

Glas Cymru delivers on its promise to customers

For use from 0700 on Thursday 20 February 2003

Dŵr Cymru Welsh Water today confirmed that it is cutting £11 million from customers' water bills – delivering on a promise made by Glas Cymru when it bought the company in 2001.

Standing charges are being reduced by a total of £9 for most household water and sewerage customers from April this year.

Glas Cymru, which has no shareholders, acquired Dŵr Cymru Welsh Water in May 2001 and said that it would be run solely for the benefit of customers by targeting improved services and bill reductions.

Dŵr Cymru Welsh Water managing director Mike Brooker said, "Customers are now benefiting from our financial strength by receiving the first discount to their bills. Nearly two years ago we said that we planned to reduce bills while greatly improving the quality of services we provide. We are delivering on both pledges.

"In addition to the £1.2 billion we are investing to improve services between 2000 and 2005, our improved financial and operational efficiency is also enabling us to spend an extra £41 million to alleviate sewage flooding and increase investment in water resources. Our long-term investment programme is delivering higher quality drinking water and valuable environmental improvements.

"In 2002 Wales secured two thirds of all the UK's Blue Flag beaches, due in great measure to the new wastewater treatment works around our coastline. Results for this year show that 82% of Welsh bathing beaches have water quality of a standard high enough to qualify for this prestigious award, and 100% have reached the mandatory quality level. We are looking forward to seeing even more Blue Flag beaches this summer."

Mike Brooker explained that lower cost financing of the company's huge investment programme – equivalent to £1000 per customer over five years - is the key to delivering the discount and additional spending on services.

"Our company structure allows us to borrow money more cheaply to save on our financing costs and so divert resources for improvements to our services. Because we have no shareholders we pay no dividends and financial surpluses are used for the benefit of customers. We are delighted to announce this first discount to bills."

He added that the company is targeting a further discount next year.

End

Enquiries to Wynford Emanuel/Elizabeth Warwick on 029 2055 6140

News - Newyddion

Thursday 20 February 2003

Explanatory Notes:-

Ofwat sets limits on the prices that Welsh Water can charge each year. For the year 2003-04, Ofwat have set the allowed price increase (K) to be 2% above the rate of RPI inflation. This price increase follows a substantial 10% reduction in Welsh Water prices in 2000, and is primarily allowed so as to enable the financing of Welsh Water's £1.2 billion capital investment programme over the current five year period. This investment programme is delivering major improvements in environmental quality, drinking water standards and service reliability. This year, the RPI inflation figure was 2.65% and so, on average, prices were due to rise by 4.65%.

However, at its first Annual General Meeting in 2001, Glas Cymru, the owner of Welsh Water, announced that its new "not for profit" structure would allow the Company to target customer bill rebates worth £11 million in 2003/04 and £12 million in 2004/05. Welsh Water are now able to confirm that the prices it will charge in 2003-04 will be reduced to £11.5 million less than the amount allowed under Ofwat's pricing formula - a rebate of £9 per customer.

Last year the average household bill was £276. This year, it will be £277 (an increase of 1% - substantially less than the general rate of inflation) which is £9 less than the amount that could have been charged under the Ofwat price limits. The average household bill therefore works out at around 75p per household per day.

Individual customer charges are based on either an unmeasured or measured tariff and so the particular change in their bill will vary depending on their level of metered water consumption or the rateable value (RV) of their property. To make the process as easy to understand as possible, the £11.5 million rebate has been used to reduce by £9 the standing charge paid by all customers, whether metered or unmetered. This means that every customer is paying £9 less than would have been the case without the rebate.

No water and sewerage company in England is giving a price rebate in this way. It is expected that, on average, charges in the rest of the industry will rise by an average of 4 to 5% this year. Glas Cymru's ultimate goal is to get water bills in Wales closer to the industry average. This rebate is the first step towards that goal.'

Notes for editors:

1. Glas Cymru was formed in April 2000 for the sole purpose of acquiring Welsh Water. It is a company limited by guarantee, which makes Glas Cymru the same as any other company except for one important difference – it does not have shareholders. This means that all financial surpluses are retained within the business for the benefit of Welsh Water’s customers. It also means that Welsh Water’s only concern is its responsibilities as a water and sewerage company. Under Glas Cymru’s ownership Welsh Water cannot diversify into new and riskier business activities.
2. The water industry everywhere is very capital intensive. The cost of financing Welsh Water’s assets is its single biggest cost and already absorbs nearly a third of its revenues. With continuing high levels of investment to improve water supply and environmental quality – Welsh Water will invest a further £1.2 billion over the current five year regulatory period to March 2005 – the cost of financing assets will continue to rise.
3. Glas Cymru has cut the cost of financing Welsh Water’s assets. In May this year Glas Cymru completed one of the largest sterling bond issues ever seen in the UK to finance the change in ownership and to fund Welsh Water’s continuing capital investment programme. The bond issue raised £1,910 million and was very successful, being 70% over-subscribed. By funding Welsh Water’s assets with long term, low risk bonds, Glas Cymru has cut Welsh Water’s annual financing costs by around a quarter. This is a very significant saving and is worth some £50 million a year. In the first instance these savings will be used to build up financial reserves and protect the company and customers from unforeseen circumstances, such as a major drought, and to also improve Welsh Water’s credit quality so that it can reduce its financing costs still further in the years ahead. Once the financial reserves exceed £300 million, part of the annual savings can be then be used to pay customer bill rebates. At its first Annual General Meeting in July this year, Glas Cymru announced a £23m bill rebate target for Welsh Water customers.
4. Welsh Water is the regulated company that provides water and sewerage services to over three million people living and working in Wales as well as some adjoining parts of England. In all, Welsh Water has 1.2 million household customers and over 100,000 business customers. Welsh Water was a subsidiary of Hyder plc which was acquired by Western Power Distribution following a protracted take-over battle last year. Glas Cymru secured ownership of Welsh Water on 11 May this year.

Glas Cymru is a company limited by guarantee and has members instead of shareholders. Members do not receive dividends and do not have any other financial interest in the company. Members carry out the normal corporate governance role of shareholders at Annual General Meetings and, alongside bond investors, industry regulators and the National Assembly, they have a key role in scrutinising Welsh Water’s performance against financial and other targets as well as water industry benchmarks for quality of service and cost efficiency. The Members of Glas Cymru hold an important position in supporting the Company’s primary objective of providing high quality water and sewerage services at least cost to the communities served by Welsh Water.