

# STRICTLY PRIVATE AND CONFIDENTIAL PRICE CONTROL SENSITIVE

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## **New Retail Areas Stakeholder Group: New Connections working paper**

### **Minutes of Meeting for Discussion on Connections**

**Monday 14 June 2010**

**1.15pm – 3.15pm**

**Present:** Richard Khaldi, Water Industry Commission for Scotland (Chairman)  
David Walters, Water Industry Commission for Scotland  
James Bream, Business Stream  
Paul Carson, Business Stream  
Gillian Dougan, Business Stream  
Paul Smith, Business Stream  
Hazel Mackinley, The Central Market Agency Ltd  
Stuart Love, Core Utility Solutions  
Derek Morley, McKinnon & Clarke  
Dominic Keary, OFWAT  
Ian Strawhorne, OFWAT  
Tony March, Osprey Water Services Limited  
Bob Wilson, Osprey Water Services Limited  
Alistair Ross, Satec Limited  
Michael Levack, Scottish Building Federation  
Neil Hemmings, Scottish Water  
Jessie McLeman, Scottish Water  
Ian Russell, Scottish Water  
Suzanne Bayliss, Severn Trent Water  
Richard Allison, South East Water  
Andy Monaghan, Turriff Contractors Limited  
Paul McKeown, United Utilities  
Jim Black, Waterwatch Scotland  
Liz Breckenridge, Waterwatch Scotland

**In Attendance:** James Saunders, Shepherd and Wedderburn LLP  
Ashley Jess, Shepherd and Wedderburn LLP

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## **New Retail Areas Stakeholder Group: New Connections working paper**

### **Welcome (Richard Khaldi)**

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1. Richard Khaldi (RK) opened the meeting by giving a short introduction as to the purpose of and the background to the meeting.
2. RK asked the Group if there were any comments on the minutes from the meeting on connections on 22 April 2010?
3. It was noted that at the last meeting on connections there had been a suggestion that it would be useful for a schematic view of the new connections process to be set out and that this suggestion was not reflected in the minutes. It was agreed by the Group that this suggestion should be noted in the minutes and RK agreed to send a revised version of the minutes to the Group.
4. It was noted that there were no other issues with the minutes.

### **Commission's proposals**

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5. RK explained that the Commission had drawn together the themes from the previous meeting and had incorporated this feedback into its draft proposals. The Commission had examined this area from a short term, medium term and long term view and what can hopefully be achieved within those various timeframes.
6. RK proposed that the Group look at the proposals section by section. RK explained that the Commission had not set out detailed proposals, but had drafted a document to aid discussion in the highlighted areas and to get a view from the Group on whether the Commission is heading in the right direction.

### **Better information**

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7. RK explained that during the previous meeting, customers and licensed providers had stated that they wanted improved access to information before applications are submitted to Scottish Water. In response the Commission has made some suggestions on page 2 of the proposals.
8. RK explained that one of the Commission's proposals is that network information will be made available more readily to licensed providers, along the lines of what is available for section 29E applications. It was explained that a Section 29E application is where a customer applies for lower charges as a result of lower costs being incurred by Scottish Water in providing services to that customer.
9. One of the proposals is to create an SACDP (Strategic Asset Capacity and Development Plan) data room which can be accessed by those who are accredited by Scottish Water. It was explained that all organisations must be accredited to limit access to the data room from a security point of view. It was noted that an SACDP data room is a long term aspiration and that the overall plan is for Scottish Water to provide all of the information it has in a readily accessible form to licensed providers for customer connections.

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### New Retail Areas Stakeholder Group: New Connections working paper

#### Scoping study

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10. RK then circulated to the Group copies of a scoping paper which set out proposals for an information study to take place within Scottish Water. RK explained that it will not be a classic time and motion study, but an exercise to discover where and how information is stored within Scottish Water. One of the goals is to ensure that licensed providers have access to as much information held by Scottish Water as possible. However, to do this the Commission and the Group need to understand what information Scottish Water holds and how this information is stored and can be accessed. It was noted that this study could be potentially invaluable in that once the relevant information is located, the Group can then look to see how it can be imparted externally to customers and licensed providers.
11. RK explained that the study would cover both the non-household retail market and the household market, as Scottish Water does not divide its connections information between the two. The Commission does not want to differentiate between the different sets of information for household and non-household retail markets, as the purpose of the study is to assess access to information at Scottish Water. The findings of the study will provide a process map of the information held at Scottish Water and once the study has been completed, that information can either be consolidated or the Group can discuss how it could be organised in a different way.
12. RK explained that a third party consultancy would carry out the study and present an unbiased view of the information held by Scottish Water. Thereafter the Group would examine the findings of the study and make recommendations.
13. RK explained that the Commission's view is that it does not want the third party to have a pre-conceived view of Scottish Water's processes. The scoping paper has not been drafted on the basis that the third party would recommend changes; the purpose of the study is to gain an objective view of Scottish Water's information locations.
14. RK explained that the Commission intended to have input into the remit of the third party consultancy and review its findings. If the outputs are not those that the Commission believes would be useful for the Group, it would ask the consultants to go back and carry out a further review.
15. It was suggested that the study would be a useful exercise but that customers are less interested in what happens within Scottish Water and are more interested in what occurs in the whole application process. It was asked whether there is any point in doing the study within Scottish Water given that it is one small part of the application process and would it not be better to do a study which covers whole the application process from start to finish?
16. RK explained that the Commission is of the opinion that the study would cover the whole application process, as the information held at Scottish Water covers the whole of that process including the interactions between Scottish Water and the licensed providers and between Scottish Water and customers. It was noted that the study will be designed to understand all of the interactions during the application process.
17. It was noted that for customers the process starts much earlier than submission of the application to Scottish Water. In response RK explained that the development impact assessments which are carried out prior to applications would be included within the scope of the study.

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18. A question was then asked regarding the consequences should the study find that the information held by Scottish Water is difficult to extract. RK answered that this would need to be looked at and most likely the application process refined if this proved to be the case. For example, if one person holds all of a certain category of information and that person leaves the company then a different way of storing information would need to be decided upon. The purpose of the study is to reveal any issues on how information is held by Scottish Water as well as how the information can be shared.
19. The question was then asked as to whether the connections information would be separate to the portal and how the Commission views this information being used?
20. RK explained that the purpose of the study is twofold; the first being to discover where the information is, and the second to discover the process of storing and accessing that information. Following on from that will come the Group's work to determine how this information can be made more accessible.
21. It was noted that this will all depend on how the information is stored. It was also noted that the resulting benefits should be that customers can be more efficient when making applications through identifying where there is capacity on the network prior to submitting their application. It should also allow customers to identify where there is potential for development.
22. A point was raised regarding the requirement to gain planning permission prior to submitting an application. It was noted that customers have to approach local authorities and something should be done to improve the subsequent process so that there are no surprises further on in the application process. The customer's prior interaction with public authorities before the application is submitted is not clear as well as its prior interaction with Scottish Water.
23. RK explained that the focus is not only on the process but on the information. The questions which the study should help the Group to assess are: where are the sources of information, and can these be put onto the portal or are these already available on the Scottish Water's website? It was noted that the problems come from people who do not complete the application process regularly and therefore who are unclear about where the information they require is held, and the purpose is to centralise all of this information for easier access.
24. It was noted further that charging for new connections is not covered in the proposals and RK explained that charging is outside of the scope of the meetings, but that the study could be used to inform the Commission's discussions on charging with Scottish Water.
25. RK asked whether there were any other views within the Group on the scoping paper and reiterated that post-meeting, members of the Group could contribute ideas but the Commission would begin to implement the study as soon as possible.

### **Portal**

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26. It was noted that one of the issues surrounds the lack of information on the status of applications once they are submitted to Scottish Water. It had been suggested at the last meeting that a portal between licensed providers and Scottish Water would help with this. The Commission views this as a long term goal and this would link-in with the proposed information study to be carried out.

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27. It was noted that Scottish Water is open to the idea of developing this and the Commission would speak with Scottish Water as soon as possible to begin implementation.
28. It was proposed that the portal be extended to all customers and that this would allow customers to have more visibility as to the status of their applications. This could be done by reference number, which could be inserted into the portal directly revealing the customer's current position in the application process.
29. It was agreed that customer access would be a good solution, particularly for customers who work daylight hours and who are only able to contact licensed providers when phone lines are closed.
30. RK noted that customers having access to the portal had been proposed and indicated that the Commission would speak to Scottish Water to discover what information is currently available to customers and how such a system could be implemented.

### **Building water**

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31. It was noted that charging had been raised with Scottish Water and that it was agreed that charging of building water should be available on a metered basis. RK explained that Scottish Water, the Scottish Government and the Commission are all of the opinion that metering of building water would be beneficial and that this should be in place for the next financial year.
32. It was then explained that one of the Commission's proposals is to remove the complexity of an application for a new connection by incorporating the application for building water into the connections application. If building water is not required then a customer will sign a declaration stating such and their new connection application will proceed as normal.
33. The issue was raised that if the customer does not need building water then Scottish Water requires evidence that building water is not required. It must therefore be made clear what evidence Scottish Water will accept to prove that building water is not required.
34. It was noted that it was possible to include building water into a new connection application as well as allowing customers to apply for it separately to a new connection application.
35. It was noted that currently customers can use one licensed provider for building water and another for a new connection application. This means that at the tail end of the application process it is often difficult to reconcile these two applications which causes confusion. It would be much more beneficial if building water applications are made at the beginning of the new connection application process, as it should speed up the whole process.
36. It was noted that with regards to the application process, Scottish Water must be ready for the administrative implications of the application being changed. The Commission would speak with Scottish Water about the new application form with a view to the Group signing it off at the next meeting.
37. It was noted that at the last meeting on connections it was agreed that the applications for building water for domestic permanent connections should be transferred back to Scottish Water and that this suggestion had not yet been put to the Commission. RK noted that he would go back to the Commission and suggest that this be included in the proposals.

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#### Choice and control

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38. RK explained that one of the Commission's proposals is to allow licensed providers to take over the process of scheduling when the physical connection will be made with the contractor. The principle behind this proposal is to provide licensed providers with more control and choice about when the physical connection is made and which contractor will carry it out.
39. RK explained that it is not the Commission's intention to change any of the applicable regulations, but to allow licensed providers to choose which contractor will carry out the work. It was noted that Scottish Water has an accreditation process for contractors and that these technical standards could be extended to other parties to carry out this work. RK asked the Group if this captures what customers and licensed providers are looking for?
40. It was noted that this would be helpful, in particular for the area of non standard connections where additional testing has to be carried out. It was explained that non standard connections are for pipes which are in excess of 32mm. Currently, testing is carried out and the results of these tests are sent to Scottish Water. An inspection is then carried out and if it is successful, Scottish Water will arrange for the physical connection. It was asked how this would be handled if the licensed providers could arrange for the physical connection?
41. RK explained that Scottish Water would still examine the test results and that the connection would still be carried out within the 14 day timeframe currently set down, but that if the test results were satisfactory then the licensed provider would arrange for the physical connection. RK explained that the regulation aspects of the application process cannot change but that the process should be made quicker and more responsive to customer needs.
42. It was noted that Scottish Water is not a part of Water Industry Registration Scheme (WIRS) but that the Commission would look at an accreditation scheme for contractors with Scottish Water. RK asked the Group whether adopting WIRS is something that should be done?
43. An additional question was asked as to how Scottish Water chooses which contractors to call from its framework?
44. It was explained that there are roughly 80 accredited organisations and Scottish Water's process is almost identical to the process in England and Wales, except for the presence of more self-employed organisations in Scotland. These accredited organisations undertake a large amount of training and are audited regularly. Any faults within the accredited organisations which are raised from the audits are discussed with Scottish Water.
45. It was noted that there are no obstacles to prevent accredited organisations being used and therefore it was asked how Scottish Water's accredited contractor scheme could be adapted for the Commission's proposals?
46. It was clarified to the Group that it would not be Scottish Water's framework contractors which licensed providers would use but the Self Lay Organisations (SLOs) instead. The two framework contractors used by Scottish Water are also SLOs meaning that the framework would have to be terminated to allow the SLOs to take on work directly from licensed providers.

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47. It was noted that Scottish Water are still responsible for the scheduling of household connections and this scheduling, in addition to the scheduling of work for licensed providers, could make matters more difficult.
48. RK explained that it would fall upon licensed providers to schedule their own accredited contractors and that the Commission did not envisage increased scheduling for Scottish Water as a result of licensed providers being responsible for contacting the contractors direct.
49. It was suggested that if licensed providers directly approach SLOs this would speed up the process and that there are many benefits to be gained from a direct relationship between licensed providers and SLOs.

### **Cost of accreditation scheme**

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50. It was asked that if licensed providers contract directly with accredited contractors and Scottish Water still has to run the accredited scheme, who would pay for the accreditation scheme?
51. It was noted that Scottish Water would continue to pay for the accreditation scheme. It was explained further that SLOs do not pay to go through the Scottish Water accreditation scheme but they do pay for any training that they must undertake.
52. It was suggested that this would lead to cross-subsidisation as the household customers could potentially be subsidising the non household customers for the provision of the accreditation scheme.
53. It was noted that it would be the responsibility of Scottish Water to ensure that household customers were not subsidising the non household customers in this respect.
54. The point was then raised that licensed providers only want the ability to schedule the contractors for connections, because licensed providers are currently frustrated that they cannot schedule the work of SLOs.
55. It was noted that the proposals had been slightly advanced from this and that licensed providers under the proposals can become SLOs.
56. It was suggested that the issue is in fact to do with paperwork not being done on time. It was explained that the contractors only have 7 days to carry out the required tests. There are 14 days from the granting of the connection for the physical connection to be carried out. Even if whoever instructs the connection does so very promptly, because of all the testing it is likely that the connection will be done between days 8 to 14.
57. It was noted further that licensed providers and customers do not know that the connection will take place between days 8 to 14, and that this is day 8 after 30 days of notice. If a licensed provider is in direct contact with the SLO, this could be done quicker.
58. An issue was then raised with regards to economies of scale, where it was suggested that Scottish Water negotiates a fee for connections with its contractors on a large scale annual basis, driving down costs. However, if licensed providers are to schedule or appoint their own contractors, this would not be on as large a scale as Scottish Water and this could potentially push up the cost of connections.
59. RK explained that it is important to look at the cost per customer, the cost of doing the connections and the cost impact of the licensed providers directly employing the SLOs. The

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Commission clearly does not want to drive up prices for connections, but does want to increase competition.

60. It was noted that the Commission would look at the cost differentials and come back to the Group on this.
61. It was suggested that it is in the interests of the accredited contractors to carry out the work at as low a cost as possible due to the increased competition. The experience in the gas and electricity sector shows that there are lower prices with self connection as there is less interfacing with different parties and therefore prices fall. It was also suggested that licensed providers could contract with the SLOs on a 'bulk' basis as well as on an individual connection basis and in this way there would continue to be economies of scale.
62. This view was questioned on the basis that the inevitable impact of using SLOs would be costs would increase.
63. It was noted that if licensed providers take on this role of scheduling and choosing the contractor for the connection they will vastly increase their responsibility to customers as well as increasing their accountability.
64. It was suggested that there is nothing in the proposals preventing customers from using their preferred SLOs and that SLOs can recommend licensed providers to customers and vice versa and therefore the relationship between licensed providers and SLOs is important.
65. It was noted that the Commission at the last meeting had said that it would look at the gas and electricity model and it was asked whether this had been put on hold for the moment?
66. RK explained that the short term proposal is to improve the current process but that this may be looked into further down the line.

### **Next steps**

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67. RK explained that the Commission would work with Scottish Water on the information study, on the information to be contained in the portal, and whether this should be accessible to customers as well as licensed providers. RK also said the Commission would speak with Scottish Water and SLOs regarding the cost implications of the accreditation scheme and that the Commission would work up proposals on the accreditation scheme.
68. RK suggested that the next meeting be in approximately six weeks' time and that he would send out the revised proposals and the other documentation at least two weeks prior to the next meeting.
69. RK also invited members of the Group to provide their comments to the Commission on the documentation prior to the next meeting.
70. RK then declared the meeting closed.