of Welsh Water is in the best interests of Welsh Water's customers and the environment, and Glas Cymru's consultation programme will seek to explain this in full.

Ofwat will also consult on Glas Cymru's plans, and the Ofwat Customer Service Committee for the Welsh region will be organising public meetings. Details of these public meetings and other occasions where Glas Cymru will be presenting and discussing its plans will be posted on Glas Cymru's website [www.glascymru.com](http://www.glascymru.com) and otherwise publicised widely. Further background on the water industry, Welsh Water, and Glas Cymru's plans for Welsh Water can also be obtained on Glas Cymru's website.

Glas Cymru encourages and welcomes comments and views on its plans for Welsh Water. Glas Cymru can be contacted by email at [info@glascymru.com](mailto:info@glascymru.com) or in writing at 1 Kingsway, Cardiff CF10 3PW.