

OPEN LETTER TO THE FIRST MINISTER OF THE NATIONAL ASSEMBLY

Rt Hon Rhodri Morgan MP AM
First Minister
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

3 November 2000

Dear Rhodri,

Offer to purchase Dwr Cymru Welsh Water

I am writing to you as Chairman of Glas Cymru Cyfyngedig ("Glas Cymru"), a new company which has been formed for the sole purpose of acquiring Dŵr Cymru, the regulated water and sewerage business of Hyder plc, now owned by Western Power Distribution ("WPD").

The offer

Our offer values Dŵr Cymru at approximately £1.8 billion. This is approximately 95% of the value placed on Dŵr Cymru by Ofwat, the water industry regulator. The terms of our offer have been agreed with WPD, subject to contract as well as regulatory and other clearances. We expect to finance the purchase of Dŵr Cymru by assuming a combination of existing indebtedness and an issue of new bonds by Dŵr Cymru in conjunction with Glas Cymru. I have written today to the Director General of Water Services, Philip Fletcher, and enclose a copy of this letter. We intend to complete the purchase of Dŵr Cymru early next year.

Background on Glas Cymru

Glas Cymru is a company limited by guarantee incorporated under the Companies Act 1985. It has members instead of ordinary shareholders. Members will be individuals who are committed to the water industry in Wales and who will hold the Board of Glas Cymru to account. Members will not receive dividends or have any other financial interests in the company. Because Glas Cymru has no ordinary shareholders, financial surpluses will be re-invested for the benefit of Dŵr Cymru, its customers and the environment rather than being distributed as ordinary dividends.

Glas Cymru is not a "mutual". Customers will not own Glas Cymru, nor will they be in any way exposed to the liabilities of Glas Cymru or Dŵr Cymru. Under Glas Cymru's ownership, Dŵr Cymru will be subject to the same legal framework and responsibilities as any other water company. It will continue to have full legal responsibility for the provision of safe drinking water and the protection of the environment.

Glas Cymru will have no commercial reason to be secretive about its business, and the greater transparency this will bring will mean that customers will know more about Dŵr Cymru and its performance.

Long term security for Dŵr Cymru

Dŵr Cymru owns the very important network of water and sewerage assets that provide essential services to households and businesses in its region. These services are crucial for public health, for economic activity and for the quality of our natural environment. We believe it is essential that ownership and control of Dŵr Cymru should be located in Wales. This will be achieved by Glas Cymru's ownership of Dŵr Cymru. This transaction will bring to an end the uncertainty over the future of Dŵr Cymru.

Lower bills for customers

Glas Cymru is committed to cutting bills before the next regulatory price review in 2005.

Glas Cymru believes it will be able to reduce water bills because it will finance water assets with highly rated, long maturity bonds. It will be able to do this because Glas Cymru's plans will reveal that Dŵr Cymru is a low risk business.

Legally, Glas Cymru is set up so that it can do nothing other than provide water and sewerage services in the region served by Dŵr Cymru. To change this fundamental objective of the company would require the prior agreement of a substantial majority of the company's members as well as the prior agreement of the Director General of Water Services. Bond investors will not have to worry about Glas Cymru diversifying into other more risky activities.

Already nearly a third of Dŵr Cymru's total costs are spent on financing its assets. By cutting this cost, Glas Cymru will be able to reduce water bills. Dŵr Cymru currently has assets which are valued for regulatory purposes by Ofwat at around £1.9 billion. Glas does not have ordinary shareholders and therefore all cost savings will be re-invested in the company for the benefit of its customers and the environment.

Future operating strategy

As part of a medium term procurement strategy, Glas Cymru will out-source on a fully competitive basis the day to day operation of assets and the delivery of services. Dŵr Cymru already outsources its capital investment programme and procurement is already one of its key skills. The Glas Cymru procurement plan will increase the proportion of annual cash expenditure carried out by specialist contractors and service providers from around 60% currently to just over 80%.

In this way Dŵr Cymru will benefit from best value from the best operators in the industry. Customers will benefit from the service improvements that this process will deliver and any cost reductions will feed through to lower bills for customers.

National Assembly

In their joint statement of 24 May, the Environment, Planning and Transport Committee and the Economic Development Committee proposed eight principles which they believed were relevant to any acquisition of Hyder plc. We are not only able to give the required assurances in the short-term in respect of Dŵr Cymru but, in most cases, we are actually legally committed to preserve these objectives. I have attached to this letter a short memorandum concerning the commitment of Glas Cymru to each of the eight principles.

Glas Cymru intends to publicise and consult widely on its plans for Dŵr Cymru. I look forward to further discussions with yourself and the other members of the National Assembly over the coming weeks.

Glas Cymru will bring to an end the period of uncertainty over the future of Dŵr Cymru. Glas Cymru offers the only way forward that secures control and ownership of Dŵr Cymru in Wales for the long term. Only Glas Cymru is committed to reducing customer bills voluntarily before the next regulatory price review in 2005. This is a unique and innovative solution that will deliver a sustainable business for Wales.

I am copying this letter to members of the National Assembly, all MPs in the Dŵr Cymru region, local authorities and to regulatory bodies and other interested parties. Glas will also be publicising this letter and its detailed plans on its website www.glascymru.com.

*Yours sincerely,
Terry Burns*

Lord Burns
Chairman

MEMORANDUM CONCERNING THE PRINCIPLES CONTAINED IN THE JOINT STATEMENT OF 24 MAY BY THE ENVIRONMENT, PLANNING AND TRANSPORT COMMITTEE AND THE ECONOMIC DEVELOPMENT COMMITTEE.

The joint statement of 24 May by the Environment, Planning and Transport Committee and the Economic Development Committee proposed eight principles concerning the acquisition of Hyder plc. (which are shown in italics). The position of Glas Cymru on each of these principles, to the extent that they are relevant to its proposed acquisition of Dŵr Cymru, are set out below.

Glas Cymru believes that no other potential outcome can secure the future of the water and sewerage industry in Wales in the long-term for the benefit of Dŵr Cymru customers and the environment.

Preserve the integrity and identity of Hyder as a distinctively Welsh business and keep its headquarters in Wales.

Glas Cymru will be exclusively the owner and operator of Dŵr Cymru. As such, it will remain a distinctively Welsh business, committed to the interests of its customers, its community and its environment.

Preserve the maximum number of jobs and, as a minimum, limit the number of job losses to those already announced by Hyder and agreed with trade unions.

There will be no job losses as a direct consequence of the acquisition of Dŵr Cymru by Glas Cymru.

By reducing the cost of capital for Dŵr Cymru's assets and achieving a competitive market in the supply of water operational services, Glas Cymru will deliver a lower cost, high quality infrastructure service to households and businesses in Wales. This is beneficial for economic competitiveness and for jobs.

Further, Glas Cymru will be completely focused on the achievement of a high quality environment in Wales. A high quality environment in Wales is not just a "nice to have". A high quality environment and the positive marketing image that it creates are vital to the success of important sectors of the Welsh economy, such as tourism and agriculture, and to the general economic well-being of Wales.

Be committed to investment and development of the regulated and non-regulated businesses of Hyder plc.

Glas Cymru will be exclusively concerned with the development of the water and sewerage businesses for the benefits of its customers and the environment in Wales. It has not made an offer to purchase any of Hyder's non-regulated businesses.

As a minimum maintain Hyder's environmental record and implement the Dŵr Cymru investment programme within existing price limits.

Glas Cymru will be fully committed to the efficient delivery of the quality investment programme required by the Environment Agency and the Drinking Water Inspectorate. It will have no commercial interest in seeking to delay the implementation of this investment programme. Glas Cymru will press ahead with the innovative environmental policies already commenced by Dŵr Cymru, notably the Green Sea Partnership.

Glas Cymru will be able to reduce its costs through its lower cost of capital and the competitive outsourcing of operational services. Glas Cymru will use these savings to benefit customers and to invest in further environmental and service improvements.

Note that the Assembly has a duty under section 121 of the Government of Wales Act to promote sustainable development

Glas Cymru will operate only in the best interests of its customers, its community and the environment in the region served by Dŵr Cymru (which includes most of Wales and some adjoining areas of England).

Recognise the potential of Welsh Water as an economic resource and acknowledge the wish of the National Assembly that the people of Wales should benefit from the use of this resource, especially when water is sold outside Wales.

Glas Cymru fully supports the aspiration of the National Assembly. It believes that any future transfer of water outside the Dŵr Cymru region should result in some benefit to customers within its region. A high quality and lower cost water and sewerage infrastructure, together with a high quality environment, are also important economic resources which are essential to the economic well-being of Wales.

Provide a high quality water and sewerage service for the people of Wales.

Glas Cymru will provide a high quality service to all of its customers. It will not be distracted from this purpose by any conflicting priorities such as ordinary shareholder dividends or the growth of other unrelated businesses.

Operate a fair pricing policy and consider the formula set by the industry regulators as setting the maximum charge to be levied, rather than the norm.

Under Glas Cymru's ownership, Dŵr Cymru will not charge its customers more than it needs to finance services, even if the regulatory system allows it to do so. Glas Cymru will be bound by its constitution to use financial surpluses to cut customers' bills and to invest in further environmental and service improvements.

Based on its current plans, Glas Cymru is committed to achieving further cuts in customers' bills voluntarily before the next regulatory price review in 2005 (provided that there is no material change in circumstances outside Glas Cymru's control).