

## New retail activities for the non-household market April 2012

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In our Final Determination for 2010-15, we determined that three activities should be opened up to competition through the retail market. These were metering, trade effluent and connections activities.

Since we published the Final Determination we have been undertaking a consultation process in order to help us put in place the necessary market framework arrangements for the new retail activities. Throughout the consultation process we have worked closely with Scottish Water, the licensed providers and other stakeholders. This paper sets out the conclusions of the consultation process and provides an overview of the new arrangements.

## Background

We published our Draft Determination in June 2009. In the Determination, we revisited the issue of the allocation of activities between wholesale and retail in the non-household market. This involved examining the extent to which activities that are currently classified as wholesale activities (and are therefore carried out by Scottish Water) should more properly be classified as retail activities and carried out by the retailers (known as licensed providers).

We believe 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. The new arrangements will allow those best placed to understand customers' needs, licensed providers and customers themselves, to tailor services to meet individual customers' needs to a greater degree than was possible before. As a result of these arrangements, customers should see better, more responsive and faster services. Customers will have greater choice and should receive better information.

Having considered responses to the Draft Determination, in our Final Determination we allowed for three activities to be transferred from Scottish Water to licensed providers. These are metering, trade effluent, and connections/disconnections/reconnections.

## Consultation

In light of representations on our Draft Determination, we decided to delay implementation of some of the changes we had proposed until April 2012.

This revised timetable allowed us to consult further on how such changes would best be implemented within the existing market framework. As part of the consultation process we held a series of small, focused workshops that allowed us to listen to and discuss the views of key stakeholders. We held a series of workshops for each of the three activities<sup>1</sup>.

In addition to the three new areas of retail activities, at the workshops we discussed related issues including:

- datalogging, which is also known as automated meter reading (AMR); and

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<sup>1</sup> Copies of the papers from these workshops can be found on our website [here](#).

- building water (that is, water used in construction projects).

Scottish Water also consulted its own stakeholders<sup>2</sup> on the proposals, focussing on the technical aspects of allowing third parties to perform activities on its network.

Overall we believe that the consultation process (both the workshops and Scottish Water's independent discussions with stakeholders) has helped to produce a more complete and rounded set of changes. We would like to thank all those who have taken part, in particular we appreciate the time and effort so many people have put into this process.

At the last round of workshops in April 2011, we presented our final proposals for the market structures that would support the new metering and connections retail activities<sup>3</sup>. The only remaining issues to consider were the technical aspects of Scottish Water's proposed accreditation arrangements for these activities.

We had originally intended to hold a further round of workshops to discuss these arrangements. However, following Scottish Water's work with other stakeholders, including both the licensed providers and Lloyd's Register, we consider that the revised arrangements are ready for the market.

## Accreditation

### Water Industry Registration Scheme (WIRS)

As mentioned above, following on from the last round of workshops Scottish Water engaged with Lloyd's Register regarding the WIRS. The scheme is part of an ongoing process to facilitate multi-lay for service providers across the UK.

Under the WIRS, Lloyd's Register performs independent technical assessments of companies that elect to be assessed for accreditation for contestable works associated with the installation of water infrastructure.

Following consultation with its own stakeholders, Scottish Water worked with Lloyd's Register to produce an updated WIRS Requirements Document. The WIRS Requirements Document forms the basis of the accreditation arrangements for accredited meter operators (AMOs) and

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<sup>2</sup> Including, inter alia, the Scottish developer and utility contractor communities and the licensed providers.

<sup>3</sup> The trade effluent changes came into effect during 2011.

utility connection providers (UCPs) in Scotland. It allows third party companies to build on the accreditation they may already have regarding the installation of water infrastructure in other jurisdictions such that they can operate as either an AMO or a UCP in Scotland.

In addition to the Requirements Document, Scottish Water has also produced Codes of Practice for both metering and connections that will assist and support AMOs and UCPs in their operations. These Codes of Practice are available from Scottish Water's website.

By using the WIRS framework, Scottish Water has ensured that the accreditation of companies to operate as AMOs and UCPs will be independently conducted and monitored. It has also ensured that the infrastructure community can use its existing accreditation within Scotland, so keeping costs to a minimum and avoiding duplication. Copies of the revised WIRS Requirements Document can be found on the Lloyd's Register website<sup>4</sup>.

In terms of timing, companies will be able to apply to Lloyd's Register for accreditation as AMOs and/or UCPs under the WIRS framework from 1 April 2012. Once companies are accredited they will then be able to offer their services to the licensed providers<sup>5</sup>.

## Implementation

For all of the new retail activities, licensed providers will continue to have the option of using Scottish Water's existing wholesale services for the time being. In other words, in the first instance the licensed providers will not be required to undertake these new activities in all cases and may continue to use Scottish Water's services.

We intend to keep this position under review to ensure that customers continue to receive services in all areas but there is no large-scale duplication of service provision between the licensed providers and Scottish Water.

Although all of the new market framework structures will be in place by April 2012, metering services will not be available to licensed providers until April 2013. Companies will still be able to accredit as AMOs from 1 April 2012<sup>6</sup>; however, licensed providers will not be able to use

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<sup>4</sup> [Lloyd's Register website](#)

<sup>5</sup> New connections (including the meters for such connections) from 1 April 2012 and all other metering activities from 1 April 2013.

<sup>6</sup> New connections will continue to require new meters fitted, a service that AMOs will be able to provide from 1 April 2012.

their services until the beginning of the financial year 2013-14. The reason for this delay is to ensure that financing arrangements for metering are correctly established given the revisions to the proposals and to allow Scottish Water to prepare the Meter Store<sup>7</sup>.

The tables below outline the activities that will now be part of the retail market, as well as the dates from which licensed providers will be able to offer such services.

### Overview of implementation dates for the new retail activities

#### **Retail activities that will be live from 1 April 2012<sup>8</sup>:**

1. The installation of data loggers on Scottish Water's revenue meters using any company from a list of installers accredited by Scottish Water<sup>9</sup>.
2. Metered building water for non-household developments.
3. Licensed providers taking and analysing trade effluent samples from customers in place of Scottish Water.
4. UCPs undertaking new connections of all sizes on behalf of licensed providers.
5. Licensed providers using an AMO/UCP to install a meter at the time of a new connection.
6. AMOs undertaking temporary disconnections on behalf of licensed providers.
7. AMOs undertaking reconnections following temporary disconnection on behalf of licensed providers.

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<sup>7</sup> As a result of revisions to our proposals following the consultation process a Meter Store is to be created within Scottish Water, rather than a separate MeterCo (see the minutes and papers for the metering workshop held on 1 April 2011). This is likely to require revisions to the assumptions we used in the Final Determination to determine the costs to Scottish Water of the changes to metering activities.

<sup>8</sup> These activities include some that have been in place since 1 April 2011.

<sup>9</sup> This list (as well as the information on acquiring accreditation from Scottish Water, can be found on Scottish Water's [website](#)).

**Retail activities that will be live from 1 April 2013:**

1. AMOs undertaking other metering activities (fault and repair, replacement etc).
2. AMOs/UCPs undertaking permanent disconnections.

## **Transitional arrangements**

As the new arrangements are taken up by the licensed providers, some activities that are already underway may straddle the old and new frameworks. To make sure that non-household customers continue to receive an appropriate level of service during the transition period Scottish Water will implement the following procedures:

1. Disconnections/reconnections

For temporary disconnections and reconnections following temporary disconnection, as the timescales in the processes are short, all new applications will follow either the Scottish Water path or the AMO path. There will be no transition of service requests 'mid-flight' (that is, once the process is already underway with one provider or another).

2. Connections

The timescales for connections are longer so it will necessary for transitional arrangements for applications that are 'mid-flight':

- a. For Part 1 connections, applications approved by Scottish Water on or after 1 October 2011 will be resubmitted by the licensed provider who will add the relevant information, where the connection has not yet had track inspection. Scottish Water will then provide the initial impact Assessment Form, and amend its quotation information etc.
- b. For Part 2/3 connections, all applications approved on or after 1 April 2011, and which have not had a track inspection, should be resubmitted by the licensed

provider. Applications approved before those dates are likely to be moving to completion.

- c. Scottish Water will continue to accept the old application forms for a period of at least two months.

### **Market framework changes**

In the appendices below we detail the changes made to the market framework documents to accommodate the new retail activities. Links to the relevant documentation on our website and on Scottish Water's website are also included.

**Water Industry Commission for Scotland**  
**April 2012**

## **Appendix 1: Trade effluent**

All licensed providers may now undertake regular and spot sampling of trade effluent. We believe that the new arrangements will help business customers better understand and control their trade effluent discharge and associated charges.

The changes are supported by the Scottish Environment Protection Agency and by Scottish Water. Scottish Water is also making a number of changes to its own trade effluent management processes under the new arrangements. These include creating a dedicated trade effluent portal that will be accessible to all customers with a trade effluent consent, the licensed providers and Scottish Water.

You can find out more about the new trade effluent arrangements on [our website](#). The revised version of the Operational Code that accompanies these changes can be found on [Scottish Water's website](#).

## Appendix 2: Connections and disconnections

### Connections overview

Currently only Scottish Water may make a final, physical connection to its network. Under the new arrangements licensed providers will be able to use accredited UCPs to carry out physical connections to Scottish Water's network<sup>10</sup>. Scottish Water will continue to approve all applications for connection to its network.

Although Scottish Water will approve applications<sup>11</sup>, it will not be able to restrict the size of connection a UCP can make.

As all new non-household premises in Scotland must be metered, UCPs (or AMOs) will also be able to fit an approved revenue meter as part of any new connection.

The accreditation arrangements for UCPs will be administered by Lloyd's Register through the WIRS. Copies of the revised WIRS Requirements Document with the accreditation arrangements for UCPs can be found on the Lloyd's Register website<sup>12</sup>. As well as the updated WIRS Requirements Document, potential UCPs can find guidance on the requirements of operating within the retail market in Scottish Water's Codes of Practice for connections<sup>13</sup>.

The new arrangements will allow those best placed to understand customers' needs – customers themselves and their licensed provider – to select the UCP who offers the best service and price. For example, improved multi-utility connection services will be possible through one party making water, electricity and gas connections. Having one party responsible for connections can speed up the entire utilities connection process and help to ensure tight development timescales are met, something particularly important for developers. By shifting this responsibility, customers should receive better and more responsive services.

At the same time, Scottish Water has reviewed its own connections processes and acknowledged the need to improve access to information and to strengthen its connections

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<sup>10</sup> Licensed providers may also choose to become a UCP and carry out connections themselves.

<sup>11</sup> There will, however, be different accreditation requirements for different sizes of connection. See the WIRS Requirements Document on the Lloyd's Register website for more details.

<sup>12</sup> [Lloyd's Register website](#)

<sup>13</sup> Available on Scottish Water's website.

team. It has carried out an independent review<sup>14</sup> of its connections processes and is working to implement the findings of that review. The outputs of Scottish Water's review will also include an online portal that will allow customers (and their licensed providers) to check the progress of applications in real time. Customers and their licensed providers will be able to see the current status of an application and which stages it still needs to complete<sup>15</sup>.

Finally, Scottish Water has introduced arrangements for building water to be metered at developments. Customers who legitimately do not intend to use water from Scottish Water's network as building water are also now able to sign a declaration stating as such. Their new connection application will then proceed without delay. The application for building water (as well as the non-use declaration) is also now built into Scottish Water's connection application<sup>16</sup>.

**Figure 1** below summarises the new arrangements.

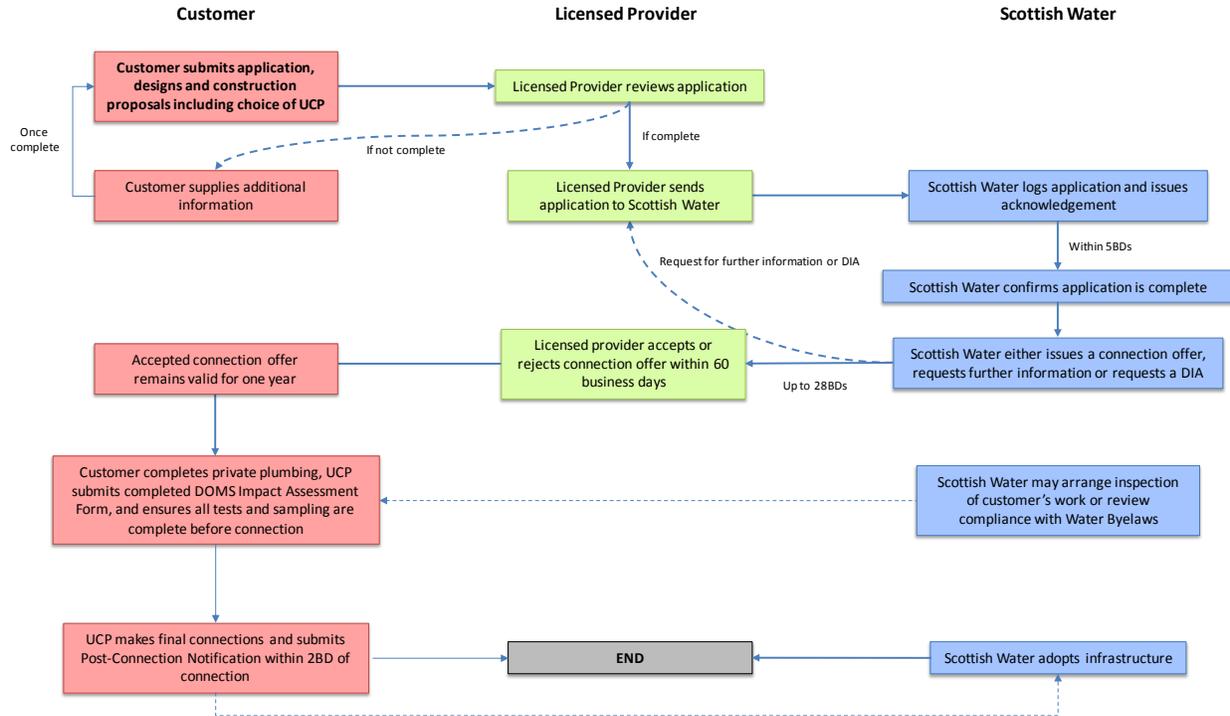
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<sup>14</sup> Completed by consultants, Mott MacDonald.

<sup>15</sup> The portal is due to go live by the end of 2012.

<sup>16</sup> A separate building water application will remain for customers who only need building water.

### Applying for a Connection using a UCP



**Key: 5BDs = 5 Business Days**

## Disconnections overview

Currently only Scottish Water may effect the temporary disconnection of a non-household customer's supply. This has presented problems in that licensed providers are responsible for collecting charges but must pay a separate charge to Scottish Water in order to have a non-paying customer disconnected. Because Scottish Water and not the licensed provider effects the disconnection, it is also not possible to collect payment at the time of disconnection. This is of particular relevance in cases where the disconnection is due to non-payment.

In order to address both points, from 1 April 2012 licensed providers will be able to choose an accredited UCP to make a temporary disconnection on its behalf. By having an agent of the licensed provider as the one to make the disconnection, customers will have one final opportunity to make a payment and avoid being disconnected.

In the same way that we will be giving licensed providers choice over who makes physical connections to Scottish Water's network for their customers, giving licensed providers choices for disconnections should increase competition in this area and reduce costs.

The accreditation arrangements for UCPs making disconnections will be administered by Lloyd's Register through the WIRS. Copies of the revised WIRS Requirements Document with the accreditation arrangements for UCPs can be found on the Lloyd's Register website<sup>17</sup>. The market arrangements for the new disconnections regime are located in the Disconnections Document, which can be found on our website.

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<sup>17</sup> [Lloyd's Register website](#)

## Appendix 3: Metering

### Overview

Under the new arrangements licensed providers will be able to use AMOs to carry out the installation, upkeep and replacement of all revenue meters on Scottish Water's network. AMOs will be accredited by Scottish Water and all licensed providers can become AMOs as well as any other third party who wishes to apply. AMOs will recover the costs of installing, repairing, replacing and upgrading meters from licensed providers who will in turn receive a contribution from Scottish Water.

The accreditation arrangements for AMOs will be administered by Lloyd's Register through the WIRS. As well as the updated WIRS Requirements Document produced by Lloyd's Register, potential UCPs can find guidance on the requirements of operating within the retail market in Scottish Water's Codes of Practice for metering<sup>18</sup>.

The revised Operational Code setting out the new market framework arrangements can be found on Scottish Water's website<sup>19</sup>. Copies of the revised WIRS Requirements Document with the accreditation arrangements for AMOs can also be found on the Lloyd's Register website<sup>20</sup>.

### Meter Store and Scottish Water's framework

To facilitate the introduction of AMOs, Scottish Water is going to establish a Meter Store. The Meter Store will have outlets at eight locations across Scotland. It will be responsible for procuring meters through Scottish Water's existing framework arrangements. AMOs will then be able to obtain the meters through the Meter Store for installing at customers' premises<sup>21</sup>. Scottish Water will use its existing framework contract to select a range of meters in different sizes for AMOs to install (a range of 'stock' meters). These stock meters are the meters Scottish Water will use at customers' premises in the normal course of events. The choice of meters available from the Meter Store will be published on Scottish Water's website, along with

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<sup>18</sup> Available on Scottish Water's website.

<sup>19</sup> [Scottish Water's website](#)

<sup>20</sup> [Lloyd's Register website](#)

<sup>21</sup> Scottish Water's Meter Code of Practice for AMOs contains information on the current distributor of meters in Scotland.

information on the technical specification of the meter, photograph of the meter and other attributes.

To ensure that customers receive the widest possible choice, Scottish Water will become more flexible and open with its framework contract. Scottish Water will engage with both AMOs and licensed providers to ensure that the 'stock' meters selected for the Meter Store meet the customers' needs. This will help to ensure that the meter stock that the Meter Store provides evolves to meet improvements in technology and changing customer demands.

Scottish Water will consult with both AMOs and licensed providers on an annual basis at least, with additional consultation and discussion as required over the year. Scottish Water will also use its website to advise of any metering plans it may have. This would include, for example, plans to withdraw certain meter types or to add new meters.

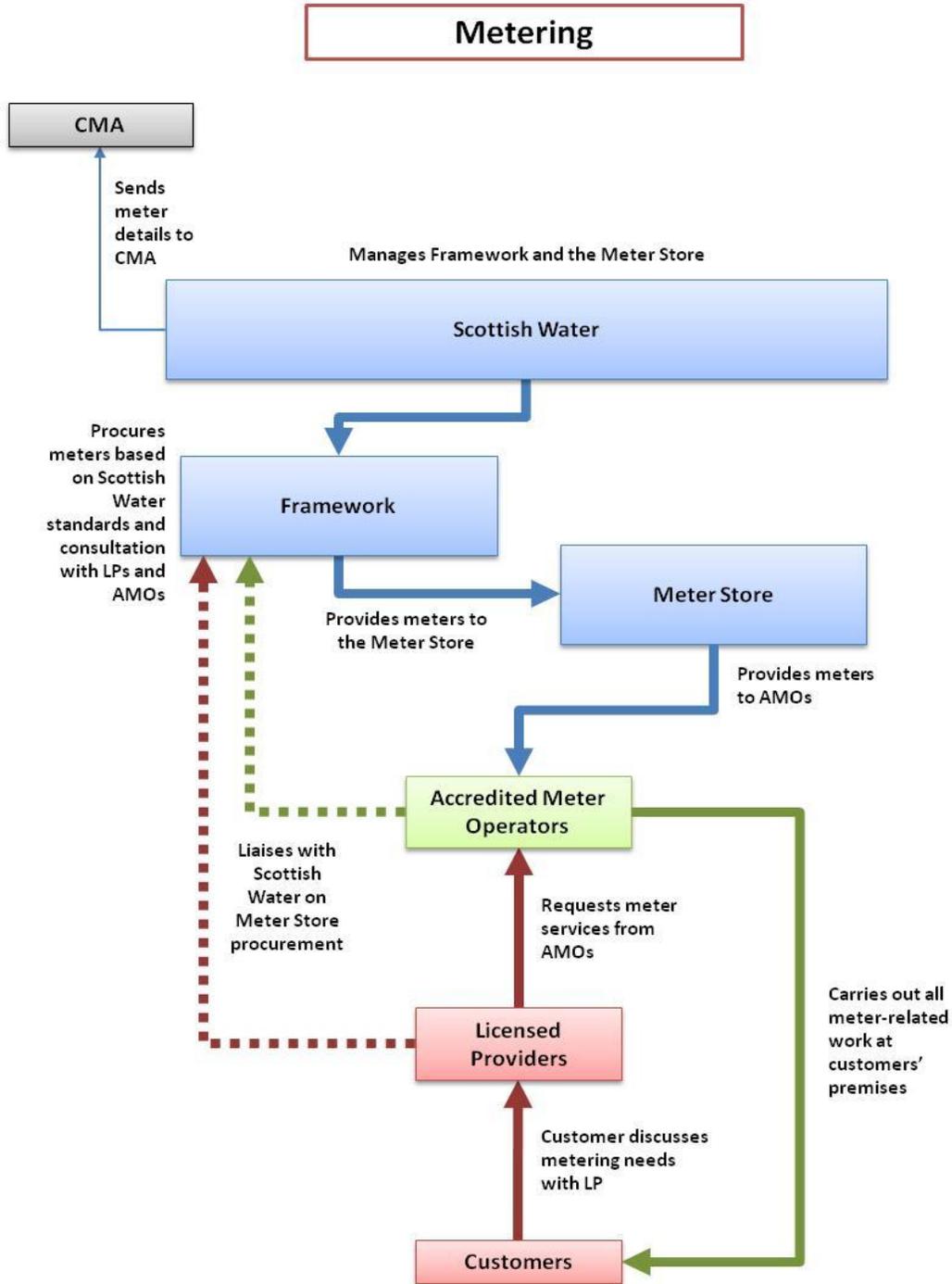
If a customer is interested in a specific meter that is not featured on the list of 'stock' meters (for example a smart meter), an AMO would be able to obtain it through the Meter Store and Scottish Water's framework<sup>22</sup>. By going through the Meter Store (and thereby using Scottish Water's framework arrangements) costs should be kept to a minimum.

**Figure 2** below illustrates the new arrangements.

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<sup>22</sup> Very large meters and the non-standard meters will generally be available to order with normal delivery times. Scottish Water's distributor will be able to advise on the delivery times for meters that need to be ordered. [is it clear what normal delivery times are??]

Figure 2:



## Accredited meter operators

AMOs will be responsible for installing, repairing, replacing and maintaining revenue meters<sup>23</sup>. Licensed providers will contract directly with AMOs to carry out these meter services. In other words, there will be no contractual relationship between an AMO and Scottish Water beyond Scottish Water's accreditation scheme.

With AMOs competing for work from the licensed providers, licensed providers will be able to choose AMOs who offer the best prices and services for their customers. AMOs will recover the cost of these activities from licensed providers and/or Scottish Water.

Licensed providers also will have the option of becoming AMOs. This will allow them to have greater control over the service their customers receive.

Scottish Water has developed the accreditation scheme for AMOs in conjunction with Lloyd's Register. This WIRS scheme will ensure that AMOs are capable of carrying out the work that is required of them and will hold AMOs to the same standards to which Scottish Water's current meter installers are held.

AMOs may keep a small supply of meters purchased from the Meter Store. This will allow them to install and replace common meters without the need for repeated visits to the Meter Store. AMOs will be responsible for any meter in their possession from the time it leaves the Meter Store to the time it is installed. They will also be responsible for any damage before the meter is installed.

If an AMO ceases to provide meter services or loses its accreditation, it will be required to return any meters that are still in its possession to the Meter Store. Any meter an AMO removes from a customer's premises during the course of its work may be required to be returned to the Meter Store or other appropriate Scottish Water location.

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<sup>23</sup> Revenue meters are meters fitter to Scottish Water's network to determine customer charges. Scottish Water will also fit meters that are for network management purposes. This second type of meter is not explicitly covered by these arrangements, although Scottish Water may choose to utilise the services of an AMO for these meters if it so chooses.

## Meter choice and cost

Scottish Water currently provides meters for new premises free of charge. It also replaces meters for worn-out stock at existing premises free of charge. Where a customer already has a meter and wishes to replace it before the end of its life, they must pay the full cost of that replacement meter. In all of these scenarios, Scottish Water chooses the type of meter to be installed at the premises.

Under the new arrangements Scottish Water will have a list of 'stock' meters available at the Meter Store. Where a customer needs a meter for new premises or to replace a broken or worn-out meter, Scottish Water will provide a 'stock' meter from the Meter Store to the AMO that has been chosen by the customer's licensed provider.

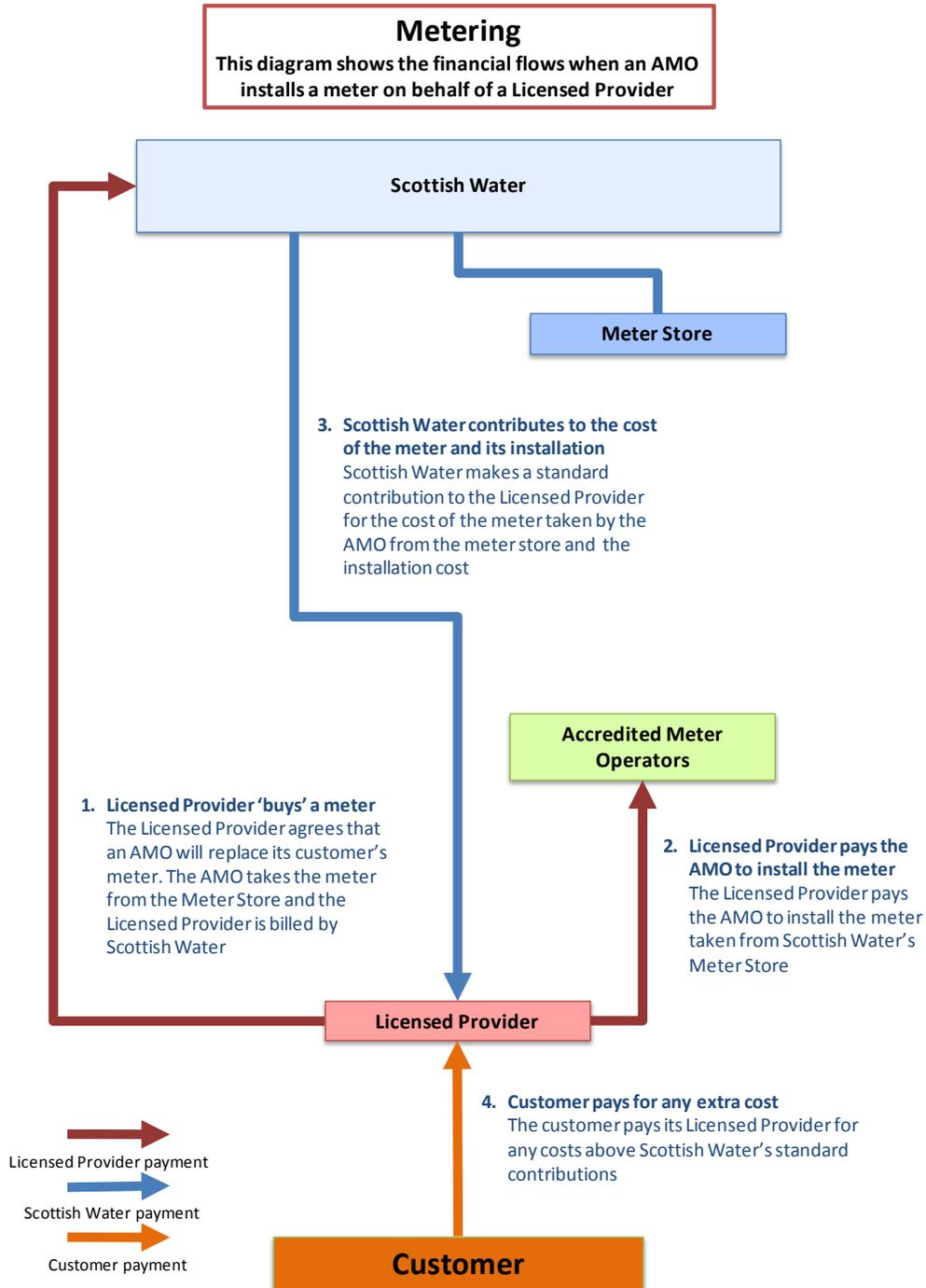
However, where a customer wants a meter that is more advanced and/or expensive than the 'stock' meter offered by the Meter Store, they can pay the difference in cost between the chosen meter and Scottish Water's choice. These types of meter will be sourced by Scottish Water through its framework and will therefore remain the property of Scottish Water. The Meter Store will confirm the cost of any 'non-stock' meter with the AMO before ordering the meter or allowing it to be checked out.

In either case, Scottish Water will raise an invoice payable by the licensed provider for the cost of the meter when it is checked out of the Meter Store. Scottish Water will also make an offsetting contribution towards the cost of the meter, which is equal to the cost of the appropriate 'stock' meter, once it receives confirmation that the meter has been installed. Licensed providers will be granted payment terms by Scottish Water that are sufficiently long such that money need not change hands in most cases.

If Scottish Water's contribution is not equal to the cost of the meter, as in the case of an advanced meter, the customer's licensed provider will pay Scottish Water the difference.

**Figure 3** illustrates the financial flows when a meter is replaced.

Figure 3:



## Installation and repair costs

Presently, Scottish Water will pay for the installation of meters at new premises and the replacement of worn-out meters. It also repairs damaged or faulty meters.

Under the new arrangements Scottish Water will make a standard contribution towards the installation of a meter. This will be based on the installation cost of a 'stock' meter. The contribution will be paid to the customer's licensed provider at the same time that Scottish Water makes its contribution towards the cost of the meter itself. It will then be for that licensed provider to make good with the AMO it may have employed to carry out the work.

When a meter is damaged or faulty, the licensed provider will ask an AMO to examine the meter to see if it needs to be repaired or replaced. If it is determined that the meter needs to be replaced, Scottish Water will make a contribution to the licensed provider in the same way as it contributes for the installation of a new meter. Again, it will then be for the licensed provider to make good with the AMO it may have employed to carry out the work.

If the meter can be repaired, Scottish Water will pay for the cost of the repair. In either case, the AMO will need to be able to justify to Scottish Water its decision to either repair or replace the meter. This will be detailed in the accreditation scheme. Any damaged meters that are replaced must be returned to Scottish Water.

If upon examination the AMO determines that the meter is not damaged or faulty, the licensed provider will be responsible for paying the AMO for the site visit. Scottish Water will not make a contribution for visits where no repair or replacement occurs. This is similar to the present situation where the licensed provider pays Scottish Water for abortive visits.

The table below sets out the various scenarios:

Scenario	Current arrangements	Arrangements from 1/4/13
<b>1. Meter in a new premises</b>	Scottish Water provides its choice of meter at no cost to customer.	Customers can choose from list of 'stock' meters at the Meter Store and Scottish Water will provide meters at effectively no cost. However, customers can choose to source different meters through the Meter Store and pay any cost difference.
<b>2. Replacing a meter at the end of its life</b>	Scottish Water provides its choice of meter at no cost to customer.	Scottish Water will install 'stock' meters at no cost as part of its capital maintenance programme. However, customers can choose to source different meters through the Meter Store, pay any cost difference and have an AMO install them.
<b>3. Replacing a meter before the end of its life</b>	Scottish Water provides its choice of meter but customer must pay full cost.	Customers can choose from list of 'stock' meters at Meter Store or source different meters through the Meter Store. Customers will have to meet the full cost of the chosen meter.
<b>4. Faulty meter repair and replacement</b>	If the meter is found to be faulty, Scottish Water pays for it to be repaired or replaced. licensed providers pay for the callout if it is not faulty.	Scottish Water will pay if the meter is determined to be faulty. If it is not faulty, the AMO will recover its costs from the licensed provider who requested the callout.

Figure 4 below illustrates the financial flows when a meter is repaired.

Figure 4:

