

...WHAT THE PAPERS SAY...

FLEET STREET

TELEGRAPH 21.1.88

Water and power charges set to rise by 9 pc

By Our Business Editor

Water authorities are likely to increase charges by between five and nine per cent in the financial year starting in April, industry leaders said yesterday. Electricity boards will shortly announce increases averaging just under nine per cent.

Senior figures in the water industry say plans to improve water quality and clean up beaches could mean charges will rise by 50 per cent over the next five years.

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Southern for comfort if water works

WATER privatisation currents are shifting. Industry leaders feel that Nicholas Ridley, Environment Secretary, will play safety first and plump for a smaller authority like Southern as the first of the ten flotations rather than Thames, the biggest and most vocal about being first in the queue.

The case for Southern or some other authority in Tory heartlands, goes like this. The whole, delicate, water privatisation programme could come unstuck if the Thames goes first and the flotation is botched because the price is "wrong."

So why not use Southern—current cost, funny money operating profits of £39m on a turnover of £193m—to test the market water?

The case is flawed. If there is so much anxiety about the success of water privatisation—provisional price tag £5-£6 billion—why bring the business to the market in the first place? The Government should not be deterred by reservations about whether the public appetite for "people stocks" has disappeared but should use the shop window for its best wares.

Senior figures in the industry feel in any event that water will never become an attractive equity investment for the masses because of the way Mr Ridley has tampered with its structure. He has created a quango in the shape of the National Rivers Authority with regulation and operational responsibilities and then setting up Ofwat (to go with Ofel, Ofgas and, presumably, Ofswich for electricity) to act as complaints body and price monitor.

But there is broad agreement between the 40 civil servants in the Department who now have responsibility for piloting through water privatisation and the industry that flotation should be carried out swiftly once legislation is on the statute book.

The industry is pressing for a trial flotation of two authorities late next year after the Lords have finished tinkering with the denationalisation bill, followed by two further tranches, each with four authorities, to enable the whole process to be completed by the middle of 1990.

Mr Ridley will have to be generous in writing off bid to make authorities like Yorkshire and North West more acceptable to the market but the industry expects him to saddle other more attractive candidates, Thames and Severn,

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with more debt to balance the books.

He may yet still fail to turn the likes of North West water, with its famous crumbling sewers, into an attractive investment. It has little to do with efficiency that Thames and Severn look more attractive. Manchester's micro earthquakes shake the Victorian drains to pieces, while ones the same age cocooned in London clay still look almost as good as new.

Eurotunnel might be made in Taiwan

PANIC bells are ringing at Eurotunnel as tenders from some European contractors are arriving at twice the expected price. If they cannot be undercut, it spells disaster for the £5 billion scheme. Tenders from South Korea and Taiwan are now anxiously awaited in the hope they will bring the Europeans to heel.

Andre Benard, the French co-chairman of Eurotunnel, is understandably angry, hinting darkly about price rings at work to inflate tenders from the contractors.

Acrimony is mounting between Eurotunnel and the contractors. Even though some are founder-shareholders, arm's-length contracts with the fierce penalty clauses put in to sell the scheme to investors are the order of the day. Chunnelling is not going to guarantee contractors the buried treasure they had anticipated.

Work is already three months behind, and to miss the public opening in May 1993 would be disastrous. M. Benard was yesterday emphasising the need for firm control of the works and the meeting of programmes and budgets. But it means nothing if the contractors won't play.

Meanwhile, boring into the chalky mire has begun from Britain and the first drilling machine arrives on the French site next week. Translink, the British part of the construction business set up by Eurotunnel, directly employs 1,500 people and has awarded orders worth £175m. Transmanche, the French half, employs 1,100 and has placed contracts worth £155m.

Shareholders remain unhappy

Thames Water

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Their units have sunk almost without trace to 239p plus 15p for the warrants, compared with the offer price of 350p last November.

Sears poised to win Freemans

BARRING last-minute accidents, the signs are that tomorrow will bring victory for stores giant Sears in its £477m bid for mail-order group Freemans, though not perhaps by a big margin.

Freemans shares signalled as much by slipping 1p to 308p yesterday—7p below the value of the cash bid—when Sears confirmed that it has bought another 0.44 p.c. of the mail-order company's shares, taking its stake to the maximum 29.9 p.c. it can buy in the market.

Big City institutions are likely to delay their decisions until the last minute, which means shortly before the official 1pm close, but they will be tempted by the fact that the bid is in cash, is nearly double Freemans' pre-bid share price, and is well above any price Freemans shares are likely to reach in the foreseeable future.

The die was cast earlier this month when Sears boosted its bid by 11 p.c. and Freemans responded with a profits forecast for the year that ends this month as "of the order of £53.2m" compared with £52.4m in 1986-87.

That is not only a small advance but it means the bid is valuing Freemans shares on an exit price-earnings multiple of 22 times, which is a very fancy rating in current markets. Even if shareholders are tempted to believe optimistic brokers' forecasts that Freemans' profits will rise to £40m this year, the exit price-earnings ratio still remains in high teens.

Freemans has stuck to its argument that the bid "significantly undervalues" its long-term potential, but the market shows no sign of agreeing. More compelling is the Sears argument that it can do more with the business by giving it strong financial backing and linking it up with its brand names, like Miss Selfridge, Wallis and Mappin & Webb.

Sears has been clever in moving in on Freemans in the wake of October's crash and in a period when its profits growth has slowed. It could prove a worthy competitor for Next and Great Universal in the revolution now occurring in the home shopping business.

Pledge on tainted tap water

By Charles Clover
Environment Correspondent

TAP WATER to 900,000 people in East Anglia containing nitrate pollution above Common Market limits will be cleaned up, the Government said yesterday.

The decision follows threats by the European Commission to take Britain to court.

The environmental group Friends of the Earth claim that nitrates, used in fertilisers, constitute a health risk.

The tainted water, to be found in Lincolnshire, Nottinghamshire, Cambridgeshire, Norfolk and Staffordshire, exceeds the EEC's legal limit of 50 milligrammes per litre.

Water authorities will now have to clean it up "as soon as possible," said a Department of Environment spokesman.

The Water Authorities Association said that the work would cost £200 million over 10 years.

Some sources will have to be abandoned, others treated, and new protection zones, where nitrates are restricted, will have to be agreed.

The Government formerly granted exemptions to the EEC limits—revoked as of yesterday—on the grounds that nitrates did not constitute a danger to health.

A spokesman said that the Chief Medical Officer had advised that research "gives no support to the suggestion that nitrate is a cause of cancer in the United Kingdom."

High levels of nitrates could produce a syndrome in babies called methaemoglobinemia, which restricts oxygen in the bloodstream, but the last reported case was in 1972.

Friends of the Earth said that the Government was out of step with the World Health Organisation, which advised a limit of 44.5 milligrammes per litre on nitrates for health reasons.

Water costs to rise 50% in five years

By Patrick Hosking
Business Reporter

THE English and Welsh face increases in water charges of between 5 and 9 per cent this April and an overall price hike of 50 per cent over five years. The 1988 charges emerged from a meeting yesterday of the chairmen of the 10 water authorities of England and Wales.

Demands for cleaner drinking water, rivers and beaches, and the Government's squeeze on authorities' borrowing in the run-up to privatisation are forcing water charges up by much more than the inflation rate.

The authorities, soon to be overseen by a new consumer watchdog for the water industry, will be lobbying for a price formula based on the Retail Prices Index plus a margin. This compares to other privatised utilities which have to meet an RPI-minus formula.

The authorities will also lose business as a result of the creation of the proposed National Rivers Authority quango. The NRA will take responsibility for many operational functions currently undertaken by the authorities, but it is intended for many of these to be contracted out to the authorities by competitive tender.

However, none of the authorities is expected to tender for land drainage functions, which now account for 6 to 7 per cent of their turnover, or £200m a year. That work is most likely to be won by construction companies which have the cost advantage of casually employed labour.

Sharp rise in water rates likely

By Richard Evans

WATER CHARGES are expected to rise well ahead of inflation this year in most areas of England and Wales as the 10 water authorities increase their capital spending and prepare for privatisation.

South West Water has already announced an average increase of 9.4 per cent in water service charges from April and Yorkshire Water is considering a rise of 8.5 per cent. The average increase is likely to be between 5 and 9 per cent compared with an inflation rate of 4.5 per cent.

Thames Water, the largest and least indebted of the 10 authorities, hopes to restrict increases to 4.5 per cent, depending on an imminent government decision on the authority's external financing limit.

The high average increase is caused partly by the industry's need to become as financially efficient as possible before flotation in 1989-90, and partly by European Community rules on beach and river quality.

An informed estimate is that costs will rise by 50 per cent over the next five years as capital spending increases.

A meeting of the 10 water authority chairmen in London yesterday confirmed that the industry has had to accept the Government's controversial privatisation proposal involving the formation of a National Rivers Authority to take over many operational as well as regulatory functions.

Minister agrees clean-up for nitrate-ridden water

By John Ardill,
Environment Correspondent

The Government yesterday bowed to pressure from the Common Market, water authorities and environmental groups by agreeing to clean or replace water supplies containing excessive levels of nitrates.

The decision is likely to cost hundreds of millions to implement.

Nitrate pollution can cause infantile methaemoglobinemia (blue baby syndrome) and there is a scientifically disputed link with stomach cancer.

The affected supplies come from underground water sources contaminated by the run-off of nitrogenous fertilisers.

One solution being considered is to restrict the use of fertilisers in "water protection zones" near vulnerable supplies.

It will work in some cases, according to trials by the Severn-Trent Water Authority, the Ministry of Agriculture, the Department of the Environment, and the British Geological Survey, results of which are to be published in March.

But a long-running dispute about compensating farmers in the zones remains unresolved.

Agriculture ministers say their losses should be covered. Environment ministers insist that under the "polluter pays"

principle, the farmers should bear the cost of reduced productivity.

A quick decision to introduce protection zones was called for yesterday by Severn-Trent and the environmental pressure group, Friends of the Earth.

The move was announced in a written House of Commons answer by the junior environment minister, Mr Colin Moynihan, who said the 48 derogations (official exemptions) from the EEC rule that water supplies should not contain more than 50 milligrammes per litre of nitrates were being withdrawn.

Supplies to some 900,000 people, mainly in Lincolnshire, Nottinghamshire, Cambridge-

shire, Norfolk and Staffordshire are involved.

The derogations were granted because the supplies were not a health risk, he said. The decision to withdraw them followed "recent legal advice". The European Commission is taking legal action against the Government about the derogations.

Proposals for limiting the nitrate concentrations would be published "in due course," while studies were proceeding into solutions, including denitrification of water and the feasibility of protection zones.

Friends of the Earth countryside campaigner, Mr Andrew Lees, said water treatment was not a cost-effective solution and caused a deterioration in the water distribution system. "The only way we are going to solve the problem is through protection zones."

Limiting the amount of nitrogen farmers could use would also help to reduce farm surpluses, he added.

"Farmers whose livelihoods would be jeopardised should be compensated. But the last thing we want is yet more scarce resources going into the coffers of the grain barons who have already had more than a fair share of subsidies," he said.

Severn-Trent said it was already spending at least £7m to tackle 17 supplies above the EEC limit.



Colin Moynihan: "Move followed legal advice"

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Water bills to rise

Water bills will rise for almost a million people by up to 4.5 per cent after the Government yesterday admitted breaking EEC pollution laws. Details emerged after a Commons written reply from Mr Colin Moynihan, Under Secretary of State at the Department of the Environment.

Lawyers advised the Government that it could not win a European court battle to preserve high nitrate levels in tap water.

The Water Authorities Association said last night that it would cost £200 million to meet the higher water quality standards.

Government to abide by EC rules on water purity

By Richard North
Environment Correspondent

THE GOVERNMENT has again bowed to European Community pressure over the quality of British drinking water.

The decision could cost £3bn or more in control measures and new equipment.

Yesterday, Colin Moynihan, a junior minister at the Department of the Environment, told MPs that the Government had decided to conform in full with the EC drinking water directive.

Although the Government has never agreed with the EC permissible limit of 50 mg per litre of nitrate pollution in drinking water, arguing that geological considerations make it difficult to achieve in many eastern and central parts of England, the threat of international legal proceedings has brought a change of heart.

It is the second time in a month that the Government has altered its position on water purity. Just before Christmas, the Government announced that it would cease using three-monthly averages for measuring the contamination of water by some pollutants. This was also a practice which the European Commission condemned and had threatened legal action over.

Ironically, much of the money which will now have to be spent on replacing old water equipment may bring very limited benefits. There is an informed body of opinion that some of the EC regulations on drinking water are not well thought-out.

Southern Water first for sale

By Michael Smith,
Industrial Editor

Southern Water, one of Britain's medium-sized water authorities, is emerging as the first of the 10 English and Welsh water authorities to be privatised late next year.

Indications from Whitehall are that ministers would prefer to sell a medium-sized undertaking before embarking on the flotation of larger corporations such as Thames or Severn Trent and that Southern is a prime candidate to launch the water privatisation programme

at the end of 1989. Ministers appear to be accepting that privatisation of the water industry is a potentially risky affair, particularly in the current uncertain stock market climate and the Government would not wish to undermine the whole sell-off programme if the sale of a big water undertaking went disastrously wrong like the recent BP deal.

Southern, which serves a population of almost four million and generates annual sales of almost £200 million, would become a benchmark for the

other nine authorities. Under plans being discussed in Whitehall, the Government will probably sell at least one and possibly two medium-sized authorities in late 1989 followed by two block sales of four authorities the following year.

Meantime, the 10 English and Welsh water authorities are again likely to lift prices by well over the rate of inflation. Plans being formulated within the water industry imply that charges for water in England and Wales will rise by between 5 and 9 per cent on April 1.

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FISHING

Rents on salmon beats rise

By Conrad Voss Bark

Rents for salmon fishing in Scotland are going up again on most of the best beats and there is no shortage of takers. For some prime waters, there is a four-page waiting list of those who want to rent the fishing. Some who have got their names down have been waiting years. "It's a matter of dead men's shoes to get a rod on any good water," Jamie Illingworth, the chief letting agent of Strutt and Parker, said.

The best of all these beats — the Junction Pool, where Teviot meets Tweed — is priced at £9,000 for a week for six rods in the best months, October and November. Like all salmon fishing it is, and must remain, a

gamble. Last year, six rods took 98 salmon in one week, nobody caught anything the following week, but in the week after, the next group caught 93. Everyone takes that sort of thing philosophically; they have to.

For the spring fishing this year, four to six rods can get a fine beat on the Tweed in March for £2,500 and at the end of March, six rods can fish the Tay for £1,000 or four rods at £1,900 on the Dee. That is the general picture. To stand a reasonable chance of a fish, the very minimum individual payment would be around £250 to £300 a week. There is cheaper fishing, but the best way to get it is to live in Scotland and join a club. They

have waiting lists too.

Omitted last week was the total rod-and-line catch of salmon and grilse in Scotland in 1986 — the last year when returns were available. They came to just over 75,000 fish, which was slightly less than in 1985. There was little change really, except that the netmen did a good deal better than in the previous year, because, some people say, they work harder and longer.

For more details consult the statistical bulletin of the Scottish Fishery Department, which can be obtained for 75 pence from the Scottish Office Library, New St Andrew's House, Edinburgh.

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Government bows to EC on water purification

BY TOM LYNCH

THE GOVERNMENT has bowed to European Community pressure and committed itself to a water purification programme which could cost hundreds of millions of pounds.

Mr Colin Moynihan, the Junior Environment Minister, announced yesterday that, following legal advice, the Government would withdraw the derogations which exempt some suppliers of drinking water from the EC limit of 50mg of nitrates per litre of water.

He told Mr Teddy Taylor (C, Southend East) that 48 derogations were in force for supplies to nearly 900,000 people, mainly in East Anglia, where nitrate-rich fertilisers had

leached into the water supply.

"These derogations were granted because the concentrations in the supplies are not a health risk. However, in the light of recent legal advice, I have decided that these derogations should be withdrawn."

He said the Government was studying solutions to the problem, such as denitrification and establishing protection zones.

The Environment Department said it would be writing to water suppliers "shortly" withdrawing the derogations.

There was no immediate indication of whether the decision would affect the timetable for the Government's plans to privatise the water industry.