

PUBLIC CONSULTATION PAPER

PROVISIONAL AND SUBJECT TO REVISION

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New Retail Areas Stakeholder Group: New Connections working paper

Minutes of Meeting for Discussion on Connections

Friday, 15 October 2010

1.00pm – 2.30pm

- Present:**
- Richard Khaldi**, Water Industry Commission for Scotland (Chairman)
 - David Walters**, Water Industry Commission for Scotland
 - Steven Lynch**, Blyth Construction Utilities Limited
 - James Bream**, Business Stream
 - Paul Carson**, Business Stream
 - Gillian Dougan**, Business Stream
 - Gary Craig**, Central Market Agency
 - Mick Merrick**, Dominus Data Limited
 - David Pearson**, Ofwat
 - Tony March**, Osprey Water Services
 - Paul Packett**, Procurement Scotland
 - Alastair Ross**, Satec Limited
 - Neil Hemmings**, Scottish Water
 - Jessie McLeman**, Scottish Water
 - Ian Russell**, Scottish Water
 - Stephen Cassidy**, SP Network Connections
 - Stuart Love**, SP Network Connections
 - Duncan Hendry**, Turriff Contractors Limited
 - Jim Black**, WaterWatch Scotland
- In Attendance:**
- James Saunders**, Shepherd and Wedderburn LLP
 - Kyle McAra**, Shepherd and Wedderburn LLP

Welcome (Richard Khaldi)

1. Richard Khaldi (RK) opened the meeting by giving a short introduction as to the purpose and background of the meeting.
2. The Group then approved the minutes from the meeting on connections held on 14 June 2010.
3. RK guided the Group through the supporting documentation circulated prior to the meeting which included the Scottish Water Customer Connections Process Review, the related report from Mott MacDonald and an SLO Water Mains Connection Procedures review paper.

SACDP Data room

4. RK highlighted the possibility of a SACDP dataroom being created as part of the Commission's proposals. RK indicated that the dataroom was being designed for Section 29E applications that are not, in principle, connected to these proposals (they are concerned principally with situations where a customer reduces the cost of Scottish Water supplying it with services).

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5. Should the dataroom prove beneficial then it could also be used for connections applications, however, RK noted that the dataroom would not be utilised on a standalone basis, i.e. if it was not useful for Section 29E applications then it would not be used for connections applications.

Connection Application Information Portal

6. It was noted that during previous meetings stakeholders had indicated that there was a lack of information regarding the progress of connections applications.
7. It was noted that Scottish Water would take the information portal idea forward as a long-term goal. The exact nature of implementation is still to be formulated and this information will be fed back into the Group when available. Accordingly, RK indicated that this proposal will be parked and that stakeholders will be given progress updates once available.

Building Water

8. RK noted that during previous meetings points were made regarding problems surrounding building water applications, specifically around the lack of an option for customers to indicate use of alternative water supplies.
9. It was noted that the building water application process will be amended appropriately. This will remove the requirement to apply for building water before an application for a new connection can proceed.
10. It was indicated that this will take place from the beginning of the new financial year for non-household developments.

Accreditation Scheme for Final Connections

11. Moving onto the second part of the proposals concerning choice and control, RK referred to previous meetings where it was suggested by licensed providers that they have a lack of control over some aspects of the connection process. RK noted the proposal for Scottish Water to develop an accreditation scheme for contractors able to make final connections to the network.
12. It was indicated that Scottish Water already operates an accreditation scheme for SLOs (Self Lay Organisations). The Commission's revised proposals indicate this scheme will be expanded to enable UCPS (Utility Connection Providers) to make connections to Scottish Water's network.
13. It was noted that Scottish Water would build on its own existing accreditation scheme rather than importing another accreditation scheme such as WIRS.
14. RK asked the Group whether this would be acceptable. There was no voiced rejection of this point and RK confirmed that the Commission would take this as acceptance of the proposed Scottish Water accreditation scheme.
15. It was indicated that Scottish Water had still to finesse the accreditation proposals and this aspect would therefore be returned to at a later date.

Final Connections

16. RK noted the Commission had been in discussion with Scottish Water regarding third parties implementing final connections. RK noted that these discussions hinged around two main issues. Firstly, what sort of connections should third parties be allowed to work on in terms of the size of the connection required? And, secondly, would this proposal will apply to non-household and household developments?

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Connection Size

17. RK informed the Group that Scottish Water had indicated that, in its view, third party connections should be limited to those sized 32mm (service connections) or less. RK then asked the Group for its comments on this view.
18. It was noted that most developments need a fire main that is above the service connection width (90mm at least). It was indicated that very few developments would have connections below 32mm only, and that anything other than a single house or a single shop would require a larger connection.
19. It was noted that Scottish Water's proposal would therefore only be of value for a small number of developers. Restricting connections to below 32mm would render the proposals ineffective in providing licensed providers and customers with more choice.
20. In response it was commented that around 23% of new connections are greater than 32mm. With around eighty SLOs listed, this meant that they were able to pick up the remaining 77% of connections. Further, there may be SLOs that would benefit from the revised proposals who were not currently represented at the meeting.
21. It was noted that the statistics relating to market split were only for non-domestic developments, and that whilst the length of time to which they apply could not be confirmed definitively, it was thought they represented around one year's worth of connections. Further, it was estimated that this market consisted of approximately 1500 to 2000 connections per year.
22. It was noted that larger connections, above 32 millimetres, often required complex planning and shutdowns. These often entail dealing with management issues, coordination issues, time issues, customer service issues and public health issues. Specifically regarding the shutdown process, it was noted that the complexity involved should not be underestimated. It was further noted that there are around twenty to thirty large-scale shutdowns per year.
23. RK questioned the Group as about the extent to which SLOs were currently involved in shutdowns.
24. It was noted that SLOs have a level of experience in this area and the working relationship between them and Scottish Water was more akin to a partnership than an adversarial scenario due, in the main, to the risk and complexity incurred by both parties. It was noted that it is generally in everyone's interest for the process to run smoothly during large-scale connections.
25. It was noted further that there is often little operational difference between different sizes of pipe. There can be little practical operational difference between a 90mm and 32mm pipe and that the difference was primarily regarding water quality. For example, there is often little operational difference between a 32mm and a 150mm pipe if operated under appropriate water pressure. It was noted that the possible issues were related to health risks and the legalities, involved rather than strictly operational concerns.
26. It was noted by the Group that a non-SLO can lay a larger than 32 millimetre mains pipe if it is able to obtain an SLO to test water safety, so in principle there are in fact many non-SLOs laying mains.

Nature of SLO accreditation

27. The Group then considered what a Scottish Water framework contractor can do in terms of connections that a large-scale SLO cannot. It was noted that there were no difference in principle and that framework contractors were SLOs in themselves.
28. It was noted that Scottish Water does not directly implementing the larger final connections, but the framework contractors, and this raises the question of why these larger connections cannot be actioned by the larger SLOs. As the framework contractors are still external contractors there can be little practical difference between them and a large SLO.
29. It was suggested that opening this aspect out would actually bring costs down for the customer, as there would not be a requirement to bring additional external persons into the process.

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30. RK then questioned what number of third parties could undertake large-scale connections as many SLOs are listed but not all will have the same operating capacity. In a similar vein, RK also opened to the Group the question of whether there should be two separate accreditation schemes – one for large UCPs operating on connections above 32mm, and one for smaller UCPs operating on sub-32mm only. RK indicated that, in principle, different levels of accreditation would be a good idea.
31. RK noted that within the current revised proposals there was not necessarily an expectation on the Commission's part that, if a company was going to be accredited as a UCP, that it would have to possess a sufficient level of technical sophistication to implement every size of connection. The Commission's concern would be that it would require UCP accreditation to be framed in terms of technical sophistication.
32. It was indicated by the Group that for larger SLOs often the only utility where they do not have complete control regarding the connection process is water. It was highlighted that in a multi-utility connection, Scottish Water's framework contractors are able to offer the final water connection whereas the other SLOs could offer only electricity and gas, putting them at a competitive disadvantage.
33. It was noted further that some of the equipment required for large-scale connection is prohibitively expensive which would be likely to automatically limit the number of contractors that would be interested in large-scale connections.
34. As an aside, it was suggested that SLOs would be concerned primarily with making mains connections for their own developments and would not be interested in doing this for other developments.
35. Scottish Water confirmed that it would reflect on the proposals in this area. RK indicated that the intent of this discussion was to test objections to the revised proposals and then look to take things forward.

Non-household and/or household market

36. RK questioned the Group as to whether there was a significant objective difference between household and non-household connections relating to the proposals. It was noted by the Group that there was little practical difference and that the physicality was the same.

Customer's Perspective

37. It was noted that the part of today's discussion concerning final connections had not necessarily been led from the customer's perspective.
38. It was indicated that the biggest concern from a customer's perspective is that Scottish Water controls the costs for final connections. Customers feel they could obtain a cheaper deal if they were allowed to go to the open market. It was noted that customers often feel they are being given uncompetitive pricing regarding final connections.

Tariffs and Implementation

39. RK noted that in terms of charging as featured on page seven of the revised proposals, the default tariff for a standard connection would continue to operate for the first year following implementation of the proposals as a customer protection tool. This was to ensure that no customer would pay more in principle. However, where a UCP implements a connection, a different price can be agreed with a view to tariffs being removed from the second year of implementation.
40. It was noted that if you are the only SLO operating in a geographical area you might be able "write your own cheque" for the majority of work related to connections.
41. RK noted that the Commission was not responsible for regulating SLOs but that the fact there are a large number of SLOs operating within the market should ensure that prices come down due to competition. RK

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noted that the issue in discussion is only with regard to the area under the Commission's control and to ensure that within this area costs do not spiral.

42. A question was put to the Group regarding the future of Scottish Water's activity in the area. According to the proposals, Scottish Water would no longer make final connections from the second year of implementation onwards. RK noted that even if it became attractive for Scottish Water to cease providing final connections due to healthy market conditions, that this would be a decision for Scottish Water.

Scottish Water Connections Review

43. It was noted by some stakeholders that though there is a general feeling of contentment regarding the subject matter of discussions today, the supporting reports from Scottish Water were not as expected. It was indicated that the supporting reports do not address the fuller customer journey regarding connections. It was suggested that the reports cover the Scottish Water aspect of a connection well, but do not sufficiently address the relations between Scottish Water and the licensed provider.
44. RK noted that the Commission as a regulatory body has limited powers and that the purpose of the reports was to eliminate some of the issues and concerns relating to connections.
45. It was noted that the reports provided are an abridged version of a larger report in existence. It was noted that the fuller report does address further concerns and other key issues that would be of interest to parties present at the meeting. It was indicated that Scottish Water would be pleased to create some additional workshops on either an individual or group basis to go through some of these issues and to look into the broader customer experience.
46. RK indicated that the Commission was content to leave this process in the hands of Scottish Water given the nature of the reports.

Change in Approach

47. It was noted that there might need to be a slight change in approach to the revised proposals given the discussions of this meeting. It was noted that Scottish Water had initially conceived of a need to develop and maintain extended relationships with approximately twenty SLOs in light of the proposals.
48. However, given that it has been indicated during this meeting that larger SLOs may not be interested in smaller developments, there may now be a new onus in future on Scottish Water being required to engage more deeply with smaller SLOs. This is because smaller SLOs may be the only providers of smaller final connections, or connections in difficult geographical areas.
49. It was noted that a licensed provider may require to contract a third party to make a connection in remote geographical locations and that instead of approaching a UCP they may require to approach Scottish Water if there were no appropriate UCPs operating in that geographical area. It was indicated that this might be an issue that the Commission together with Scottish Water may need to deal with in the future.

Conclusion

50. The Commission was asked how evidence would be presented regarding the impact of these proposals on customers in terms of savings and other benefits.
51. RK indicated that to an extent the Commission was relying on SLOs and LPs to show where they think benefits were coming from. It was noted that this type of information would be required prior to discussions between Scottish Water and the Commission if Scottish Water was to continue to provide connections in the future.
52. It was indicated that there was little sensitivity regarding information on geographical splits and market figures discussed by Scottish Water during this meeting and that this information would be forwarded to the Commission for distribution amongst other stakeholders at this meeting.

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53. RK noted the Commission's plan to have another meeting in late November/early December and noted that many of the agreements between Scottish Water and the Commission would be developed with implementation dates available.
54. It was noted that these proposals would not require CMA system changes or changes to the wholesale charging scheme.
55. RK then declared the meeting closed.