

Kemsley, Ian

1036

From: Macpherson, Nicholas
Sent: 31 July 2001 17:01
To: Wheatley, Martin; Vadera, Shriti; Moss, Rosalind; D 'Inverno, Yvonne
Cc: Kemsley, Ian
Subject: RE: Renewco

Yvonne

Please can you set up a half hour meeting on this for some time this week (ideally, before Friday).

Thanks.

Nick

-----Original Message-----

From: Wheatley, Martin
Sent: 30 July 2001 19:01
To: Macpherson, Nicholas; Vadera, Shriti; Moss, Rosalind
Cc: Kemsley, Ian
Subject: RE: Renewco

Some answers to questions/background note for a discussion.

DLTR say Byers has written but I have not seen yet.

Martin Wheatley
Housing Urban Transport
Room 24/1
Telephone 020 7 270 4729
Martin.Wheatley@hm-treasury.gsi.gov.uk

-----Original Message-----

From: Macpherson, Nicholas
Sent: 27 July 2001 17:57
To: Vadera, Shriti; Wheatley, Martin; Moss, Rosalind
Cc: Kemsley, Ian
Subject: RE: Renewco

Martin/Shriti

Happy to discuss this next week.

But - in the meanwhile - my view is as follows. I am not enamoured by an SRA stake in RENEWCO. And I think we should resist it in the first instance. We also need to bottom out the implications of RT going under, or becoming a different entity (eg of the not for profit variety). RENEWCO would still have the right to the relevant income streams. But precisely what, and over what time period?

Our subsequent tactics come down to the following simple question. If we call DLTR's bluff, does RT immediately call in the receivers? Or do

the discussions meander on through August, September and October? If the former, we are going to have to concede. We do not have a plan B up our sleeve at the present time. If the latter, there is a strong case for stringing this out because by then we will; (at least if we are doing our job). I don't want to appear excessively pessimistic, but my money is more on the former than the latter.

I think one other question we need to address is whether there is any other short termist alternative to RENEWCO. For example, would giving RT a direct grant of £50 million, say, stave off collapse until the autumn, rendering RENEWCO unnecessary.

Nick

-----Original Message-----

From: Vadera, Shriti

Sent: 26 July 2001 20:22

To: Wheatley, Martin; Moss, Rosalind

Macpherson, Nicholas; Kemsley, Ian

Subject: RE: Renewco

want to talk about handling - if we are to use the insolvency route to restructure RT it does not work for us politically to be seen to be reacting to a privatisation going wrong which everyone said was going wrong ages ago but we were too pig headed to listen. I was thinking we need a trigger to insolvency that we decisively pull - maybe that creates the right balance. This is a good one - we could have saved it but we didn't and were deliberately intransigent in order to restructure RT. What do you think?

What is the term of the loan to Renewco and what happens to the debt if RT becomes a different entity and what proportion of revenues are securitised i.e. in one sense a non profit RT is one big Renewco anyway

Original Message-----

From: Wheatley, Martin

Sent: 26 July 2001 18:18

To: Moss, Rosalind

Cc: Macpherson, Nicholas; Vadera, Shriti; Kemsley, Ian

Subject: FW: Renewco

The detailed underpinning of Byers' expected letter saying Railtrack/SRA 50/50 is the only possible structure for Renewco.

My private view is that I find this reasonably convincing:

(1) there is fuller explanation of the accounting issues which lead Deloitte to advise that a TOC or maintenance contractor shareholding would not keep Renewco off RT's balance sheet;

(2) there are some hints that if RT were not deadlocked with SRA, they could play fast and loose with SRA's money in a way, and SRA could be exposed to risk in the event of RT's insolvency, which would be a

legitimate concern for SRA's and DTLR's Accounting Officers. If these arguments could be substantiated, I would actually find them quite powerful (but as I have said to Ian before, no one has yet spelt out to me the exact 'mischief' which leads to this concern.

I therefore believe, subject to any tactical considerations, that we should advise CST to go with the RT/SRA structure. As Shriti has rightly argued all along, it is far from ideal in terms of the markets' perceptions of RT, but the alternatives to going along with this look worse, and not doing Renewco in this way won't by itself get RT back anywhere near where we want it in terms of market perceptions. And we have I think by playing hard to get on this made DTLR and SRA think through the issues properly and justify their position rather than just following the line of least resistance.

However, as a veteran of spinning out hopeless arguments from a Treasury standpoint, there is plenty in this paper we can quibble about. I shall therefore send Stuart Connolly a reply asking for more particulars on why rail maintenance contractors can't be said to have a commercial interest in the maintenance of the rail network, and on the exact nature of the financial risks to SRA of RT not being deadlocked with them. Please let me know if you have any other points or queries, the more the merrier.

We'll hold back agreement on this until we see whether Byers is prepared to be reasonably co-operative on safety, and until we see DTLR actually doing something about hiring some advisers on getting to the bottom of the RT financial issues.

Martin Wheatley
Housing Urban Transport
Room 24/1
Telephone 020 7 270 4729
Martin.Wheatley@hm-treasury.gsi.gov.uk

-----Original Message-----

From: Mark Smyth [mailto:Mark.Smyth@dtlr.gsi.gov.uk]
Date: 26 July 2001 17:22
To: Martin.Wheatley@hm-treasury.gsi.gov.uk
Cc: Stuart Connolly
Subject: Renewco

Martin,

As Stuart Connolly mentioned earlier to you, and discussed towards the end of today's Railtrack meeting, attached is a copy of the paper discussing the feasibility of the different structures for Renewco. This was attached as an annex to a submission for our SofS this afternoon.

A letter proposing the preferred option of a 50/50 Railtrack and SRA structure is likely to be sent to the Chief Secretary tomorrow or early next week. The attached paper is the 'document to be sent at official level' referred to in the letter.

Mark
REF

84 109

Department for Transport, Local Government and the Regions

This E-mail and any files transmitted with it are private and intended solely for the use of the individual or entity to whom they are addressed. If you are not the intended recipient, the E-mail and any files have been transmitted to you in error and any copying, distribution or other use of the information contained in them is strictly prohibited.

Nothing in this E-mail message amounts to a contractual or other legal commitment on the part of the Government unless confirmed by a communication signed on behalf of the Secretary of State for the DTLR.
