



The completed acquisition of
Kelda Group plc by
Saltaire Water Limited

A consultation paper by Ofwat

Introduction

1. The Consumer Council for Water Northern (CCWater Northern) has a statutory duty to represent the interests of all water customers across the Northern region, including the customers of Yorkshire Water - which was owned by Kelda Group Plc (Kelda). In this capacity we welcome the opportunity to comment upon the regulatory issues arising from the completed acquisition of Kelda by Saltaire Water Limited.

Issues arising from the acquisition

2. Given that water companies need to plan for the long term, and have all recently published their 25-year forward looking Strategic Direction Statements, we think it is equally important that their investors take a long term view to ensure stability within the industry. We note that Saltaire has indicated that it is committed to long term investment in Yorkshire Water and we will monitor delivery against this commitment on behalf of consumers.
3. We are also pleased to note that Saltaire intends to retain the existing senior management team within Yorkshire Water. This should ensure that the existing high standards of service provided to Yorkshire Water's customers and the good relationships with a range of stakeholders are maintained. Retention of the existing senior management should also enable Yorkshire Water to continue to pursue its published 25-year Strategic Direction Statement, which has been shaped by customers' priorities.
4. We note and strongly support the changes to Condition F of its Appointment, which will contribute to standardisation across all appointees' licences and, in particular, provide a requirement for Yorkshire Water to maintain the listing of a financial instrument. This will help to offset the de-listing of Kelda's shares which has reduced market comparators.
5. There are some concerns around Yorkshire Water's ability to deliver the required Condition P undertaking to the regulator given that the ownership of Saltaire is very complex, with the various holding companies and consortium - CII, GIC Infra Holdings, Infracapital Partners and Skeldergate Eurobond Co Ltd - all currently listed as entities with responsibility for providing this undertaking. Although we accept that ultimately it is Yorkshire Water's responsibility to ensure compliance with its licence by the procurement of Condition P undertakings from all of the appropriate entities, we consider it vital that all of the entities are correctly identified and provide Condition P undertakings.

6. Any non-executive directors subsequently appointed should be seen to be truly independent and be able to understand the issues which are of prime importance to a company expected to deliver a high quality service of an essential commodity to customers. In that respect we suggest that Saltaire ensure that one of the non-executive directors has specific responsibility for championing the interests of consumers. We would welcome the opportunity to discuss consumer issues with the non executive directors when appointed.
7. We note from paragraph 4.24, that Saltaire intends to raise Yorkshire Water's gearing from 60.6% to 65% in the short term and to restructure the group in the near future. We would be concerned if this meant that Yorkshire Water was required to deliver higher dividends to Saltaire than is currently the case as this might limit Yorkshire Water's ability to:
 - Continue to deliver good service to its customers as it seeks to reduce operating costs below levels that would seem to be prudent; and
 - Share efficiency savings with customers as a major stakeholder
 - Return an element of outperformance to customers early in the price review cycle
 - Recognise the value of positive attitudes in its customer base in building the company's reputation.
8. We also note that Yorkshire Water is currently rated by the credit rating agencies as on watch negative or on review for possible downgrade depending on the final financial structure and that the Kelda Group has recently transferred its debt to Yorkshire Water Services. We therefore welcome Ofwat's intention to publish a separate consultation on the regulation of Saltaire's financing arrangements when they are completed and we look forward to commenting on this in order to ensure that there is no customer detriment.

Conclusion

9. The areas where CCWater require assurance about the impact of the acquisition on customers is in relation to the following:
 - ability to successfully identify all entities to provide an undertaking for Condition P;
 - increase in gearing and;
 - appointment of the three independent non executive board members.

10. Subject to assurances about the above, we have no concerns over the acquisition of Kelda by Saltaire, given that it intends to commit to investment in Yorkshire Water over the long term and has confirmed that customers will see no adverse affect on the quality of services they currently receive from Yorkshire Water.

Enquiries

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