



**The completed acquisition of
South Staffordshire plc by
Alinda Infrastructure Fund**

A consultation paper by Ofwat

Introduction

1. The Consumer Council for Water Central & Eastern has a statutory duty to represent the interests of all water customers across the Central and Eastern region, including the customers of South Staffordshire Water plc (SST). In this capacity we welcome the opportunity to comment upon the regulatory issues arising from the completed acquisition of SST by the Alinda Infrastructure Fund.

Issues arising from the acquisition

2. Given that water companies need to plan for the long term, and have recently published 25 year strategies, we think it is equally important that their investors take a long term view to ensure stability within the industry. We are therefore reassured to see that Alinda Capital Partners LLC (owner of the Alinda Infrastructure Fund) has indicated that it is committed to long term investment in SST.
3. On the face of it, we consider that Alinda Capital Partners LLC is well placed to be the owner of a UK regulated water company, given that it has experience of infrastructure delivery, not just in the UK, but also in other European countries and in the United States. It is particularly reassuring to see that water and wastewater infrastructure is amongst its portfolio of products.
4. We are pleased that Alinda Capital Partners LLC intends to retain the existing senior management team within SST. This should ensure that the existing service provision to SST's customers remains unchanged, and does not deteriorate as a result of new managers taking a different management focus. Retention of the existing senior management should also enable SST to continue to pursue its published 25 year strategic direction statement, which has been shaped by customers' priorities.
5. We note the changes to appointment conditions P and F, which are largely 'tidying up' exercises to ensure standardisation across all appointees' conditions. We note that Alinda Capital Partners LLC will be the ultimate controller.
6. We note from paragraph 4.18, that at a group level, additional debt will in part be raised against the dividend stream from SST. We would be concerned if this meant that SST was required to deliver higher dividends to Alinda Capital Partners LLC than is currently the case, as this might limit SST'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
 - Return outperformance to customers early

We would like reassurance from Ofwat on how this financing arrangement will be regulated in order to ensure that customers are no worse-off.

7. We are pleased that Alinda Capital Partners LLC has specifically confirmed that the quality of service customers receive from SST will not be adversely affected by the change of ownership, but would feel more assured if the concern mentioned in paragraph 6 was addressed fully. Where there is a change of ownership, we would expect that customers should see no detriment in service or increase in prices, other than those agreed in the existing company price limits.

Conclusion

8. The only area where we require assurance about the impact of the acquisition on customers is in relation to debt being raised from the shareholders of SST, as outlined in paragraph 6 of our responses.
9. Subject to assurance being given, we have no concerns over the acquisition of SST by the Alinda Infrastructure Fund, given that it intends to commit investment in SST over the long term and has confirmed that customers will see no adverse impact on the quality of services they currently receive from SST.

Enquiries

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