



Competition in providing new water mains and service pipes

Responses to the March 2005 consultation

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1. Overview

In March 2005, we published the consultation on version 2.0 of our guidance on 'Competition in providing new water mains and service pipes' (the self-lay policy guidance). This asked for views on our proposed changes to version 1.0 of the self-lay policy guidance, which we issued in March 2002. We needed to revise version 1.0 because the Water Act 2003 (WA03) has introduced new provisions relating to self-lay arrangements and to reflect policy changes.

1.2 Our consultation

We asked for views on the following issues:

- Our proposed new principle stating that water companies should allow self-lay organisations (SLOs) to fit meters.
- The revised principle stating that water companies' policies should include the criteria for approving individual members of a workforce.
- The revised principle that removes the requirement for water companies to provide flow analyses to justify reinforcement work.
- Proposed new service level relating to water companies providing meters for fitting.
- Proposed deletion of five principles from version 1.0 of the self-lay policy guidance because the issues that they relate to are now covered by legislation.
- General comments about the clarity and accuracy of the text.

1.3 Your responses

We received responses from 21 stakeholders, including 15 water companies, the House Builders Federation (HBF) and WaterVoice. A list of respondents can be found in appendix 1. There was broad support for the proposed revisions to our guidance and the approach we were taking, including asking water companies to allow SLOs to fit meters, although some respondents had reservations about this. We address these in section 2.1. Because of this, we have not made any significant changes to the substance of our revised guidance. We have clarified some issues and changed the order of the sections in the guidance so they reflect the order of self-lay work more closely. This means that the numbering of some of the principles has changed. Appendix 2 lists all the principles that are in version 2.0 of the final guidance, which includes the revisions that have been made as a result of this consultation.

The key points raised by respondents and our response to these are summarised in chapter 2.

2. Respondents' views

2.1 Proposed new principle

Draft new principle. Water companies should consider SLOs' requests to install water meters to water company specifications.

Respondents' views

Most respondents supported the proposal that water companies should allow SLOs to fit meters. Generally, water companies welcomed the safeguards that are set out in the consultation. However, some water companies expressed reservations with the proposal. They questioned whether it is beneficial to allow SLOs to fit meters saying that the costs of inspections, flow checks and remedying problems could be prohibitive. They asked that it be made clear that these costs should be rechargeable to the SLO.

Water companies were also concerned that some problems may only be identified some time after the meters are fitted. Several water companies supported the proposal that deposits against the costs of poor performance should be withheld. One water company suggested that these may be paid to new occupiers of premises if they are inconvenienced. Another suggested that asset payments should be withheld.

One water company said that it would only agree to allow SLOs to fit meters if it could stipulate in its policy that approval would be conditional on the SLO undertaking a successful trial.

Another water company suggested that allowing the SLO control over the meter fitting will remove its ability to choose the timing of the tasks, which is a process that the company uses to ensure that any building water used during construction is charged for. It said that any extra costs of fitting temporary meters to measure building water are likely to fall on developers.

Some water companies expressed reservations about the meter fitting trials that were referred to in the consultation, saying that these were small scale and in one case only involved one SLO. As such they considered that these trials may not reflect the practice in other areas.

Our response

The guidance explains that the reasonable costs of tasks such as inspection will be recovered from the SLO and that water companies should identify these costs clearly. Some SLOs, especially those with little experience of fitting meters, may find that the costs of this work are prohibitive. However, we do not feel that this is a reason for water companies to refuse to give SLOs permission to carry out this work. The SLOs should be given the opportunity to make a choice about the costs of the work themselves. Our guidance also

states clearly that approval for self-lay work can be withdrawn if the SLO does not carry the work out to the required standard.

We have revised the guidance to make it clear that the asset payment must be paid in accordance with the provisions of the Water Industry Act 1991 (WIA91). Section 51C(5) of the WIA91 states that the asset payment is payable when the main is vested in, or adopted by, the water company. The asset payment cannot be withheld as a deposit against costs of remedying problems arising from allowing SLOs to fit meters. However, water companies can set up separate agreements for fitting service pipes and meters and ask for a separate deposit against the costs of this work.

We note the comments about recovering the costs of building water. Meters are fitted to service connections to measure the use of water at a property once it is inhabited. It is appropriate that the cost of water used while the properties are being built and the costs of fitting meters to measure this water, should be recovered from the developer or the contractor.

We note the comments about how representative the trials were. However, we consider that these trials provided enough information to enable us to consider the practices and process for fitting meters. We have revised the guidance so that processes and practises that were originally an appendix are now included in the body of the text.

2.2 Revised principles

Principle 2. Water companies should have clear and reasonable criteria against which SLOs and their individual employees can be assessed for appropriate skills and qualifications.

Principle 11. Water companies must be able to justify the need for and cost of reinforcement work and provide a timetable at the start of the project. They should generally complete reinforcement work as soon as possible.

Respondents' views

Respondents raised no concerns about the revision of these principles, although several water companies were concerned about the requirement to complete reinforcement work within what they considered to be a relatively short timescale.

Our response

We note the comments of some water companies on the requirement to complete reinforcement as soon as possible. We explained our position on this in chapter 9 of our summary of the responses to the consultation on the

financial arrangements of self-lay agreements¹. Network reinforcement costs can only be recovered where they are necessary as a consequence of the newly requisitioned mains being installed. If water companies have identified requirements for reinforcement, the new development will, by implication, cause capacity problems in the near future. We have not changed our view on this.

2.3 Proposed new service level

Proposed service level 9a. Where the water company supplies meters for SLOs to fit, they must do so within five working days of receiving a request or within reasonable water company procurement timescales.

Respondent's views

Around a fifth of respondents commented specifically on this proposed level of service. Some considered that the timescale was insufficient to allow for the procurement and supply of new meters and suggested extending the timescale. Another company, however, said that it had no issues with the proposed service level provided it included the qualifier that the supply of meters may depend on water company procurement processes. One respondent was concerned that the service level could be misunderstood, especially in the context of the existing service level 9 relating to the water company fitting meters. Some water companies also asked for equivalent service levels that could be imposed on SLOs for tasks such as providing information.

Our response

We note the comments that the timescale is too short. However, the service level allows for flexibility if water companies' procurement procedures do not fit in with the timescale specified. For this reason, we have not revised the timescale. We have, however, revised the wording of this service level to clarify and to address respondents' concerns. We note the suggestions that the final guidance should include service levels for SLOs to follow. Water companies should discuss directly with SLOs what service levels they want them to meet when deciding their self-lay policies. We have revised the text of principle 23 to reflect this.

2.3.1 Comments on service levels

Respondents' views

Respondents also made a variety of comments about the existing service levels and the wording of section 3.13 relating to implementing service levels.

¹ 'Financial arrangements for self-lay and requisitioning agreements: Responses to the consultation' (May 2005).

Water companies considered that some of the timescales for levels of service were too tight. Other industry representatives were concerned that there was not a strong enough role for us in monitoring levels of service and suggested that we take a more proactive role in this task. One water company was also concerned that it is premature to propose compensation for failure to meet levels of service. However, respondents from other parts of the industry supported the idea of compensation.

Some water companies objected to the wording of section 3.13, which explains how levels of service can be included in agreements. They considered that this was confrontational.

Our response

We note the views that the timescales for the existing levels of service are too tight. This consultation did not cover the timescales for the existing levels of service as we consulted water companies on these in December 2003. These will be reviewed in the future so we have noted the comments and will carry them forward accordingly.

We note the comments about compensation and the view that we should become more involved in monitoring levels of service. Our self-lay group (SLG) is monitoring how water companies implement levels of service and we will ask it to consider what action may be necessary in light of these comments. The SLG includes representatives from water companies, developers and contractors.

We note also the concerns about the wording of the section on levels of service. As this section explains how the levels of service will operate, we have not deleted any text. However, we have revised the text to clarify the options available to an SLO if the water company does not follow the levels of service. We have also introduced a reference to water companies setting standards for SLOs to follow.

2.4 Deleted principles

We asked for views on deleting five principles from version 1.0 of the self-lay policy guidance, which we felt were no longer necessary as they were formalised by the new legislation. These were as follows:

Water companies should allow SLOs to install on-site mains.

Water companies should allow SLOs to install service pipes to reasonable water company specifications.

Water companies should take over responsibility for (adopt) water mains and service pipes laid by SLOs, provided they are satisfied that the assets meet the relevant standards and specifications.

Adoption should occur when the asset becomes live.

Water companies' quotations:

- **For laying mains themselves (requisitioned work); and**
- **To SLOs as part of a self-lay project should show separately the costs of any reinforcement work.**

Water companies' charges for reinforcement work should reflect the reasonable costs of doing the work appropriate only to the needs of the current development site. Where water companies wish to upsize to increase capacity for future demand, they must pay for this and recover the costs from subsequent developers.

Water companies should pay an asset value to SLOs when they take over responsibility for (adopt) self-laid mains.

Respondents' views

Only one respondent raised a concern saying that, in deleting the principle relating to water companies adopting water mains and service pipes, there is an underlying presumption that there will be no new entrant or competition in the market to own assets.

Our response

We note the concerns about opportunities for new entrants. The opportunities for new water supply licensees to enter the market are prescribed in the legislation. There is more information about the implementation of the new legislation relating to the water supply licensing regime on our website at www.ofwat.gov.uk.

2.5 Other issues

Respondents also raised comments about the general text and clarity of the self-lay guidance.

Respondents were generally concerned about the lack of clarity in some areas of the consultation, for example the definition of network reinforcement and off-site work. Several water companies also commented that there needed to be clear distinction between the main-laying and the service-laying agreements in some places. In addition, water companies felt the comments on the gas and electricity sectors were misleading.

Water companies were also concerned about the inference that SLOs should be allowed to make connections to existing mains but some respondents, representing contractors, considered that where network reinforcement does not affect customers, it should become contestable.

Some respondents, representing developers and contractors, said that the requirements for water companies to publish charges in their self-lay policies should be included in principle 8 and that the guidance needs to state when the cost breakdown template will be sent out.

Our responses

We have reviewed the guidance to make it clear which agreements we are referring to.

We have deleted the reference to competition in final connections in the gas and electricity sectors and we have revised the text to make the definitions of contestable works clear.

We have reinstated the reference to water companies including charges in their self-lay policies and clarified when the cost breakdown template should be sent out.

We have reviewed and revised the text relating to the distinctions between network reinforcement and off-site work. However, we are not revising the list of contestable and non-contestable work further at this stage because of the requirements on water companies to meet quality standards. However, in consultation with the SLG, we have revised the text to encourage water companies to consider allowing SLOs to carry out network reinforcement where this does not affect customers, although water companies retain the right to insist on carrying this work out.

Appendix 1: Consultation responses

Water companies

Bournemouth & West Hampshire Water
Bristol Water
Dee Valley Water
Dŵr Cymru
Mid Kent Water
Northumbrian Water
Portsmouth Water
Severn Trent Water
South East Water
South West Water
Southern Water
Tendring Hundred Water
United Utilities Water
Wessex Water
Yorkshire Water

Other stakeholders

Core Utilities
House Builders Federation
Water UK
Society of British Water and Waste Water Industries
WaterVoice
Mr I Singh Sidhu *

* This response is not in our library as the respondent wished it to remain confidential.

Appendix 2: List of principles

Please note: these principles include the revisions that have been made as a result of the consultation

Principle 1. Water companies should have clear and publicly available self-lay policies that reflect the principles below.

Principle 2. Water companies should have clear and reasonable criteria against which SLOs and their individual employees can be assessed for appropriate skills and qualifications.

Principle 3. SLOs should not be expected to meet either higher or lower standards than those contractors employed directly by water companies.

Principle 4. Water companies should require a SLO to be competent only in those activities the SLO proposes to carry out. Water companies can require SLOs to be competent in the basic elements of self-lay work, such as main and service laying, connections, understanding material selection and basic hydraulics.

Principle 5. Water companies should have clear and publicly available specifications on methods of working and on the type of materials to be used.

Principle 6. SLOs can procure materials themselves, if they comply with water companies' reasonable specifications and national standards.

Principle 7. Where water companies require materials, for example meters, to be standardised, they should be able to justify this in relation to operational and/or maintenance efficiency benefits.

Principle 8. Water companies' charges for non-contestable elements of self-lay work (such as inspection, design approval, sampling, etc) should reflect the reasonable costs of doing the work.

Principle 9. SLOs can install off-site mains in third party land and highways where SLOs have obtained the necessary street authority approvals and satisfied any other legal requirements.

Principle 10. SLOs can install extensions to the site and the new part of diversions where SLOs have the necessary permissions. Water companies can retain responsibility for these works only when they will affect existing customers and/or there are justifiable engineering reasons to do so.

Principle 11. Water companies can retain the right to carry out off-site work to reinforce the existing network.

Principle 12. Water companies must be able to justify the need for and cost of reinforcement work and provide a timetable at the start of the project. They should generally complete reinforcement work as soon as possible.

Principle 13. SLOs can design on-site systems in accordance with water companies' specifications. Water companies must approve designs before work starts.

Principle 14. Water companies can retain the right to design off-site systems.

Principle 15. Water companies should co-operate with SLOs in providing information on water networks, to facilitate SLOs in carrying out works.

Principle 16. Water companies should clearly explain to SLOs at the start of a self-lay project the level of supervision and inspection required and the associated charges.

Principle 17. SLOs can swab, pressure test and disinfect new mains under water company supervision..

Principle 18. Water companies can retain the right to undertake water sampling and quality testing.

Principle 19. Water companies can retain the right to connect new mains to existing mains and to connect service pipes directly to existing mains.

Principle 20. SLOs can connect service pipes to new mains that they have laid (after the water company has commissioned the mains), provided the appropriate standards are met and there are no risks to existing customers.

Principle 21. Where appropriate, water companies can control the timing of service pipe connections made by SLOs to mains that they have laid themselves.

Principle 22. Water companies should consider SLOs' requests to install water meters to water company specifications.

Principle 23. Water companies should publish clear and reasonable timescales for separate elements of main-laying work that they carry out when providing new water infrastructure. Their published timescales should follow the levels of service in appendix 2 and set out what SLOs must do in order for the water company to complete its part.