



Consultation on new connections charges for the future

Southern Water's Response

August 2017

Southern Water's response to Ofwat's consultation on new connections charges for the future - England

Introduction and summary of our response

We are pleased to be able to provide you with our response to the consultation on new connections charges for the future.

Q1 Do you agree that our Option 3 on the treatment of the income offset/asset payment, has merit? If not, please explain your reasoning and provide relevant evidence. If so, how and when should this change be brought about?

We accept that Option 3 on the treatment of the income offset/asset payment has merit, and could be delivered in the proposed time frame.

We have two issues on the application of option 3 we would like to raise to ensure fairness and clarity:

- Southern Water currently provides an income offset discount to NAVs based on the wholesale revenue received. As such, we agree with the principle that incumbents should provide income offset to NAVs as part of any bulk agreement for the period 2018-20. However, it should be clarified that the income offset payment provided to the NAV should be based on the wholesale revenue received from the bulk agreement and not the customer revenue received by the NAV. The alternative would be disadvantageous to incumbents, with an income offset calculated from an income not received by the wholesaler.
- It is not clear from the text of the consultation that the infrastructure charges net of income offset received by the NAV/SLO from 2020 would continue to be passed to the incumbent. As the infrastructure charges cover the general offsite reinforcement cost we would expect that, where the onsite infrastructure connects to the incumbent network, the infrastructure charges net of the income offset would be provided to the incumbent, as required under previous Ofwat guidance.

We do not believe that option 2a is viable, due to the short implementation date. It would require a material change to our project delivery plans, which in turn would require significant data analysis, risk assessment, option development, and consultation work, followed by system, billing and organisational changes.

Q2 Do you agree with our draft impact assessment? Can you provide quantitative figures in terms of the potential benefits or costs? Is there anything we have missed?

It may be beneficial to undertake further analysis on the distributional impacts on developers. With the income offset provided to all connections, it is clear that large developments and those near the margins of incumbent networks will receive reduced subsidies for requisition charges. There will also be impacts on the level of infrastructure charges.

Q3 Do you have any comments on the drafting of the possible future changes to our rules (set out in Appendices A3 and A4)?

We have no comments on Appendices A3 and A4.

Q4 Do you have any comments on our proposed licence modification to Condition C (Infrastructure Charges) for English water companies other than NAVs (including the proposed wording set out in Appendix A7)?

We have no comments on Appendix 7. However, we would emphasise the importance of retaining the current obligation on water undertakers to provide information on connected premises to sewerage undertakers.