

Glas Cymru announces £23m bill rebate target for Welsh Water customers

Glas Cymru announced a £23m bill rebate target for Dŵr Cymru Welsh Water customers today at its first Annual General Meeting.

Lord Burns, Chairman of Glas Cymru, the new owner of Welsh Water, told the first meeting of Members of the Company that its pioneering structure would allow it to target customer rebates worth £11 million in 2003 and £12 million in 2004 and also to guarantee continued investment of £1.2 billion in the water industry in Wales.

The bill rebate would be equivalent to around £10 each year for every one of Welsh Water's 1.2 million household customers.

Welsh Water's capital investment programme is worth £1.2 billion over the five years to 31 March 2005, and will deliver further improvements in customer service and environmental standards. This investment is equivalent to £1,000 for every household.

Lord Burns said today:

"On the basis of our current financial projections, we expect to be able to deliver customer rebates worth approximately £11 million and £12 million in each of the last two years of this five year regulatory period. These rebates would represent a distribution of around one sixth of the savings we expect to make in those years in the cost of financing Welsh Water's assets.

"Most of the savings we are targeting will be reinvested in the business and will be used to build up financial reserves. These financial reserves are necessary to protect the business against unforeseen financial shocks and furthermore, by reducing risks to bond investors, minimise Welsh Water's costs of finance, its single biggest cost. By building up our financial reserves and reducing the cost of finance still further we will be able to make significant and regular reductions in customer bills in the longer term.

"While the growth in financial reserves is our priority we can still target the first customer bill rebates in 2003."

Full details of the bill rebate target are included in an open letter to the Director General of Ofwat, the water industry regulator, which was published today. In that letter Glas Cymru confirms that:

- decisions on customer bills will be made by the Board on a year by year basis, and will be announced at least one month before they come into effect
- policy on customer rebates will be updated and disclosed each year at the Company's Annual General Meeting;
- beyond 2004, it intends to grow the initial customer bill rebates of £11 million and £12 million, at least in line with the rate of inflation;
- if financial targets are not met the bill rebates may be reduced, but if the Company's financial performance exceeds expectations it may be possible to increase them;
- in addition, should there be a need for additional investment which has not been allowed for by Ofwat in Welsh Water's price limits for the current five year period, the Board will consider carrying out this additional investment if there is strong evidence that this is what customers want and there is also prior agreement with Ofwat that this additional investment will be approved.

"I believe we now have in place not only the right corporate and financial structures but also the right people and partners to create an effective new start for the industry in Wales, one which can deliver an improving service to customers at a lower cost," added Lord Burns.

Copies of the Chairman's Statement and today's "open letter" together with other background information on Glas Cymru can be found on the Company's website www.glascymru.com

Ends

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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 instead of going to shareholders as higher dividends. It also means that Welsh Water's only concern is its customers and what is best for them in the long run. Under Glas Cymru's ownership Welsh Water can no longer be distracted by having to maximise profits and dividends for shareholders. Nor can it 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 corporate 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 instead of shareholders' equity, Glas Cymru has cut Welsh Water's annual financing costs by a quarter. This is a very significant saving and is worth some £50 million a year, a sum greater than the entire wages bill of Welsh Water. 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. Once the financial reserves exceed £300 million (the company started with reserves of £150m), part of the annual savings can then be used to pay customer bill rebates.
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.
5. 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.
6. Under Glas Cymru's ownership, Welsh Water will be regulated in exactly the same way as other water companies by industry regulators including Ofwat, the Environment Agency and the Drinking Water Inspectorate. Just because it is now a "not for profit" enterprise does not mean that Welsh Water can lag behind the best water companies in terms of cost efficiency and improving service levels. There will be no let-up in the drive for continuous improvement and, as now, Welsh Water will be set demanding targets.