

**OFWAT CONSULTS ON GLAS CYMRU'S PROPOSALS FOR WELSH WATER/D•R CYMRU**

Ofwat has today begun consulting on issues raised by Glas Cymru's proposals for owning and operating Welsh Water/D•r Cymru.

In the consultation paper, *The proposed acquisition of D•r Cymru Cyfyngedig by Glas Cymru Cyfyngedig*, Ofwat sets out its preliminary view of the proposals and arrangements to ensure customers' interests continue to be protected.

The Glas Cymru proposal would see D•r Cymru pass to a company limited by guarantee, owned and controlled by members. These members would not receive dividends or have any other financial interest in the company. It would have no shareholders. Glas Cymru would own the assets of D•r Cymru but aims to employ specialist contractors to run them.

Earlier this year, in its consultation process on the Kelda proposals, Ofwat set out a framework for assessing plans for new structures for water companies. Ofwat wants to make sure that any switch from the shareholder-owned model still provides incentives for efficiency savings, which have helped to keep down customers' bills.

It also wants to ensure that, in the absence of shareholders' capital, Glas will be financially robust and have enough reserves to continue to finance itself should unexpected adverse events occur.

Director General of Water Services, Philip Fletcher, said: "My preliminary view is that the Glas ownership model does not, on balance, give rise to any insurmountable issues, provided that the licence modifications can be fully implemented and the appropriate investment-grade rating secured.

"However, the views of stakeholders will be critical to my final assessment of the proposals by Glas Cymru.

"The current Shareholder-owned model has worked well. It is delivering efficiency gains for the benefit of customers and shareholders whilst the water companies have been carrying out a massive capital expenditure programme.

"Ofwat will judge this, and any other water companies', proposals for restructuring on their merits, to ensure that customers' interests are protected and that our ability to regulate effectively is not harmed."

Ofwat's consultation seeks stakeholders' views on a number of key issues in the Glas proposals:

- Without shareholder pressure, do they provide enough incentives for efficiency?
- What benefits are offered to customers and are they protected from any new risks should the company run into difficulties?
- Can D•r Cymru's management ensure environmental protection and drinking water quality in the light of its proposals to out-source the operations?
- Do they ensure that the Drinking Water Inspectorate and Environment Agency can still regulate the company effectively if it fails to meet its obligations?
- Will the Members of Glas have sufficient incentives to hold the board of D•r Cymru to account, and not be "captured" by particular interest groups?
- Do the proposals include adequate consumer consultation given the new model of company proposed?
- Is the board of Glas Cymru fully independent of Hyder plc and WPD?

Copies of the Ofwat consultation are available free on Ofwat's website (<http://www.ofwat.gov.uk>), from our library on 0121 625 1373; and from the Customer Service Committee for Wales (tel here).

## **Note to Editors**

1. Philip Fletcher, the Director General of Water Services (the Director), is the economic regulator of the water and sewerage services in England and Wales. His primary duty is to ensure that the functions of the companies are carried out and that they are able to finance them. The Director has a duty to customers and a duty to facilitate competition. Customers' interests are represented by ten independent Customer Service Committees,

established and maintained by the Director and, at a national level, by the Ofwat National Customer Council.

2. The closing date for comments on Ofwat's consultation document is 5pm on 18 December 2000. The document will be available in a Welsh language version shortly.
3. Copies of the consultation document - *The proposed restructuring of the Kelda Group* - and the previous consultation document *New ownership structures in the water industry* are also available from the Ofwat library and on Ofwat's website ([www.ofwat.gov.uk](http://www.ofwat.gov.uk)).

**MEDIA ENQUIRIES TO OFWAT PRESS OFFICE ON:**

0121 625 1442/1416/1425

Out of hours enquiries to pager: 0345 345 100 water 509 or water 521