



The Proposed Restructuring of the Kelda Group

A preliminary assessment
by the Director General of Water Services

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1. SUMMARY

Restructuring proposals

1. Since the Final Determinations of price limits were announced in November 1999, several of the water companies have announced wide ranging reviews covering both strategy and structure. These reviews are aimed at establishing a way forward for their utility and non-regulated businesses. An option, under serious consideration by a number of companies, is the separation of ownership of the water utility assets from operations and the introduction of a competitive outsourcing strategy for service provision. Additionally, some companies are considering whether a new structure of ownership, such as a mutual, might be appropriate for the asset owner, in conjunction with the introduction of a greater proportion of debt finance into the regulated business.
2. The Board of Kelda Group plc (Kelda) is proposing the separation of asset ownership (including responsibilities under the Licence) from operations, and that a new body will acquire the shares and assets of the regulated water and sewerage undertaker, Yorkshire Water Services Ltd (Yorkshire). The intention is for this new body to be known as the Yorkshire Water Mutual (YWM) and for it to be an industrial and provident society established for the benefit of the community under the Industrial and Provident Societies Act 1965. It would be totally debt financed. Under a proposed procurement plan, Kelda expects that the YWM would award all of the initial operating contracts for outsourced services to Kelda. It is then expected that competitive tendering for these services would take place over the lifetime of the current price determination (2000-05) in a phased manner. These proposals were set out by the Kelda Board in a public statement on 14 June.
3. Part 2 of this paper summarises the regulatory issues arising from proposals such as those put forward by Kelda and sets out the views of a wide-range of interested parties. These views have been expressed in responses to the two consultation papers (see paragraph 4) issued by Ofwat or at the meeting in public held on 6 July by the Yorkshire Customer Service Committee to debate the Kelda proposals. A full list of respondents to both papers is attached as Appendices A and B. In Part 3 the Director General of Water Services (the Director) sets out his views as to the appropriate 'next steps' with regard to the Kelda proposals, having taken into account the wide range of views expressed during the consultation.

Consultation

4. The Director is publishing this preliminary assessment following a period of consultation on the Kelda proposals. He issued a consultation paper on 20 June - *The proposed restructuring of the Kelda Group: A consultation paper by the Director General of Water Services* setting out what he thought to be the key issues as a result of the Kelda proposals. An earlier consultation document was published on 6 June - *New ownership structures in the water industry*. This

examined, in a general context, the important constitutional and regulatory issues arising from the separation of the ownership of assets and licence from operations together with the impact of new ownership structures. Many of the issues set out in that earlier paper are relevant to the Kelda proposals. The Director asked for views on the Kelda proposals by 17 July 2000. In arriving at this preliminary assessment, the responses to both papers have been taken into consideration by the Director.

5. There has been a high degree of interest in these complex proposals which could have far reaching implications for the water industry and for other utilities. Those who have responded to the consultation papers have tended to address separately the issues of new ownership structures and the split of asset ownership from operations.

The Director's conclusions

Benefits for customers

6. Although there appear to be clear benefits in the short-term for Kelda's shareholders from the proposals, in its current form, the benefits for customers have still to be demonstrated. The Kelda proposal therefore cannot be allowed to proceed.
7. There are a number of stages that Kelda and YWM would have to go through before any steps in this direction could be contemplated. Many issues, as set out below, need to be properly addressed, not least the informed consent of customers. Any revised proposals would also need to involve a further period of consultation with customers.
8. The Director encourages innovation as a means to achieve efficiency and this must include encouraging fresh thinking with regard to the fundamental structure of the industry itself. However the Director has a duty to protect customers, and he considers proposals for change, including the introduction of new ownership structures, must bring benefits to customers as well as maintain or improve standards of service.
9. The existing investor owned, equity financed model has led to greater efficiency of the water companies and has brought big gains to customers and to the environment since privatisation in 1989. Comparative price cap regulation would remain in force for the mutual both now and in the future. The 1999 price review transferred the benefit of this increased efficiency to customers. Companies have continued to reduce costs since the review. These price limits are based on a presumption that companies continue to pay reasonable dividends to shareholders and that the capital programme would be financed at a cost of capital allowing for a return on equity as well as the interest on borrowings. They have been accepted by all but two small companies.

10. The potential benefits to customers of greater outsourcing and a reduction in the cost of capital are not dependent on the introduction of a new ownership structure and could proceed under the existing equity model.

Informed customer consent

11. Any decision to move to a mutual structure must have customers' informed consent. Yorkshire's customers believe that they have a right to be asked, as the shareholders of Kelda will be, for their consent to restructuring proposals that affect them so directly. This consent would be important to establish the initial and continuing legitimacy of the YWM. The Director agrees with this and believes that the YWM must, in some objective manner, gain the consent of the community for the proposals as well as address the complex regulatory issues that the proposals give rise to. This would involve a further period of consultation.
12. A strong view has been expressed, in particular by Yorkshire's customers, their representatives and MPs, that more time is needed for the issues to be further debated and the benefits for customers clarified before decisions are made on whether companies should be permitted to introduce such fundamental restructuring. The proposals that have been presented to customers are sketchy and much more work on the detail is required before decisions may be made.
13. The Director agrees that decisions regarding the Kelda proposals must not be rushed. It is incumbent on the proponents of such schemes to set out clearly for customers, the issues as they affect them.
14. The Director has today written an open letter to the Chairman Designate of the proposed YWM specifying the information that he considers customers would require to evaluate the proposals. The Director has also told the Chairman Designate that before customers are consulted the mutual must ensure that the regulators are content with the practical arrangements proposed.

The importance of independence

15. Where assets are separated from operations, the initial Board of the proposed asset owning body must be independent of the existing licence holder. This independence must be demonstrated before negotiations begin on the price to be paid for the assets of the regulated business and the terms of operating agreements. At the very least this means that a majority of directors should have no current or former connection with the previous licence holder, and no directors should have a conflict of interest.

Separation of asset ownership from operations and procurement of services

16. The separation of asset ownership from operations and the outsourcing of operations could offer opportunities for greater efficiency resulting from the introduction of competition for the operations market. However there are

practical concerns, not addressed in the Kelda proposals, requiring further consideration.

17. The consultation process has sharpened the focus on the importance of mechanisms to ensure that asset owners retain adequate control over service delivery, whilst contracting out operations. The asset owning body must remain capable of meeting all of its statutory and licence obligations including its responsibility over drinking water quality and environmental standards.
18. In particular, the Drinking Water Inspectorate (DWI) has expressed reservations about the proposals. It is concerned that if asset ownership is split from operations then the responsibility for drinking water quality must remain clear and unambiguous. The DWI has emphasised the need for the asset owner to maintain sufficient capability to secure the quality of drinking water. The Environment Agency has also pointed to the danger, in these circumstances, of a blurring of liability for environmental damage and asset failure.
19. In some circumstances it may be appropriate for the asset owner to retain certain operations to satisfy the requirements of the quality regulators' until the implications of third party provision of these services has been fully explored.
20. The procurement plan would need to ensure that; the asset owner maintains adequate control over operations, the contracts for service provision are properly contested in the market, contracts are not awarded so as to give concerns about the creation of a monopoly in the supply of operations and assets are properly maintained. This would require skilled managers in the asset owning body who should be alive to the fact that water is vital to public health. The procurement plan required by a new licence modification would need to be approved by the Director.

Introduction of new ownership structures

21. The introduction of a new ownership structure such as a mutual represents a significant departure from the current system which has delivered significant benefits to customers. There may be benefits to customers from the YWM model but these need to be set out clearly so they can be weighed against the potential risks arising from the removal of equity shareholders. It is not clear that under the Kelda proposals there would be a reduction in risks for the business as a whole, notwithstanding that there may be a reduction in risk for the asset owner from a transfer of risk to service providers. In order to minimise the risks faced by customers, the YWM would need to have adequate reserves. Customers therefore need to understand the financial consequences of the proposals.
22. Only through a balanced and fair presentation of risks and benefits will customers be in a position to make an informed choice regarding the proposals put to them.
23. Concerns that incentives for efficiency might not be maintained under mutual ownership have been confirmed by the consultation. A main focus of the period of further consultation must be for YWM to consider this issue further and

establish a stronger case that demonstrates that incentives would be maintained in the absence of equity shareholders. It would need to establish how it would attract the right calibre of managers and how they would be incentivised.

24. The proposed licence amendments set out in the consultation papers aimed at maintaining efficiency incentives may not be sufficient to ensure efficient management.
25. There may be opportunities in the capital markets for the water companies to increase the proportion of debt in their financing but the Director would expect the benefits of a lower cost of capital to be passed on to customers at price reviews if not earlier.

Regulatory requirements

26. Before the Director could give his consent to Kelda for any revised proposals, Kelda and YWM would have to:
 - ensure that the regulators are content with the practical arrangements of the revised proposals (see paragraphs 54 to 70). This requires that the Registrar of Friendly Societies is satisfied that the rules of the YWM comply with the Industrial and Provident Societies Act 1965; that the quality regulators' concerns about the asset owner's capability to secure the quality of drinking water and the environment to be addressed; and Ofwat is satisfied that licence amendments have been agreed in principle to address regulatory issues (see paragraphs 54 to 56);
 - satisfy the Director that practical concerns associated with separating asset ownership from operations and the introduction of a competitive procurement strategy have been addressed (see paragraphs 57 to 60);
 - ensure from the outset that the asset-owner is fully independent from the existing licence holder (see paragraphs 61 and 70);
 - demonstrate that the proposals would provide benefits to customers and set out clearly the risks and benefits to customers of the proposals (see paragraphs 71 to 75);
 - establish a clear case that under these proposals incentives for efficiency would be maintained (see paragraphs 65 to 68); and
 - involve customers in a period of consultation on the proposals, directed at gaining informed customer consent to the proposals. This should include providing customers with the information set out in paragraph 73 (see paragraphs 71 to 75).

2. BROAD THEMES EMERGING FROM THE CONSULTATIONS

27. The Kelda proposals are of crucial importance for the future regulation of the water industry. There are a number of principles that will guide the Director in considering the proposals. These are set out below, along with a summary of the views that have been expressed by interested parties.
28. There has been widespread interest in the content of both consultation papers. In total over 150 responses have been submitted to the papers, including responses from customers, those representing customers' interests, MPs, water companies, financial institutions, other regulators, local government, academics and church groups.

Innovation

29. Many respondents expressed support for innovation in principle and a number of water companies believe that they should be free to choose innovative structures. The Director believes that these structures must offer new or increased scope for efficiency gains.

Benefits to customers

30. The Director would need to be satisfied that customers' interests are protected and that the risks and benefits for customers arising from the proposals have been clearly explained to them. The Director has made it clear that there will be no softening of the regulatory regime for those companies considering similar proposals and that the mutual must stand comparison against other (investor-owned) companies. This means that comparative price cap regulation would remain in force for the mutual both now and in the future.
31. If a mutual were to fail and found itself unable to deliver an efficient service and in financial difficulty, the bondholders would be able to require management changes. Ultimately, the mutual would fall within the Special Administration regime set out in the Water Industry Act 1991. This provides for the replacement of the licence holder and as such services could then be delivered by a shareholder owned public limited company again.
32. Respondents have expressed concerns that the benefits for customers of the introduction of a mutual structure have not been demonstrated. On the other hand, the benefits for shareholders are much clearer. Many respondents are suspicious that the change to a mutual structure is being driven solely by shareholders' considerations without sufficient regard to customers' interests.
33. A number of respondents are concerned that, in the absence of shareholders and hence the possibility of equity finance, customers are being asked to bear increased risks without understanding the benefits of the new structure against which to balance these risks.

Customers' views

34. Many customers and the Yorkshire Customer Service Committee (Yorkshire CSC) do not oppose in principle the idea of water being supplied to them by a mutual, although they have concerns about the specifics of the Kelda proposals. However, a number of customers have expressed reservations about the extent of consultation and that they have not been asked for their consent to the proposals. These were major concerns of those who attended the Yorkshire CSC meeting in Leeds held on 6 July. Customers believe that the introduction of such radical restructuring proposals, including the introduction of a new ownership structure, should be conditional on the consent of customers obtained through a vote on the proposals.
35. Customer representative groups and MPs are also concerned that further consultation and debate is required before any decisions are taken. The Yorkshire CSC issued a formal resolution asking the Director for an extension of the deadline for consultation for the Kelda proposals and 40 MPs signed an Early Day Motion calling on Ofwat to extend the deadline for public consultation. The Yorkshire CSC also believes that customers should vote on the acceptability of the proposals.
36. Respondents have urged the Director to adopt great caution before sanctioning restructuring proposals that would change the very core of the regulatory regime.
37. Customers have expressed the following additional concerns:
 - that the proposals may not be in their interests;
 - that they would be required to become Members of the YWM without being consulted;
 - that as Members, the mutual's debt liabilities would fall on them and that as customers they would be expected to bear the costs of the increased debt as well as the additional risks of the totally debt-financed mutual;
 - that those negotiating the price for Yorkshire Water on behalf of the mutual are not independent from Kelda and that the acquisition price may significantly exceed the current market price of the assets; and
 - that service provision to the YWM would remain with Kelda for an interim period.

Separation of asset ownership from operations

38. Respondents seemed to be less opposed to the separation of asset ownership from operations, viewing it as one strategy that potentially could bring about greater efficiency in business operations and offer the possibility of real benefits to customers. It would introduce greater competition into the industry and does not

necessitate the introduction of mutual structures. However a number of significant reservations were expressed (see paragraphs 43 to 47 below).

39. The YWM would be committed to a regular programme of competition for operations. This would be a pre-requisite for any transaction involving the separation of asset ownership from operations. The Director has stated that services must be provided by arms-length suppliers and in accordance with a formal procurement plan approved by him. It may be necessary to disaggregate the services to make them properly contestable in the open market.
40. The Director must be satisfied that following the separation of asset ownership from operations and the introduction of competitive procurement, the licence holder retains control over its statutory and licence obligations and remains capable of dealing with emergencies effectively. The licence holder must at all times ensure continuity of services to customers, maintenance of serviceability and delivery of the quality improvements required by Ministers.
41. It is also important that the initial board of any proposed asset owning body must from the outset be independent of the existing licence holder and that it should seek independent financial advice on the offer price for the purchase of the assets of the regulated business.
42. In the Kelda consultation paper, the Director stated that he would also wish to consider whether the asset owner should retain the operating capability until the operations can be competitively tendered, rather than let initial contracts to Kelda with phased competitive tendering thereafter.
43. A number of respondents agree with the Director that the licensed asset owning company should be able to satisfy the Director that it retains the ability to discharge its statutory and licence obligations despite a heavy reliance on contracted services. This was a particular concern of the DWI and the Environment Agency with regard to drinking water quality and environmental standards respectively. On the other hand some respondents believe that the operating companies will, because they are operating as shareholder-owned companies in a competitive market, have significantly greater financial incentives to meet these obligations than under the current structure.
44. The Director welcomes the suggestion that the licence-holder should agree to a licence amendment requiring its Board to certify annually as to the adequacy of its internal controls to enable it to continue to comply with statutory and licence obligations. This opinion should be independently reviewed by a Reporter.
45. Respondents have also commented that competitive tendering does not automatically result in efficiency and its success relies heavily on the skills of those managing the process. They have questioned the competence of existing management to deliver a genuinely competitive procurement strategy. They also believe that the Director should consider the costs of added regulatory and administrative complexity and fragmentation of skills before coming to a firm view as to the benefits or otherwise of such a strategy.

46. Concerns have also been expressed as to whether the market for the provision of required services is fully contestable and the advantage that any incumbent supplier might have when contracts are competitively tendered. In addition, the effects of the proposals on prospects for competition, for example the introduction of common carriage, in the industry need to be more fully explored.
47. Specifically, in the context of the Kelda proposals, some respondents, whilst not opposing the principle of the separation of asset ownership from operations, are concerned that the YWM would initially award operating contracts to Kelda without any competitive tendering process. They believe that competitive tendering should be introduced at the outset. This might mean that restructuring proceeds at a slower pace but that there would be longer-term advantages.

Efficiency incentives

48. The Director has stated in his consultation papers, that in the absence of shareholder pressure, there will need to be genuine incentives for management to perform well. The Director must be satisfied that the ownership and governance structures for the YWM are such that its Board remains commercially focussed and that the structures are adequate to ensure that the Board could be replaced if it does not act in an efficient manner.
49. Proponents of the move to a mutual structure believe that shareholder pressure can be replaced by new or enhanced drivers for efficiency. They believe that the new ownership structure would preserve the efficiency gains of the past ten years and would continue the development of efficiency and quality of service.
50. Respondents to the consultation expressed mixed views on whether the management of a mutual would be properly incentivised to act efficiently.
51. Whilst some believe that there are mechanisms to ensure efficiency incentives are maintained and point to the success and efficiency of mutual structures in other markets, others are much more sceptical believing that a mutual structure would result in reduced incentives. Furthermore those who are sceptical believe that the effect on incentives cannot be adequately addressed by changes to licence conditions and that there is also a danger that the mutual might be risk-adverse in seeking out-performance in the absence of an equity buffer to protect it financially. Some respondents also questioned the ability of a mutual to attract the right calibre of management

Financing the investment programme

52. A key element of the Kelda proposals is the replacement of equity finance with debt and the introduction of a new financial structure for the regulated business. Kelda and others believe that such proposals would lower the cost of capital for YWM and introduce significant cost savings through more efficient financing.

53. Some respondents have questioned whether there would be a reduction in the cost of capital for the licence holder (within a mutual structure) because of the transfer of equity risk to bondholders and the higher volume of debt that bondholders will be asked to provide. Representatives of bondholders themselves have expressed concern that the total increase in debt that they would be asked to provide, as a result of the company's investment programme, might result in a significant deterioration in the overall credit quality of the issuer. This ultimately could cancel out any reduction in risk and cost of capital for the regulated business from the proposed restructuring.

3. A FRAMEWORK FOR FUTURE DECISIONS

Regulatory requirements

54. The Director believes that the Kelda proposals, as currently presented, are not acceptable. Furthermore, the benefits to customers of such proposals have not been demonstrated. This does not preclude Kelda from proposing a revised plan.
55. Before customer consent is requested, the YWM would need to ensure that the regulators are content with the practical arrangements. In particular that:
- the Registrar of Friendly Societies is satisfied that the rules of the YWM comply with the Industrial and Provident Societies Act 1965;
 - the DWI and the Environment Agency are satisfied that the asset owner retains the capability to secure drinking water quality and environmental standards; and
 - licence amendments to address regulatory concerns have been agreed in principle with Ofwat.
56. As a minimum, licence amendments relating to the constitution of the YWM, its accountability, the procurement plan, control over statutory and licence obligations and the independence of the mutual from operating companies would need to be agreed in principle with the Director. The Director's requirements are set out in more detail below.

The Director's requirements

Separation of asset ownership from operations and introduction of a formal competitive procurement strategy

57. There appears to be more of a consensus that the separation of asset ownership from operations and the outsourcing of operations could offer the potential for further efficiency gains and benefits for customers, primarily through the opportunity for costs savings that supply-side competition could bring. Nevertheless, some real practical concerns have been expressed which have been set out earlier in Part 2, in particular those of the DWI and the Environment Agency.
58. The Director shares these concerns but would not want to discourage innovation in service provision and the introduction to the sector of greater competition. He must be satisfied that such practical considerations have been adequately addressed. For it to bring about benefits to customers, a competitive procurement strategy must be supported by a well-defined public procurement plan to be approved by the Director.

59. The procurement plan would need to ensure that:

- the mutual would have sufficient control over operations to ensure proper service to customers and to the environment. The licence holder would need to maintain sufficient capability to secure the quality of drinking water and the environment and the contracting arrangements would have to ensure that operations could be continued should it be necessary to appoint a Special Administrator;
- the procurement contracts were all properly contestable so that prices were determined in competitive markets;
- the procurement contracts should not result in a concentration in the market as to give concerns about the creation of a monopoly in the supply of operations; and
- in relation to the condition of the assets, proper provision would be made for the maintenance of serviceability to customers.

60. Licence amendments would also require the Directors of the regulated company to certify annually as to the adequacy of its internal controls to enable it to continue to comply with statutory and licence obligations. In some circumstances, it may be appropriate for the asset owner to retain certain operations, in particular, to ensure the quality of drinking water until the implications of third party provision of these services had been fully explored.

61. It is vital that the independence of the initial board of the proposed asset-owner is proven, since it will take critical decisions including the price to be paid for the assets. At the very least, this means that a majority of Directors should have no current or former connection with the previous licence holder, and none of the Directors should have a conflict of interest.

Increased debt financing and risk

62. There appear to be opportunities in the capital markets for the companies to introduce a greater proportion of debt finance into their capital structures to take them beyond the average 50% gearing for the regulated business that the Director assumed for the Final Determinations. This would reduce the cost of capital and the Director would expect customers to benefit from such lower costs through lower prices at the next Periodic Review.

63. However, removing all equity finance may remove a significant incentive for efficiency as noted above. Furthermore, customers may face additional risks from cost shocks which would otherwise have been absorbed by shareholders: customers' benefits should be commensurate with such risks. The risk to customers could be minimised if the YWM were required to maintain sufficient reserves to absorb any unexpected cost shocks. Although this cannot be tested a priori, the risk depends heavily on the size of reserves in the mutual which in turn is governed by the initial price paid by the mutual for the assets and the Licence.

The Director expects therefore the financial consequences of the proposals to be explained to customers.

64. He also believes that customers need to understand how they would benefit from a lower cost of capital for the mutual, given that under this model the risks taken on by the operators - allowing the mutual to borrow at a lower cost - would be priced into the costs, borne by customers, of the contracts for service provision.

Introduction of new ownership structures

65. The mutual represents a significant departure from a system that has delivered significant benefits to customers. Whilst some customers and the Yorkshire CSC are not opposed in principle to the introduction of mutual ownership for water company assets, the consultation exercise has confirmed the Director's concerns about incentives for efficiency and constitutional arrangements should it be introduced.
66. Consultation suggests that the absence of shareholder involvement and the removal of competitive pressure from take-over may mean the incentives on the mutual's Board to secure efficiencies are reduced. The mechanisms and licence amendments set out in the consultation papers to redress this may not be sufficient to secure efficient management.
67. Some respondents have suggested that an alternative ownership structure that retains a thin layer of participating share capital might address some of the Director's concerns regarding efficiency incentives.
68. Incentives for efficiency go to the core of the regulatory regime. For this reason, the Director is of the opinion that the further consultation period that is being proposed should be used to debate this issue further. The onus is on the YWM to demonstrate in detail how it would incentivise management to seek efficiencies.
69. The constitution of any proposed mutual must ensure that the Directors chosen are fit and proper to run the business and that they are accountable to their customers. It must be such that the Board members can be replaced in the event of poor performance.
70. For any proposal involving the separation of asset ownership from operations, the importance of proving the independence of the initial board of the asset owner has already been discussed. This is even more critical if the new structure is a mutual rather than an investor-owned company.

Informed customer consent

71. From a customer perspective any revised proposals should involve a further period of consultation to establish whether or not they are supported by customers.

72. Any decision by the YWM to proceed with the proposals should be based on informed customer consent obtained in an objective manner. The method of consent requires further thought. It might require a vote by customers (this could be on a one customer one vote basis or alternatively be related to the size of each customer) or be achieved by a comparable procedure. Whatever the method chosen, it must be consistent with the continuing arrangements adopted for corporate governance. Customers will need to be given adequate information enabling them to reach a decision. The process of seeking customers' consent would need to be overseen by independent experts to ensure its fairness. The Director has asked the Yorkshire CSC to advise on how customers could be consulted in a satisfactory way in order that their views can be properly expressed.

73. The information made available as a minimum should set out:

- what is proposed;
- what are the specific benefits to customers of the proposals in terms of bills and service and why they could not be achieved under the current structure;
- what are both the operational and financial risks of the proposals and the extent to which they fall on customers;
- what would be the responsibilities and liabilities of customers as Members of the YWM;
- verification of the complete independence of the proposed mutual from Kelda and any associated company of Kelda;
- what are the constitutional arrangements for appointing and securing the independence of the initial Directors of the YWM and how they could be replaced;
- details of the proposed Directors;
- how the Board of the YWM would be properly accountable to its Members;
- the procurement arrangements in the form of a procurement plan approved by the Director which should have addressed the practical concerns raised by the Director;
- how the YWM would deal with emergencies;
- how the YWM would retain its ability to fully discharge its licence and statutory obligations including its responsibilities towards securing proper standards of drinking water and preventing environmental damage; and

- the financial consequences of the proposed purchase of the assets including a broad indication of the amount to be paid by the YWM for the assets and assumptions about the cost of finance.
74. With regard to the specific Kelda proposals the Director has sent an open letter today to the YWM setting out a process for the company to seek customer consent for its proposals.
75. In other alternative ownership structures such as a company limited by guarantee, not all customers would be Members of the asset-owning body. For these structures the proponent of such a scheme would need to distinguish clearly between the responsibilities of Membership and the risks and benefits of the proposals for customers. It would also need to propose a method of obtaining the broad consent of customers that is suitable to the constitution of the proposed asset owning body.

Office of Water Services
25 July 2000

Appendix A

New Ownership Structures in the Water Industry (published on 6 June 2000)

List of Respondents

Water Industry

Bristol Water
Enviro-Logic Ltd
Folkestone and Dover Water
Hyder plc
Northumbrian Water
Severn Trent Water*
South East Water
South Staffordshire Water
South West Water
Thames Water
Vivendi Water UK plc
Water UK
Wessex Water
The proposed Yorkshire Water Mutual

Financial Institutions

Gartmore Investment Management plc
M&G Investment Management Ltd*
N M Rothschild & Sons Ltd*
Scottish Widows

Other Companies

24 Seven Utility Services Ltd
Anonymous
British Gas Trading Ltd
British Water
BW Consultancy
St David Capital plc
Strategic Management Consultants Ltd*
United Capital Ltd
Western Power Distribution*

Ofwat Customer Service Committees

Central
Eastern
Northumbria
North West
Southern
South West
Thames
Wales
Wessex

Other organisations representing customer interests

National Union of Residents' Associations
Utility Buyers Forum

Trade Unions

UNISON Water and Environment
GMB Energy and Utilities Section

Other regulators

Drinking Water Inspectorate
Office of Gas and Electricity Markets

Members of the public

S G Beale
Alan Booker
G D Coleman
David Currie
M E Doherty

* These responses were marked as confidential.

Appendix B

The proposed restructuring of the Kelda Group (published on 20 June 2000)

List of Respondents

Water Industry

Enviro-Logic Ltd
Kelda Group plc
Northumbrian Water
Pennon Group plc and South West Water Ltd
Severn Trent Water*
South East Water
South Staffordshire Water
Thames Water
Wessex Water
The proposed Yorkshire Water Mutual
Vivendi Water UK plc*

Financial Institutions

An investment banker
Gartmore Investment Management plc
M & G Investment Management Ltd*
Morley Fund Management
Scottish Widows

Other Companies

BW Consultancy
Northern Electric plc
Partnerships UK plc
United Capital Ltd
WRc plc

Ofwat Customer Service Committees

Northumbria
Wales
Yorkshire

Other organisations representing customer interests

Consumers' Association
Utilities Buyers Forum
WaterWatch

Other regulators

Drinking Water Inspectorate
Environment Agency
Health & Safety Executive
Registry of Friendly Societies*

Members of Parliament

Hilary Benn MP
Harold Best MP
Ann Cryer MP
Alice Mahon MP
Chris McCafferty MP
Marsha Singh MP
Phil Willis MP

Local government organisations

Bradford Metropolitan District Council
North Yorkshire County Council

Members of the public

An unnamed individual
R Bailey
S G Beale
M Brookes
Richard Brook
Mary Carroll
Mary Chinnery
Mrs G Clarkson
G D Coleman
Peter Coltman
I N Cunniffe
R C Dales
D Devaney
Shelagh Fawcett
Robert Galley
Bernard Gilroy
Bryan A Grantham
George Hall
Mr & Mrs P Hanrahan
Michael D Hargreaves
Mrs L Holdsworth
Elaine Hopkinson
John Hume
Morten Hviid & Catherine Waddams*
Neil Irving
E Jackson
Roger Jackson
Guy Jarrosson
David Jenkins
Miss P Johnson
Rosalinda Jones
D W Kergon
David Ketcher
Dr R L'Amie
Maureen Maddock

.../...

Denis Mansland
Ms C P Marshall
Teresa McCarthy
Cllr John McGowan
E T Meredith
Kathleen Merryweather
Cllr Alec Metcalfe
Pauline Middleton
D Morgan
Don Morgan
Mrs L K Mowat
Miss M J Mullen
Vincent Naylor
A J Porritt
M Power
Philomena Power
Adrian Pyrah
David Richardson
Rev Peter Rosser
David Rudd
Martin Schweiger
David Somerville
L Stapleton
Dr A F Travers
G L L Turnball
Cllr Brian Walker*

Others

Chartered Institution of Water and Environmental Management
Churches Regional Commission for Yorkshire and the Humber
English Nature
Leeds Church Institute
The Mid Yorkshire Chamber of Commerce and Industry
Surfers Against Sewage
UNISON Water and Environment
United Kingdom Society for Trenchless Technology
West Yorkshire Ecumenical Council
West Yorkshire Federation of Women's Institutes

* These responses were marked as confidential.