

Transfer of connections activities from Scottish Water to the non-household retail market March 2010

In its Final Determination of Charges for 2010-15, the Water Industry Commission for Scotland (the **Commission**) determined that the following activities be transferred from wholesale to the retail market; metering, trade effluent and connections activities.

This paper sets out the consultation process that we will be following as part of the transfer process and an overview of the Commission's proposals in relation to connections activities.

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Background

In its Final Determination published in November 2009, the Commission set default tariffs¹ in line with charges to household customers which should allow licensed providers to offer more tailored levels of service to customers and more value added services such as advice on water efficiency and on reducing a customer's impact on the environment.

As well setting default tariffs in line with charges to household customers, the Commission revisited the allocation of activities between wholesale and retail in the non-household market. This consisted of the Commission considering to what extent the activities currently classified as wholesale activities (and therefore carried out by Scottish Water) should more properly be classified as retail activities and carried out by licensed providers.

The Commission believes that including all customer-facing activities within the retail market is critical to ensuring that further benefits continue to accrue to customers, licensed providers and Scottish Water.

Following consideration of the responses it received to its Draft Determination², the Commission's Final Determination allowed for three activities³ to be transferred from Scottish Water to licensed providers, including the activity which is the subject of this paper; connections activities. The Commission also allowed for Scottish Water's wholesale charges to be reduced to reflect the transfer of activities within the market⁴.

Set out below is the consultation process that we will be following as part of the transfer process and an overview of the Commission's proposals in relation to metering.

Consultation Process

In light of some of the representations on its Draft Determination, in its Final Determination the Commission delayed implementation of the changes proposed with all activities transferred no later than April 2012. This change in timetable now allows us to consult further on how the changes are best implemented to ensure they take place in an efficient and timely manner.

¹ At the current time, in order to protect non-household customers, the Commission sets default tariffs that limit the prices licensed providers can charge where they do not offer any additional services.

² Published in June 2009.

³ Metering, trade effluent and connections activities.

⁴ The Commission's estimate of Scottish Water's cost of providing services in the three areas is around £8 million a year.

Our initial event on 11 March 2010 will open the discussions our proposals. This initial event will then be followed by a series of smaller, focused workshops that will allow the Commission to hear and discuss the views of key stakeholders. Each of the three activities to be transferred will have its own series of workshops.

Participation in these workshops will allow stakeholders to influence how these important areas will be dealt with by the water industry in Scotland for the foreseeable future.

Each workshop will consist of a series of meetings to discuss, review and provide input on the Commission's proposed amendments to the market framework to ensure that each transfer is efficient as possible and maximises benefits to customers, market participants and all other stakeholders. The workshops are therefore open to all stakeholders including current and potential market participants, customers and interested third parties such as other regulators.

The workshops will be kept to a manageable size to allow for an orderly discussion⁵. Each workshop will be chaired by a member of the Commission's staff and will be governed by a separate Terms of Reference (a template for which can be found at Consultation Appendix 1).

Where appropriate we will circulate revised documentation to stakeholders to reflect the discussions at each of the workshops. Stakeholders may then return with comments and any actions following their review of the revised documentation. Internal deadlines have been established to allow market participants enough time to implement any necessary changes to their operations in order to facilitate the transfers.

Connections activities proposals

For all connections activities it is proposed that the driver of the processes would move from being Scottish Water to the licensed providers and their customers. The Commission hopes that stakeholders will provide their experiences with the current connections activities processes to help shape and inform the new processes.

New connections

The Commission proposes that the driver of the new connections process would move from being Scottish Water to the licensed providers. Scottish Water's participation in new connections would be limited to the supply of information on the network capacity for proposed developments, the approval of connection applications and the minimum technical standards to which all licensed providers and their contractors must comply.

⁵ Written representations will be accepted from all stakeholders.

Because of Scottish Water's central position, it will remain responsible for ensuring that multiple developments in an area by multiple licensed providers do not negatively impact the network. It will also remain responsible for water resource management.

Licensed providers would therefore be responsible for all substantive activities such as network modelling, any necessary survey work, byelaw compliance checks as well as the physical connections themselves.

With the transfer of this customer-facing activity from wholesale to retail, the Commission is looking to improve the service these customers are receiving. Licensed providers are necessarily closer to their customers and are therefore better suited to understanding their customer's situation and needs.

The use of the Water Industry Registration Scheme as a means of accrediting contractors to complete physical work will be considered by this stakeholder group.

The proposed changes would take effect through amendments to the new connections processes set out in the Operational Code. A draft of the revised Operational Code will be distributed with this paper.

Disconnections (and Reconnections)

With disconnections and reconnections, it is proposed that the driver of the process would also move from being Scottish Water to the licensed provider.

Disconnections and reconnections would be carried out by independent sub-contractors who would again be accredited through the Water Industry Registration Scheme. Where a licensed provider wished to disconnect or reconnect its customer, that licensed provider would be able to elect to be the contractor carrying out the work, assuming it is properly qualified.

Where the licensed provider was not an approved contractor or did not elect to be the contractor, Scottish Water would then tender the work to one of the other accredited contractors. As with new connections, disconnections and reconnections are customer-facing activities. Transferring responsibility for these activities to licensed providers should also improve customer service.

The proposed changes would take effect through amendments to the Disconnections Document. A draft of the revised Disconnections Document will be distributed with this paper.

Consultation Appendix 1

Template Terms of Reference

New Retail Areas Stakeholder Groups for:

- **Connections activities**
- **Trade Effluent**
- **Metering**

Background

- The process for transferring the three identified services (connections activities, trade effluent and metering) from Scottish Water to the non-household retail sector of the Scottish water industry will now be phased up to a final implementation date of April 2012, as detailed in our Final Determination for the Strategic Review of Charges 2010-14.
- To further develop the existing information base, the Commission proposes to hold a series of workshops that will form part of a programme of further consultation with stakeholders on the issues raised in the consultation responses (the New Retail Areas Stakeholder Groups).
- The Commission believes that such a structured program of further consultation will allow us to move towards the efficient and timely transfer of the three identified areas. Further consultation will help industry stakeholders to understand in greater detail the three areas thereby creating greater confidence in the transfer process and the subsequent opportunities open to them.
- The workshops will be open to all interested parties, e.g. Scottish Water, Licensed Providers, customers, SEPA, Ofwat, CMA, third party contractors, consumer groups and other concerned bodies.
- Members of the New Retail Areas Stakeholder Groups have approved these group terms of reference.

Interpretation/Definitions

1. In this document:

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| "Act" | means the Water Services etc (Scotland) Act 2005; |
| "Chairman" | means the person appointed by the Commission to chair each New Retail Areas Stakeholder Group; |
| "Commission" | means the Water Industry Commission for Scotland; |
| "days" | means business days; |
| "New Retail Areas Stakeholder Groups" | means the stakeholder groups set up by the Commission to consider the transfer of the three identified services from Scottish Water to the non-household retail sector as detailed in the Final Determination of Charges for 2010-15 published by the Commission on 26 November 2009; |
| "Member" | means a member of the New Retail Areas Stakeholder Groups not including the Chairman; |
| "Ordinary Resolution" | means a resolution that is passed by a simple majority of such Members entitled and present to vote on that resolution; |
| "Rules" | means this document, as amended from time to time; |
| "Substitute" | means a person nominated by a member act in his/her stead at a New Retail Areas Stakeholder Group meeting. |

Purpose

2. The purpose of the New Retail Areas Stakeholder Groups is to further examine the issues involved in the transfer of the new retail areas, understand any concerns and possible ways to address them, and to instill confidence in the industry regarding changes to the retail market.

General provisions

3. The New Retail Areas Stakeholder Group, in the performance of its functions, shall have regard to such generally accepted principles of good governance as it reasonably regards as applicable.
4. The business of the New Retail Areas Stakeholder Groups will not be subject to a general duty of confidentiality.
5. Areas of competent business for the New Retail Areas Stakeholder Groups are restricted to consideration and formulation of the changes necessary to the market framework to transfer effectively the three identified services (connections activities, trade effluent and metering) from Scottish Water to the non-household retail sector of the Scottish water industry by no later than 1 April 2012.
6. However, nothing in these Terms of Reference shall limit the Commission's powers and responsibilities to Scottish Water, the non-household retail market and customers under the Act or any other relevant statutory provision or governmental obligation.

Reporting to the Commission

7. The business of the New Retail Areas Stakeholder Groups, including its decisions, will be reported to the Commission at Commission meetings and to all other stakeholders at the discretion of the Commission.

Membership

8. Each New Retail Areas Stakeholder Groups is to consist of the following:
 - 8.1 not fewer than [five], nor more than [twelve] Members; and
 - 8.2 the New Area Stakeholder Groups will be chaired by a member of the WICS' Competition Team.
9. Each organisation represented within the New Retail Areas Stakeholder Groups will be permitted only one Member.
10. Each Member must be competent to represent his/her organisation.
11. Representatives of new organisations may be proposed by any Member or any other organisation or individual, but must be approved by all Members of the group and the Commission.

12. The Commission reserves the right to invite other stakeholders to Group meetings on an ad hoc as and when it believes that to do so would further the interests of the Group and the wider discussion generally.

Documentation

13. It is likely that there will be wider interest in the New Retail Areas Stakeholder Groups beyond the numbers outlined above. Working papers will, therefore, be routinely distributed to a wider group of interested parties. These papers will contain a confidentiality clause and disclaimer to preserve their status as working documents.
14. In accordance with this approach, comments from non-attendees will be sought and incorporated where appropriate.

Timetable of Meetings

The New Retail Areas Stakeholder Groups will have a finite lifespan with the schedule of meetings taking the following basic shape:

February 2010 to April 2010:

First meeting of each group to take place.

May 2010 to September 2010:

Connections activities group to begin having additional meetings.

September 2010 to 31 October 2010:

Trade effluent group to begin having additional meetings.

31 October 2010:

Connections activities and Trade effluent documentation to be finalised to allow any central system changes to be implemented by the CMA through the March 2011 software release and changes to the wholesale charging structure to be addressed in Scottish Water's Wholesale Charges Scheme for the financial year 2011-12.

December 2010:

Metering group to begin having additional meetings.

31 August 2011:

Metering documentation to be finalised to allow any central system changes to be implemented by the CMA through the March 2012 software release and changes to

the wholesale charging structure to be addressed in Scottish Water's Wholesale Charges Scheme for the financial year 2012-13.

This timetable is intended to dovetail with both Scottish Water's timetable for approval and publication of its Wholesale Charges Scheme and the CMA's software release dates to ensure the smooth implementation of any changes to either wholesale charges or the central system.

Meetings

15. **First Meetings:** The Commission to present its idea of how the transfer for each area is envisaged, providing both overall principles and some level of detail. Papers setting out the explanation and details will be circulated prior to the meeting. If it is thought likely that there will be agreement in principle, a discussion on the detail will take place. Otherwise, a discussion on principles will take place. All stakeholders will be welcome to attend and participate although the Commission will reserve the right to choose participants should it be logistically impractical for all interested parties to attend.
16. **Subsequent Meetings:** The Commission will review and revise or produce further documentation following the first meeting and distribute this prior to second meeting. Stakeholders will be asked to return with comments and actions on the documentation. The goal will be to focus on proposal details, with a view to preparing final proposals for the next meeting. Attendance at these meetings will be limited to allow for greater attention to detail and to make the meeting more manageable. However, written responses will be welcome from all stakeholders and will be noted and discussed during the meeting.
17. **Final Meetings:** Will focus on stakeholder feedback on draft final versions of the proposals presented by the Commission. These proposals will be circulated prior to the meeting. All stakeholders will be welcome to attend. The goal is to reach consensus on the proposals and to have these ready for publication (and where necessary, submission to the CMA), taking into account the timetable for Scottish Water's Wholesale Charges Scheme and the CMA's software releases.

Proceedings at Meetings

18. The quorum for a meeting of the New Retail Areas Stakeholder Groups shall be [four] Members present (not including the Chairman).
19. Members may attend meetings of the New Retail Areas Stakeholder Group by telephone or video conferencing facility. Members so attending shall be considered to be present at that meeting.

20. If the Chairman is not present at a meeting of the New Retail Areas Stakeholder Groups, the Commission shall appoint a substitute to chair the meeting.
21. Any member unable to attend a meeting may send a substitute from his or her organisation.

Conflicts of Interest

22. It is recognised that Members of the New Retail Areas Stakeholder Groups have an interest in the further development of the retail market.
23. Before any Member becomes involved in taking a decision or participating in a discussion on any matter, he or she should ensure that there are no conflicts of interest that, in the opinion of a fair-minded and informed observer, would suggest a real possibility of bias.
24. If a Member has, directly or indirectly, an interest or duty which is material and relevant or may be relevant to any matter being considered by the New Retail Areas Stakeholder Groups, he or she shall declare that interest or duty before that matter is discussed.