

This response is made by PDI Utilities which is a Self-Lay Provider (SLP) who wish to ensure that there is fairness in the way competitive water connections are offered as an alternative to statutory water company provision and the offer of NAVs.

Although we continue to favour, for on-site connections, taking the income offset off Infrastructure Charges (because we consider it would promote more open competition) we sense many issues with the 'deferred' approach (Option 3) which now looks like the Ofwat preference. This is because:-

- It will create much disturbance in the new connections market over a prolonged period as from (before) April 2018 mains charging will not be settled until well into 2020. We are highly concerned that developers will not be prepared to work with SLPs who cannot confidently tell them how connections will be costed within a not untypical life of a development. So at a time when fairer competition is coming to the fore we regard this as a major set back.
- Linked to the market disturbance, and the related differences in what is payable by developers/SLPs, there will be added confusion caused by there needing to be 2 sets of transitional arrangements, especially when it is known that the lack of flexibility in water company billing systems causes many frustrations and limitations.
- Furthermore, if NAVs get 'special arrangements' over SLPs from April 2018, this will disadvantage SLPs and result in Ofwat continuing with endorsing arrangements which they recognise do not promote fair competition and which advantage NAVs over SLPs.
- **Ofwat proposals do not appear to have considered or put in place any proposals to prevent NAV's from cross subsidising their water business from their other utilities network ownership, eg; gas and electric, which would give them a competitive advantage against Incumbent Water Companies and SLP's. Most SLP's will be unable to compete in this scenario unless OFWAT put in some safeguards.**

Because of these factors we ask Ofwat to review their current proposals and not to make any changes to their Charging Rules (especially as it is yet possible that companies will come up with a charging mechanism that will be income offset focused and thereby achieve what we were seeking when we originally requested an approach which moved income offset credits to (partially) fund Infrastructure Charges.

We consider that the costing analysis Ofwat has done to underpin their selection of the deferred implementation option is flawed. This is because it derives the financial impact on existing customers when we consider that, in keeping with current legislation, it is the impact on water charge payments from new customers that should be assessed. Our argument being based on the premise that the cost of supplying new customers (because they are served by new infrastructure which does not require the level of maintenance older systems require) is much lower than the operating costs for the general customer base. Hence there are savings derived from this which are able to fund, through a loan, the necessary new mains. Because of the way income offset money is currently derived we consider that the financial impact of changing the way income offset monies are deployed should only consider the loan funding impact on monies paid by new customers. If this were to be done,

we consider that, the income offset (totals) could be adjusted to account for the cost and thereby nullifying any impact on existing customers.

Furthermore we are alarmed that Ofwat is using this proposed change to adversely affect the overall charging balance paid for new connection works by site developers. This being done by not restricting income offset credits to site mainlaying but deploying this money across all connections. This will decrease the amount site developers receive by way of credits by a third (as approximately 25% of new water connections do not require new mains). Although this is primarily an issue for developers it is, in our view, not in keeping with the way Ofwat Charging Rule 19 was originally promoted and will invariably cause developer disquiet which will, until the charging concept gets accepted, impact on their willingness to accept terms from SLPs. Hence we urge Ofwat to remain true to the original intention of developers broadly paying, under the new Charging Rules, what they had previously paid.

In this regard we challenge the basis Ofwat is now seeking to apply as this would grant income offset benefits to NAVs. This is because they already benefit from cheaper to operate on-site systems which they can reflect in the charges they provide their customers so it looks unreasonable to further credit them with monies that historically has not come from their customer base.

Hence the approach we ask Ofwat to implement is none of the options they have considered. What we feel is merited, and would be fully compatible with current new mains charging, is an alternative which applies from April 2018 and which gives an income offset credit for on-site connections which would then reduce the Infrastructure Charges payable on such connections.

## Responses to Consultation Questions

### **Question 1 – Do you agree that Ofwat Option 3 has merit?**

We do not support Option 3 but would support, if implemented in April 2018, an option which gives income offset credits off the Infrastructure Charges due on site connections.

Our reasoning for our preference is given above. Of particular note are our comments on Ofwat promoting market unfairness (for 2 years) by giving NAVs benefits that are being denied to SLP's.

### **Question 2 – Do you agree with the draft Ofwat impact assessment**

We identify a number of flaws in the impact assessment Ofwat has done. Primarily these centre the lack of consideration of the disruption costs that will arise from:-

- a. Having a 2 stage implementation (other than for NAVs); and,
- b. The impact of significantly reducing the amount of income offset credit site developers receive.

As discussed above we consider that the disruption and market 'noise' costs on all stakeholders of applying significant changes 2 years after the Charging Rules are

implemented are of such significance that they justify moving to a single stage implementation for all.

Hence we regard the analysis Ofwat has done as failing to satisfy the overarching fairness, stable and predictable criteria.

**Question 3 – Do you have any comments on the drafting of possible future changes to the Ofwat Charging Rules?**

Because we do not favour the Ofwat preferred option we are not giving a detailed response to the proposed Rule changes. We do however ask Ofwat to consider the original intention of current Rule 19. In our view the intention of this rule was to broadly base developers costs on what they are currently paying and we do not consider that this will be possible if income offset credits are applied to all connections.

**Question 4 – Do you have any comments on the draft Licence modification to Condition C?**

Because we do not favour the Ofwat preferred option we are not giving a detailed response to the proposed Licence changes.

Regards ,

Mike Buxton  
I.Eng.MIGEM  
01603 258678 / 07931 518526  
[MBuxton@pdiutilities.co.uk](mailto:MBuxton@pdiutilities.co.uk)



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