

May 2017

Trust in water

Aquamain (UK) Limited vs. Bristol Water

Appeal under section 51B of the Water Industry Act 1991

Charges required by Bristol Water in relation to self-lay works
for the Combination Club development, Lockleaze

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1. Introduction

A. The complaint

- 1.1 This decision concerns a dispute referred to the Water Services Regulation Authority (**Ofwat**) by Aquamain (UK) Limited (**Aquamain**) on 13 April 2015. The dispute relates to the “**non-physical connection charges**” Bristol Water Plc (**Bristol Water**) has sought to recover from Aquamain under a self-lay agreement entered into under section 51A of the Water Industry Act 1991 (**the Act**), dated 21 October 2015 (**the Agreement**). The Agreement relates to the adoption by Bristol Water of works undertaken by Aquamain (on behalf of a developer) at a development site at the Combination Club, in Lockleaze (**the Site**).
- 1.2 Bristol Water is seeking to recover from Aquamain a non-physical connection charge for administering each new service connection¹ at the Site to Bristol Water’s network. The level of that charge² is:
- £105 for first connections; and
 - £64 for second and subsequent connections in the same location as the first connection and made at the same time.
- 1.3 It is our understanding that, as per the Agreement, Bristol Water seeks to recover the above charges prior to each new service connection at the Site being made and at a time when its pre-connection inspection determines whether a particular connection will be a first connection or will instead be part of a ‘batch’ of subsequent connections.
- 1.4 Aquamain disputes the amounts that Bristol Water requires from it on the grounds that:
- a. It does not consider that it is legally permissible for Bristol Water to recover a charge for administering service connections (relying on section 146 of the Act);
 - b. It considers that even if Bristol Water is allowed to recover a charge for administering service connections, the amount of Bristol Water’s

¹ By a service connection we are referring to the connection of a property, through a communication pipe, to a water company’s network, through a water main.

² These are the charge levels at the time of the Agreement, but the Agreement states that the charge payable will be that in its Charges Scheme at the date of the self-laid works.

charge is too high and exceeds Aquamain's assessment of any administrative costs Bristol Water should be permitted to charge; and

- c. It considers that it is unreasonable for Bristol Water to require Aquamain to initially pay as though all connections are first connections and to hold onto any overpayment until any refunds are processed for those connections deemed to be subsequent connections³.

1.5 The parts of the Act relevant to the adoption of self-laid service pipes are sections 51A, 51B and 51CD to 51E of the Act⁴ (as detailed in [Chapter 3](#)). More specifically, section 51A of the Act provides for agreements to adopt self-laid service pipes ("adoption agreements" or "self-lay agreements"). Section 51B of the Act provides for an appeal to Ofwat on various grounds. Further details about these sections of the Act are set out in [Chapter 3](#).

1.6 When referring this dispute to Ofwat, Aquamain asked that we consider it under section 51B of the Act.

1.7 Our approach to determining this dispute has been to consider:

- a. whether Bristol Water is legally able to recover a non-physical connection charge;
- b. whether we have jurisdiction to make a decision under section 51B of the Act;
- c. the reasonableness of the amount of the non-physical connection charge sought by Bristol Water; and
- d. the reasonableness of the payment terms of the non-physical connection charge sought by Bristol Water.

1.8 Our resulting decision is based on the facts of this case and the specific terms offered to, and disputed by, Aquamain in the Agreement for the Site.

³ We note that Bristol Water confirmed that it no longer takes this approach and now charges for connections after they are made. This ensures Bristol Water can issue the correct charge.

⁴ Some of these provisions were amended or introduced into the Water Industry Act 1991 by the Water Act 2014. Not all of the Water Act 2014 changes have come into effect. This decision is based on the provisions in effect at the date of this final decision.

B. Purpose of this document

- 1.9 This is our final decision regarding this dispute. This document sets out our final decision following our consideration of the legal framework for self-lay agreements entered into under section 51A of the Act, as well as the evidence provided to Ofwat following our various requests for information and the representations provided by both parties.
- 1.10 Before making this final decision, we requested information from Bristol Water and Aquamain and from other water companies. We also issued two draft decisions. The first draft decision was issued on 26 August 2016 and the revised draft decision was issued on 17 March 2017.

C. Overview of our decision

- 1.11 Our decision is detailed in [chapter 4](#) of this document, but is summarised below.
- 1.12 In light of the legal framework of the Act, and the evidence we have gathered from the parties to the dispute and from other water companies, we determine that:
- a. We have jurisdiction (under section 51B (1)(b) of the Act) to consider an appeal with respect to the terms of the Agreement between Bristol Water and Aquamain entered into under section 51A of the Act. We therefore have jurisdiction to consider the reasonableness of the level, and payment terms, of the non-physical connection charge Bristol Water has sought from Aquamain.
 - b. It is reasonable for Bristol Water to offer a term in the Agreement requiring payment of a non-physical connection charge because we consider that these are costs Bristol Water incurs in administering self-laid service connections. However, the level and timing of that charge should be different from that originally proposed by Bristol Water as a term in the Agreement.
 - c. The amount of the non-physical connection charge should be:
 - £28.70 for the first connection at the Site;
 - £20.86 for any second and subsequent connections that are the first in a batch (phase) of connections; and
 - £15.69 for any remaining connections.

- d. Bristol Water's payment terms for recovery of these charges should require payment of the appropriate charge after connections are made to ensure that the correct charge is recovered.

2. Factual background

A. The Parties

Complainant

- 2.1. Aquamain works closely with developers in the South West and Midlands providing new water mains and service pipe installations on developer schemes.

Company

- 2.2. Bristol Water is appointed under the Act to provide water services to customers in south-west England. It serves a population of 1.1 million people in an area centred on Bristol. The Site is located within Bristol Water's area of appointment.

B. The Site

- 2.3. The Site is a development at the Combination Club, in Lockleaze comprising of 95 plots. It is our understanding that Aquamain is self-laying the water mains on the Site as well as the service pipes.
- 2.4. It is our understanding that, as of 6 July 2016, Aquamain had been invoiced for 4 plots, of which 2 plots were charged at the higher rate of £105 per plot and two plots were charged at the lower rate of £64 per plot.

C. The Agreement

- 2.5. Aquamain has been asked by the developer to provide the water infrastructure for the Site.
- 2.6. The Agreement was signed on 21 October 2015. Aquamain referred its appeal to us on 13 April 2015, ahead of signing the Agreement. It concluded that it had to sign the Agreement in order to meet its commercial contract with the developer but it did so without prejudice to its right to subsequently challenge the terms of the Agreement.

- 2.7. The Agreement says the following with regard to the non-physical connection charges:

‘The non-physical connection charges, as published by the Undertaker, which are applicable at the time when a Service Pipe connection is made as part of the self-lay works.’

- 2.8. Paragraph 4.2 of the Agreement sets out the following in relation to when the non-physical connection charge is payable:

‘The developer shall also pay to the Undertaker the non-physical connection charge and the Infrastructure Charges in respect of the Self-Lay Works as set out in the Costs Schedule when they become due, which notwithstanding the fact that indicative (i.e. current at the date of this Agreement) charges are set out in Schedule 3, shall be payable at the rate (as set out in the Charges Scheme or as otherwise published by the Undertaker) prevailing at the date of the relevant part of the Self-Lay works. The infrastructure charge for a property becomes due at the point when the Service Pipe supplying the property is connected to the Main. The Undertaker will not give authorisation to proceed with a Service Connection until the non-physical connection charge relating to that service connection has been paid.’

- 2.9. Schedule 3 of the Agreement sets out the non-physical connection charges containing the following table:

Table 1 – Schedule 3 from the Agreement

| Item | Description | Costs |
|------|--|---|
| 1. | Non-physical connection charge in respect of Service Pipe connections (SLT to fit meter) | First connection - £105 Second and subsequent connections in the same location and made at the same time - £64 |
| 2. | Water Infrastructure Charge | £353.89 per dwelling |

D. Request for a determination

- 2.10. On 13 April 2015, Aquamain referred its dispute with Bristol Water to Ofwat. Aquamain disputes the amounts being charged by Bristol Water on the grounds that:

- a. It does not consider that it is legally permissible for Bristol Water to recover a charge for administering service connections.
 - It considers that sections 51A to 51D of the Act do not make provision for any administrative charges associated with water mains or service pipes that have been self-laid; and
 - Water companies are not entitled to recover the costs of bringing new properties into supply (as per section 146 of the Act) so any costs incurred by the undertaker should not be borne by Self-Lay Organisations (**SLOs**).

- b. It considers that even if Bristol Water is allowed to recover a charge for administering service connections, the amount of Bristol Water's charge is too high and exceeds Aquamain's assessment of any administrative costs Bristol Water should be permitted to charge. In particular, Aquamain states that if Ofwat determines that certain administrative costs are recoverable (as they are for connections provided by a water company under section 45 of the Act⁵), it considers that many of the activities included in Ofwat's independent report of section 45 administration costs (**the Administration Costs report**⁶) are not relevant to self-laid works (as the SLO carries out those activities itself). Aquamain understands that it is this report that may have influenced Bristol Water when setting its non-physical connection charge.

- c. It considers that it is unreasonable for Bristol Water to require Aquamain to initially pay as though all connections are first connections and to hold onto any overpayment until any refunds are processed for those connections deemed to be subsequent connections.

2.11. On 22 April 2015, we formally opened a case for investigation.

⁵ Section 45 of the Act refers to water companies' duty to make connections for domestic purposes and it provides (i) that this is at the expense of the person requiring the connection and (ii) that the company may recover the expenses it reasonably incurs in carrying out any works, which are its duty to carry out, in order to make connections.

⁶ [Independent review of section 45 administration fee and overhead costs on behalf of the Water Services Regulation Authority \(Ofwat\)](#)

E. Our investigation

- 2.12. Since opening a case for investigation on 22 April 2015, we have carried out the following tasks ultimately leading to our final decision.
- 2.13. As is set out in the table below, to assist us in this decision, we have, over the course of the investigation, requested information from not only the parties (Aquamain and Bristol Water), but also all water companies.

Table 2 – Timeline of investigation

| Date | Action |
|----------------------------|---|
| 13/04/2015 | Aquamain referred its dispute with Bristol Water to Ofwat |
| 22/04/2015 | Ofwat formally opened a case for investigation |
| 17/06/2015 | Ofwat issued its first request for information ('RFI') to Bristol Water |
| 02/07/2015 | Bristol Water responded to Ofwat's first RFI issued in June 2015 |
| 19/08/2015 | Ofwat issued its second RFI to Bristol Water |
| 21/09/2015 | Bristol Water responded to the second RFI issued in August 2015 |
| 22/12/2015 | Ofwat issued an RFI to all companies |
| 18/01/2016 – 26/01/2016 | Companies responded to the RFI issued in December 2015 |
| 20/05/2016 | Ofwat emailed Aquamain with a request for further information |
| 20/06/2016 | Ofwat emailed Bristol Water with a request for further information |
| 24/06/2016 | Bristol Water responded to the request for further information issued on 20 June 2016 |
| 06/07/2016 | Aquamain responded to the request for further information issued on 20 May 2016 |
| 26/08/2016 | Ofwat issued its initial draft decision |
| 12/09/2016 | Aquamain provided its representations on our draft decision |
| 16/09/2016 | Bristol Water provided its representations on our draft decision |

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| 22/11/2016 | Ofwat issued its third RFI to Bristol Water |
| 07/12/2016 | Bristol Water responded to the third RFI issued in November 2016 |
| 02/02/2017 | Bristol Water email to Ofwat providing confirmation on a number of points |
| 17/03/2017 | Ofwat issued its revised draft decision |
| 20/03/2017 | Aquamain provided its representations on our revised draft decision |
| 07/04/2017 | Bristol Water provided its representations on our revised draft decision |
| 15/05/2017 | Ofwat issued its final decision |

3. The legal framework

3.1. This section outlines the key legislative provisions relevant to this case.

A. Self-lay adoption agreements (section 51A of the Act)

- 3.2. Section 51A(1) of the Act provides that a water undertaker may agree with any person constructing or proposing to construct a water main or a service pipe for domestic purposes that, if the relevant infrastructure is constructed in accordance with the terms of its self-lay adoption agreement, the undertaker will, following completion of the work, at some specified date or event, declare the water main and/or service pipe be vested in them (otherwise termed as “adopted”).
- 3.3. Under section 51A(3) of the Act, a person proposing to construct a water main or a service pipe may make an application in writing to a water undertaker requesting them to enter into an adoption agreement under section 51A of the Act. This application must be accompanied by such information the water undertaker may reasonably require.
- 3.4. Section 51A(6) of the Act specifies that in deciding whether, or on what terms, to grant an application for an adoption agreement, the water undertaker shall have regard in particular to any effect or potential effect on the quality of water supplies and to any increased danger to life or health that it considers may result.
- 3.5. Section 51A(8) of the Act provides non-exhaustive examples of the terms which may be found in an adoption agreement (made under section 51A(1) of the Act). These include, but are not limited to, terms for the connection of the new service pipe.

B. Disputes regarding self-lay agreements

- 3.6. Section 51B of the Act provides that, subject to specific exemptions, a person constructing or proposing to construct a water main or service pipe may appeal to Ofwat where the water undertaker:
- a. has refused an application under section 51A of the Act [for a self-lay adoption agreement];

- b. has offered to grant such an application on terms to which that person objects; or
 - c. has failed, before the end of two months from the making of such an application, either to refuse the application or to give notice to the applicant of the terms on which it is prepared to grant the application.
- 3.7. Under section 51B(2) of the Act, on hearing an appeal under this section, Ofwat may:
- a. uphold the refusal of the water undertaker to grant the application or to modify the terms offered; or
 - b. on behalf of the water undertaker, refuse the application or enter into any agreement into which the water undertaker might have entered on the application.
- 3.8. Under section 51B(3) of the Act, where Ofwat makes an agreement under sub-paragraph (b) above on behalf of a water undertaker, it may do so on such terms as it considers reasonable or, as the case may be, on the terms offered by the water undertaker subject to such modification as it considers appropriate for ensuring that the terms of the agreement are reasonable. An agreement entered into on behalf of a water undertaker under this section shall be deemed, for the purposes of the Act, to have been entered into under section 51A of the Act.
- 3.9. Section 51B(5) of the Act states that in deciding on an appeal Ofwat may include such incidental, supplemental and consequential provision (including provision requiring either party to pay a sum in respect of the costs or expenses incurred by Ofwat) as it thinks fit, and any such provision as to costs or expenses shall be enforceable as if it were a judgement of a county court.

C. Charging for first connections

- 3.10. Section 45 of the Act gives an owner or occupier of premises the right to connect to the undertaker's main if the owner or occupier requires a supply for water for domestic purposes. The connection is at the expense of the person requiring the connection. If the service pipes are self-laid, the connection will be subject to the terms of the adoption agreement entered into under section 51A of the Act.

- 3.11. Section 146 of the Act, read together with condition C of an undertaker's conditions of appointment, provides that the only charge an undertaker may make for becoming the water supplier of premises being connected for the first time is a standard infrastructure charge, the amount of which is fixed under condition C.

4. Our final decision

- 4.1. We set out our final decision in this chapter. It has been informed by the legal framework for self-lay agreements, as set out in [chapter 3](#), and the evidence provided to us by both the parties to this investigation, Aquamain and Bristol Water, and also all water companies. It has also been informed by the representations we received from the parties on the initial draft decision and the revised draft decision.
- 4.2. Our decision focuses on:
- a. whether Bristol Water is legally able to recover a non-physical connection charge;
 - b. whether we have jurisdiction to make a decision under section 51B of the Act;
 - c. the reasonableness of the amount of the non-physical connection charge sought by Bristol Water; and
 - d. the reasonableness of the payment terms of the non-physical connection charge sought by Bristol Water.

A. Is Bristol Water able to charge Aquamain a non-physical connection charge for connections to its network?

Aquamain's view

- 4.3. On 13 April 2015, Aquamain set out that it considers that the Act does not permit Bristol Water to charge a non-physical connection charge for administering self-laid service connections to its network. Aquamain considers that whereas sections 51A – 51D of the Act permit provision for charges in relation to self-laid mains, they do not make provision for any charges for the connection of self-laid service pipes.
- 4.4. Aquamain also considers that water companies are not entitled to recover the costs of bringing new properties into supply (as per section 146 of the Act) and, therefore, that Bristol Water should recover its costs via 'general charges' rather than from SLOs. We assume the term 'general charges' refers to the revenue companies receive from the generality of their customers, including in respect of infrastructure charges.

Bristol Water's view

- 4.5. On 2 July 2015, Bristol Water set out that it considers that it can charge Aquamain a non-physical connection charge for new self-laid service connections to its network. It considers it can do so via an agreement under section 51A of the Act.
- 4.6. Bristol Water states that, as for any other connection to its network, it does not feel it is right for its existing customers to subsidise new developments and new connections through water bills. It considers that this would be the case if it was not able to recover this charge from Aquamain. Furthermore, Bristol Water states that it is not aware of any arguments setting out why it would be appropriate for the generality of its customer base to pay for the costs of new connections rather than the developer that benefits directly from the new connection.

Our decision

- 4.7. This dispute relates to whether Bristol Water is able to recover a "non-physical connection charge" from Aquamain via a self-lay agreement entered into under section 51A of the Act. As per the legal framework set out in [chapter 3](#),

section 51A of the Act provides for the parties to an agreement entered into under 51A of the Act, to agree wider terms as appropriate. Section 51A of the Act provides non exhaustive examples of the terms which may be included in such an agreement, one such example concerns a term for the connection of the new service pipe to the undertaker's existing supply system.

4.8. We determine that Bristol Water can recover a non-physical connection charge, by means of a term within the Agreement. Although the list of terms set out in section 51A of the Act does not specify charges that may be charged by the undertaker to the developer or SLO, we consider that there is nothing in section 51A of the Act prohibiting such a charge from being agreed provided that charge is reasonable.

4.9. Section 45(1A) of the Act also sets out that:

'any such service pipe which is to vest in the undertaker by virtue of an agreement under section 51A of the Act below shall be connected to one of the undertaker's water mains subject to and in accordance with the terms of that agreement.'

4.10. With regard to Aquamain's argument that this charge is not permissible given section 146(1) of the Act, which provides that an undertaker is not entitled to recover an initial charge for it becoming "the person who provides a supply of water for domestic purposes to any premises", we note that section 146(1) of the Act is subject to section 146(2) of the Act which allows a charge for a connection, where the connection is for a domestic supply of water to premises that have never at any previous time been connected to such a supply. This is referred to as an 'infrastructure charge' and the amount that can be charged under section 146(2) is fixed by reference to condition C of an undertaker's conditions of appointment.

4.11. We also do not consider that the prohibition in section 146(1) of the Act means that an undertaker may not charge for actual charges incurred, which includes reasonable administrative charges. As such, we consider that there is nothing in section 146 of the Act which prohibits an undertaker from charging a developer or a SLO the costs it is likely to incur in administering new self-laid service connections.

B. Does Ofwat have jurisdiction to make a decision?

Aquamain's view

- 4.12. On 13 April 2015, Aquamain set out that it considers that Ofwat has jurisdiction to consider this dispute under section 51B of the Act.

Our decision

- 4.13. Bristol Water has sought to recover the non-physical connection charge by means of a term in the Agreement entered into under section 51A of the Act. As set out in [chapter 3](#), where parties are unable to agree the terms on which a water company offers to enter a self-lay agreement under section 51A of the Act, the matter can be referred to Ofwat for appeal.
- 4.14. In this case, Aquamain referred the matter to us before signing the Agreement, which it subsequently had to sign in order to progress the works as contracted for its developer customer. We are satisfied that both parties understood this term to be in dispute and subject to appeal, and that therefore we have jurisdiction to decide on the appeal.

C. Is the amount of the non-physical connection charge reasonable?

Context

The administration costs report

- 4.15. In 2013, we commissioned an independent review of the overhead costs and administration fees that water companies charge for making a new water supply connection for domestic purposes under section 45 of the Act. In April 2014, we published a summary of the report on our [website](#).
- 4.16. The report refers to three different costs associated with new water supply connections, which are defined below:
- **Direct on-costs** – the administrative, financial and technical activities which are specifically related to the provision of new supplies;
 - **Company on-costs** – those charges which seek to recover the high level costs of operating a water company but are not attributable to a specific job; and
 - **Construction costs** – any activities associated with construction.
- 4.17. The report also sets out the tasks involved in the administration of a new water supply connection and these tasks, of which there are 15, are listed in Table 1 in [Annex 1](#).
- 4.18. The report recommended to Ofwat that the overall direct on-cost for a new connection under section 45 of the Act should be £105.30. It also recommended that when a developer requests two or more connections at the same location the direct on-costs should be £64.29 to reflect savings that may be attributed to tasks that are done once for the purposes of several connections, e.g. reduced travel time and costs.
- 4.19. The purpose of the review, and subsequent report, was to:
- a. Establish the overheads and administration fees that companies charge when undertaking a new connection; and
 - b. Set a benchmark for what constitutes a reasonable charge.

- 4.20. We use the figures from the report as a benchmark to inform what we consider reasonable costs to be in particular cases. We consider, however, that whilst the report provides a benchmark for what might constitute a reasonable charge, there may be instances where it would be reasonable for a company to charge either more or less than that amount depending on the circumstances.

Assurance terms in self-lay agreements

- 4.21. In April 2016, we published an information notice on '[Assurance terms in self-lay agreements entered into under section 51A of the Act](#)' (**IN1606**). In this document we set out our general expectations about the assurance terms a water company may seek in a self-lay agreement entered into under section 51A of the Act.
- 4.22. We set out in the notice that we would not generally expect water companies to be offering terms that:
- a. Require SLOs to undergo 'control point' supervision and inspection visits that would require water company approval before the SLO could progress its works; or
 - b. Enable a water company to hold a defects liability retention period.
- 4.23. We set out that we recognise that a water company may sometimes consider that it needs to inspect an SLO's work but we would expect this to be the exception rather than the norm.

Aquamain's view

- 4.24. On 13 April 2015, Aquamain set out that it considers that the non-physical connection charge is unreasonable and should not be charged.
- 4.25. Aquamain considers that should we determine that certain administrative costs are recoverable (as they are for connections provided by a water company under section 45 of the Act), it considers that many of the activities included in the Administration Costs report are not relevant to self-lay works (as the SLO carries out those activities itself). Aquamain understands that it is this report that may have influenced Bristol Water when setting its non-physical connection charge.

- 4.26. On 12 September 2016, Aquamain provided its representations on our draft decision. Aquamain considered that a much lower figure was merited and it contended that in an attempt to justify overhead costs which are higher than Ofwat would permit, when Bristol Water makes connections it inflates the tasks it performs, and included activities which fall outside the Agreement.
- 4.27. On 20 March 2017, Aquamain provided its representations on our revised draft decision. In summary, Aquamain agreed with the conclusions set out in our revised draft decision and had no further comments.

Bristol Water's view

- 4.28. Bristol Water considers that the non-physical connection charge is reasonable.
- 4.29. In its letter of 2 July 2015, Bristol Water explained that its non-physical connection charge covers the elements of work more usually referred to as "Administration" and "Overheads" and covers only direct on-costs. Bristol Water stated the charge does not include any company on-costs. It states that these direct on-costs include the costs of the following activities:
- issuing, receiving and processing an application;
 - technical assessments (including site visits on most occasions);
 - calculation of the costs;
 - subsequent billing;
 - collection of the charges;
 - monitoring and inspection of works;
 - recording of work done on Geographic Information System (**GIS**); and
 - recording meter and bill payer details and passing these to Bristol Water's billing company.
- 4.30. In its letter of 2 July 2015, Bristol Water set out how it went through three processes to arrive at the level of the non-physical connection charge that forms part of the Agreement, as set out below.

A. Calculating the total administration costs that Bristol Water considers it actually incurs in processing new connections in order to establish a cost per connection.

Bristol Water explained that in January 2015, prior to producing its Charges Scheme for 2015/16, it carried out an exercise to determine the total cost which it incurs in carrying out all of the above elements (see paragraph 4.29) combined for service connections provided under section 45 of the Act. This exercise concluded that, in order to recover its costs, Bristol Water should include approximately £157 for administration and overheads within its standard connection charges for first connections, and approximately £96 for second and subsequent connections made at the same time and in the same location.

B. Calculating the non-physical connection charge for new connections, using the suggested administration charge set out in the Administration Costs report as a starting point.

Bristol Water compared the figures it established in step (a) above with the charges in the Administration Costs report commissioned by Ofwat. As a result, Bristol Water decided to reduce the amount it would seek to recover for connections under section 45 of the Act within its standard charges. Bristol Water stated that, as the charges proposed as 'reasonable' by the Administration Costs report were determined by taking an average of water companies' charges submitted during the study, and generally those charges were within +/- 10% of the figure suggested by the Administration Costs report, and allowing for an element of inflation, it was reasonable to increase the figures produced by the Administration Costs report by 10% in an attempt to recover more of its actual costs and not impose too great a burden of new connections on its existing customers.

As a result of this thinking, for administration and overheads Bristol Water included a figure of £115.83 for 'first and single connections', and £70.72 for 'second and subsequent connections in the same trench', within its standard connection charges in its Charges Scheme for connections under section 45 of the Act.

C. Calculating the non-physical connection charge for self-laid new connections, using the charge for standard new connections from step (b) as a starting point.

Bristol Water stated that, after step (b) it then considered the amount of work required to process an application for a self-laid service connection and estimated that it amounted to over 90% of that required to process a connection under section 45 of the Act. Therefore, it reduced the charge by 9% and then rounded down the figures to the nearest pound. This produced its published charge of £105.

Bristol Water stated that it did not carry out any form of separate costing exercise for second and subsequent self-laid service connections in the same location and at the same time, but simply applied the same logic as the charge for the first connection. Thus, Bristol Water took the Administration Costs report's suggested figure, £64.29 plus 10% to establish its administration charge for connections under section 45 of the Act, and then reduced it in the same proportion as for the first connection, to £64.35, and rounded down to the nearest pound. This produced its published charge of £64.00.

- 4.31. As shown above, Bristol Water believes it is not fully recovering (from developers and/or SLOs) its costs of administering any service connections, whether they are provided under section 45 of the Act or are self-laid, but that it is treating both scenarios equitably.
- 4.32. Following a request from us, in a response dated 18 September 2015, Bristol Water set out the specific tasks that it undertakes in the administration of a self-laid new connection. In addition to the 15 tasks identified in the Administration Costs report (see Table 1, [Annex 1](#)), Bristol Water identified a further seven tasks that it undertakes when administering self-laid connections. These 22 tasks are highlighted in Table 2 in [Annex 1](#).
- 4.33. In setting out the tasks that it undertakes, Bristol Water detailed the differences in the tasks it undertakes for a number of different scenarios, recognising that some tasks are not required for each connection:
- **Self-laid service connections** – this is where an SLO is providing a single new water connection from a property (either domestic or non-domestic) to a company's network;
 - **Self-laid mains and service connections** – this is where an SLO is providing a combination of new water connection(s) from a property (either domestic or non-domestic) and the construction of a new water

main(s), both of which will connect to a company's network to enable a site to receive water; and

- **Multiple connections** – this is where an SLO is providing more than one single new water connection from a property (either domestic or non-domestic) to a company's network, with the properties to be connected at either the same location and time or at a different location and time.

4.34. In addition to identifying the tasks it undertakes, Bristol Water estimated the costs it would attribute to each administration task. These are set out in Table 3 in [Annex 1](#). On this basis, Bristol Water estimated that the tasks required for administering a single self-laid service connection would total £130.91. Bristol Water has noted that as this is higher than the non-physical connection charge it would not provide a detailed explanation of this figure. We also note that this figure is different from Bristol Water's charges, and actual costs incurred, for new service connections under section 45 of the Act.

4.35. On 16 September 2016, Bristol Water provided its representations on our draft decision. In summary, it agreed with the conclusions sets out in our draft decision and had no further comments to make.

4.36. On 7 April 2017, Bristol Water provided its representations on our revised draft decision. In summary it set out that:

- It agreed with [IN1606](#) but considered that sites are often the exception rather than the norm; and
- It considered that conducting a **site survey (step 6)** and the **external water regulations check (step 17)** are collectively the principle role of its Network Site Agents. It considers these activities facilitate more efficient and quicker connections and enable the Network Site Agent to perform a trouble shooting function on sites where there are potential difficulties/clashes with other utilities preventing connections. It considers these steps should be funded through new development and not existing customers.

Our decision

4.37. The Administration Costs report is focused on new connections under section 45 of the Act as opposed to self-laid new connections governed by section

51A of the Act. It does not, therefore, have a direct read across to the tasks and costs involved in administering self-laid service connections.

- 4.38. For us to establish the level of non-physical connection charge that we consider reasonable for Bristol Water to offer as a term of the Agreement, we have considered the reasonableness of each of the activities Bristol Water has stated that it undertakes in administering a self-laid service connection. We took the tasks set out in the Administration Costs report as the starting point for the tasks involved, but recognised that there may be tasks water companies undertake for self-laid service connections that they do not undertake for connections under section 45 of the Act and vice-versa.
- 4.39. We have also taken account our Information Notice on assurance terms in self-lay agreements, as set out in paragraph 4.21.
- 4.40. To inform our thinking on the reasonableness of each activity, we issued a request for information to all water companies in December 2015. The request for information focused on:
- a. Understanding the tasks that companies undertake in relation to administering self-laid service connections - [Annex 2](#) sets out a summary of the proportion of water companies that state they undertake each task associated with a self-laid service connection; and
 - b. Understanding which companies charge an associated administration charge and, if they do, what the level of that charge is - Approximately 55% of companies recover an administration charge for self-laid service connections and, of that 55%, the amount of the charge ranged from £13 through to £166 and above.
- 4.41. Below we consider each step involved in administering a self-laid connection (as listed in Table 2 in [Annex 1](#)) and assess which steps and associated costs we consider to be reasonable. We have split the steps into the following phases:
- **Pre-connection** – steps 1-7;
 - **Finance** – steps 8-11;
 - **Connection** – steps 12-18; and
 - **Post-connection** – steps 19-22.

Pre-connection

- 4.42. This phase starts with the water company issuing and then reviewing an application form for a new connection and/or main and ends with the water company commissioning a site survey and design for the associated development. Bristol Water has also put forward two additional tasks that it carries out, that no other company carries out. These additional tasks are:
- ‘Water Regulations Administrator’ records an application in the ‘Water Regulations Application’ (**WRA**) database (step 4) and sends a letter to the relevant developer either granting approval for the connection or requesting further information; and
 - A new supplies administrator contacts an SLO to arrange a pre-start meeting and raises a notification/order in SAP⁷ and makes a fixed appointment in the work scheduling system (step 5).
- 4.43. This phase also includes undertaking a network study (step 3) but this has already been identified by the Administration Costs report as being a step that is part of construction costs (see paragraph 4.16) so this step is excluded from the administration costs. To this end, Bristol Water has not attributed a cost for this task.
- 4.44. Furthermore, Bristol Water has set out that it does not carry out step 1 (issue application form) nor step 7 (design) and, as such, we do not consider Bristol Water should be recovering any costs for these tasks.

What did we say in our draft decision?

- 4.45. We set out that we considered Bristol Water could recover its costs for steps 2, 4, 5 and 6 as it had set out it carried out these tasks for self-laid new connections. However, we also set out that we would only expect Bristol Water to carry out these tasks for a site once and, therefore, Bristol Water should only recover these costs against the first connection for the Site and not for any remaining connections.

What did Bristol Water say in its representations on the draft decision?

- 4.46. Bristol Water did not make any specific comments.

What did Aquamain say in its representations on the draft decision?

⁷ Software to manage business operations and customer relations

- 4.47. Aquamain set out that with sites such as the Site, all the design and assessment work is done as part of the mains application and individual service connections are, once the main laying has been completed, called off, usually in clusters, to suit the developers build programme. So it considers that for on-site connections, there is no application stage or need for a site survey to be arranged.
- 4.48. Aquamain set out that it designs each service connection for the Site (to Bristol Water's specifications) and it notifies Bristol Water in advance when each cluster of plots is being made ready for a water connection. Furthermore, it set out that it also does the call-off of materials, and detailed work specification. As such, Aquamain considers that none of the technical activities which arise with one-off connections are performed with self-lay on-site connections.
- 4.49. The only activity that Aquamain considers arises with self-lay connections is creating a work tracker reference and entering this on the system the water company uses. It says this arises on all connections and (as the nature of the work is broadly similar) the rate should be £1.74 per plot.
- 4.50. Aquamain also sought evidence, for the Site, that Bristol Water:
- a. Reviewed connection specific application forms (Aquamain notes it did not submit any);
 - b. Arranged a site meeting (according to the costs breakdown Aquamain considers this was never held); and,
 - c. Attended the Site to carry out a 'service specific' site survey.

What did Bristol Water say in response to the third RFI?

- 4.51. In its response to the third RFI, Bristol Water clarified that it carried out steps 2, 4, 5 and 6. It also clarified that the application form for the Site was reviewed by two teams: the Development Engineers reviewed the mains element of the application form and the New Supplies team reviewed the connections element of the application form.
- 4.52. In an email on 1 February 2017, Bristol Water also clarified:
- For **Step 4**, the WRA is referring to an internal database that is operated by its Water Regulations team and this task involves a Site being registered on the WRA database from the outset and then when

connections at the Site are completed they can be recorded on the WRA database. Normally a one-off letter is sent to developers setting out this process but Bristol Water did not provide any evidence of this letter for the Site;

- For **Step 5**, a meeting on 5 November 2015 was the kick-off meeting for the Site and this is what Bristol Water considers constitutes the pre-start meeting. There were then multiple further meetings at the Site as it developed and this is evidenced in the SAP extract for the Site provided in response to the third RFI; and
- For **Step 6**, there was no single site survey at the Site; rather all of the visits carried out at the Site involved an element of a site survey.

What did we say in our revised decision?

- 4.53. With regards to **reviewing an application form (step 2)**, Aquamain has set out that it only submitted one application form for the Site, which covered the mains and connections, and, as such, it considers that Bristol Water should only be reviewing one application form. Bristol Water has confirmed that there was only one application form for the Site but it also set out that the application form was reviewed by two teams in Bristol Water.
- 4.54. We consider that it is reasonable for Bristol Water to have two teams reviewing the different aspects of the application form, as it covered both the mains aspect of the Site and the connections and they are processed by different teams within Bristol Water. As per our draft decision, however, this should only be charged for first connection for the Site and not for any remaining connections.
- 4.55. With regards to **Water Regulations record site in WRA (step 4)**, Bristol Water has confirmed that a 'Water Regulations Administrator' did record the Site in its 'Water Regulations Application' (**WRA**) database⁸. Aquamain considers that this is an activity that Bristol Water chooses to do but is not covered by the Agreement so the cost should not be passed on to Aquamain. Aquamain also notes, however, that Bristol Water needs to record data confirming that private pipework has been certified as complying with the necessary regulations.
- 4.56. We consider that, as per section 4 part A of this decision, Bristol Water can charge for this task as part of the Agreement. Furthermore, as noted by

⁸ Bristol Water has set out that the Site was registered on the WRA (ref. WRA 29924)

Aquamain, we also consider that it is reasonable for Bristol Water to record internally when a connection is compliant with the necessary regulations. Taking this into account, we consider it is reasonable for Bristol Water to recover its costs for this task.

- 4.57. With regards to arranging a **pre-start meeting (step 5)**, Bristol Water has set out that a meeting on 5 November 2015 was the pre-start meeting for the Site but that there have been multiple further similar meetings at the Site. Our understanding of the evidence provided by Bristol Water is that the meetings at the Site were predominantly with the intention of inspecting the connections at the Site. Taking into account what we have already set out on assurance terms above (at paragraphs 4.21 to 4.23 of this decision) we do not consider that Bristol Water has sufficiently demonstrated that the Site represented the exception rather than the norm. Furthermore, as per paragraph 4.42, this is a task only Bristol Water does. We do not, therefore, consider it reasonable for Bristol Water to recover its costs for this task.
- 4.58. With regards to conducting a **site survey (step 6)**, the Administration Costs report sets out that this is a key step in gathering information to build up a quotation for a site, however, Bristol Water has confirmed this is a task that is carried out on multiple occasions to allow it to inspect a Site to ensure the connections can be made. Taking into account what we have already set out on assurance terms above (at paragraphs 4.21 to 4.23 of this decision), we do not consider that Bristol Water has sufficiently demonstrated that the Site represented the exception rather than the norm. Furthermore, less than 40% of other companies carry out this task. We do not, therefore, consider that Bristol Water should be recovering its costs for this task.

What did Aquamain say in response to our revised decision?

- 4.59. Aquamain did not make any specific comments.

What did Bristol Water say in response to our revised decision?

- 4.60. With regards to arranging a **pre-start meeting (step 5)**, Bristol Water clarified that this step is for its administration team to schedule visits usually at the request of the SLO.
- 4.61. With regards to conducting a **site survey (step 6)**, Bristol Water clarified that this step is for its Network Site Agent to attend site meetings to discuss connections and provide feedback on layouts. Bristol Water said it is common for an SLO to request attendance on sites to discuss service connection issues.

What is our final decision?

4.62. We do not consider that Bristol Water has provided any additional reasoning or evidence that would result in us changing our conclusions. As such, we are maintaining the position set out in our revised draft decision.

4.63. The table below sets out a summary of the costs we consider reasonable for this phase.

Table 3 – Determined costs for Phase 1

| Task | Bristol Water cost | First connection | | Remaining connections | |
|---|--------------------|----------------------------------|-----------------|----------------------------------|-----------------|
| | | Does Bristol Water do this task? | Determined cost | Does Bristol Water do this task? | Determined cost |
| 1. Issue application form | £3.71 | N | £0 | N | £0 |
| 2. Review application form | £4.36 | Y | £4.36 | N | £0 |
| 3. Network study | N/A | | | | |
| 4. Water Regulations record site in WRA | £3.48 | Y | £3.48 | N | £0 |
| 5. Arrange pre-start meeting | £3.71 | Y | £0 | N | £0 |
| 6. Site survey | £48.75 | Y | £0 | Y | £0 |
| 7. Design | £0 | Y | £0 | Y | £0 |
| Total | £64.01 | £7.84 | | £0 | |

Finance

4.64. This phase starts with issuing a quotation, and an invoice, to a customer (i.e. the developer or SLO) and ends with receiving, and subsequently processing, the payment.

What did we say in our draft decision?

4.65. We set out that we considered that the costs Bristol Water incurs for these tasks should be recovered for self-laid service connections but only in respect of the first connection for the Site and not for any remaining connections.

What did Bristol Water say in its representations on the draft decision?

4.66. Bristol Water did not provide any specific comments.

What did Aquamain say in its representations on the draft decision?

4.67. Aquamain said no quotation is issued by Bristol Water but it does issue an invoice and has to process the subsequent payments. It considers this is done on the 'lead' connection in each cluster (batch) so the rate should be £1.74 for each invoice and £1.74 for the payment processing on each invoice.

What did Bristol Water say in response to the third RFI?

4.68. In its response to the third RFI, Bristol Water said that it carried out all the tasks associated with this phase. With regards to **issuing a quotation (step 8)**, it provided an email which it sent to Aquamain on 14 September 2015 setting out:

- a. the maximum non-physical connection charge for the Site; and
- b. the infrastructure charge for the Site.

4.69. In an email on 1 February 2017, Bristol Water clarified that the only quotation for the Site, for the self-laid new connections, is the quotation it attached to its response to the third RFI. That is, the maximum non-physical connection charge and the infrastructure charge for the Site.

What did we say in our revised decision?

4.70. With regards to **issuing a quotation (step 8)**, according to the Administration Costs report, the quotation issued in this task will typically cover the cost of physically making a new connection. In this case, however, the quotation covered just the infrastructure charge and the administration charge associated with the Site. Furthermore, the benefit of the quotation for the Site was significantly reduced as the non-physical connection charge was set out clearly in the Agreement so Aquamain will have known the maximum charge it could expect to receive from the outset and prior to receiving the quotation. Taking this into account, we do not consider that Bristol Water should be recovering any costs for this task.

4.71. With regards to **issuing an invoice (step 9)**, **receiving payment (step 10)** and **processing payment (step 11)**, as per our draft decision, we consider that the costs Bristol Water incurs for these tasks should be recovered for self-laid

service connections but only in respect of the first connection for the Site and not for any remaining connections.

What did Aquamain say in response to our revised decision?

4.72. Aquamain did not make any specific comments.

What did Bristol Water say in response to our revised decision?

4.73. With regards to **issuing a quotation (step 8)**, Bristol Water set out that it agreed that the quotation should be covered in the Agreement and that no further reminder should be required.

What is our final decision?

4.74. We do not consider that Bristol Water has provided any additional reasoning or evidence that would result in us changing our conclusions. As such, we are maintaining the position set out in our revised draft decision.

4.75. The table below sets out a summary of the costs we consider reasonable for this phase.

Table 4 – Determined costs for Phase 2

| Task | Bristol Water cost | First connection | | Remaining connections | |
|-------------------------------|--------------------|----------------------------------|-----------------|----------------------------------|-----------------|
| | | Does Bristol Water do this task? | Determined cost | Does Bristol Water do this task? | Determined cost |
| 8. Issue Quotation | £10.90 | Y | £0 | N | £0 |
| 9. Issue Invoice | £1.74 | Y | £1.74 | N | £0 |
| 10. Receive payment | £1.74 | Y | £1.74 | N | £0 |
| 11. Process payment (finance) | £1.69 | Y | £1.69 | N | £0 |
| Total | £16.07 | | £5.17 | | £0 |

Connection

- 4.76. This phase starts with a GIS technician updating the GIS and proceeds through to installing the connection.
- 4.77. **Issuing a works order to a contractor (step 14)** is a step Bristol Water has indicated it does not carry out for self-laid service connections.
- 4.78. A **GIS technician updating the GIS (step 12)** is a task Bristol Water does which no other company does. Bristol Water says this involves updating the GIS to reflect the creation of a service pipe and stop tap and populating records with appropriate data such as material, size, date laid and meter body number.
- 4.79. Bristol Water also says that it carries out an **internal and an external water regulations check (steps 16 and 17)** and that these are performed by two different teams within Bristol Water. Bristol Water's Network Site Agent inspects works below the ground (external), up to the point of entry into the building to be connected, whereas the Water Regulation Officer inspects any works above ground (internal) including first fix and final plumbing inspections. The Administration Costs report considers this as one task, however, Bristol Water breaks this task into an internal and external check.
- 4.80. **Installing the connection (step 18)** and **raising relevant requests or notices (step 15)** have already been identified by the Administration Costs report as being steps that are part of construction costs (see paragraph 4.16) so these steps are excluded from the administration costs. To this end, Bristol Water has not attributed any costs for these tasks.

What did we say in our draft decision?

- 4.81. We set out that we consider that steps 12, 16 and 17 are applicable whether for the first connection for the Site or for subsequent connections and that Bristol Water can recover its costs for these tasks.
- 4.82. We also set out that for **scheduling installations (step 13)**, Bristol Water should be recovering its costs for first self-laid service connections but not for subsequent connections.

What did Bristol Water say in its representations on the draft decision?

- 4.83. Bristol Water did not provide any specific comments.

What did Aquamain say in its representations on the draft decision?

- 4.84. Aquamain noted that the only task Bristol Water needs to do is record data confirming that the private pipework has been certified as complying with the Regulations. This arises on all connections and the rate should be £1.74 per plot. It considers all other activities related to the making of the physical connection are done by Aquamain.
- 4.85. Aquamain sets out that Bristol Water does not provide fully specified mains drawings which show the location of each connection (and is regularly told by Bristol Water that it does not record such information) and, instead, it agrees with the developer where each connection is going and plans the work accordingly. As such, without any information from Aquamain, it sets out that it is not sure what a GIS technician can mark on a drawing and it has no evidence that a GIS update is carried out.
- 4.86. Even if this activity is carried out, Aquamain notes it would expect multiple plots to be processed faster than the 6 per hour that the rate being charged indicates with a reasonable rate to be £7.27 per batch (i.e. on the lead plot of each call-off cluster).
- 4.87. Aquamain also considers the type of information being said to be recorded (such as material, size, date laid and meter body number) as more of a record update which would duplicate costs said to be occurring in Step 20 (update records).

What did Bristol Water say in its response to the third RFI?

- 4.88. In its response to the third RFI, Bristol Water clarified that it carried out steps 12, 13 and 17 but it did not carry out the Internal Water Regulations Check which it noted that it has no internal inspections to date for the Site. It did note that this was because the Site is not yet complete. Bristol Water also set out that its Water Regulations team aims to inspect an average of 10% of plots.
- 4.89. With regards to a **GIS technician updating the GIS (step 12)**, Bristol Water clarified that this task involves the developer sending it specific details of the connections which Bristol Water then uses to update its GIS database.
- 4.90. With regards to **scheduling installations (step 13)**, Bristol Water clarified that this task involves the New Supplies team scheduling visits to the Site to carry out inspections on the connections.
- 4.91. With regards to **internal and external water regulations checks (steps 16 and 17)**, Bristol Water clarified this task involves either the Network Site Agent or

the Water Regulation Officer visiting the Site and carrying out inspections to check whether connections can go ahead or not.

What did we say in our revised decision?

- 4.92. With regards to a **GIS technician updating the GIS (step 12)**, Aquamain does not consider that Bristol Water carries out this task, however, Bristol Water has provided evidence of a form⁹ that Aquamain completed which indicates where connections take place including materials and a drawing of the connections. The form is completed for each single connection.
- 4.93. Taking into account the evidence that Bristol Water has provided, we consider it reasonable for Bristol Water to update its records to reflect where connections are taking place and the details of those connections. As such, we consider this is a task which Bristol Water carries out for each connection and which it can subsequently recover a charge for.
- 4.94. With regards to Bristol Water **scheduling installations (step 13)**, Bristol Water set out in its response to the third RFI that it carries out this task for new connections but that what it's actually doing is scheduling visits to the Site for its New Supplies team to carry out inspections. That is, Bristol Water giving either a yes or no for the SLO to proceed with installing the connections.
- 4.95. We consider that, having reviewed the information provided by Bristol Water, it does carry out inspections of connections but this is different to scheduling installations which Bristol Water has not clearly evidenced. Based on the above, and what we set out regarding assurance terms above (at paragraphs 4.21 to 4.23 of this decision), we do not consider it reasonable for Bristol Water to recover its costs for this task.
- 4.96. With regards to the **Internal Water Regulations Check (step 16)**, taking into account: (a) what we have set out regarding assurance terms above; (b) that Bristol Water aims to inspect only 10% of plots (on average); and (c) that Bristol Water has not yet carried out any internal inspections, we consider that Bristol Water should not be charging for this task, neither for the first connection nor for subsequent connections.
- 4.97. With regards to the **External Water Regulations Check (step 17)**, Bristol Water has provided evidence, through a SAP extract, that it carried out this task at the Site on multiple occasions and it has confirmed that this involved carrying out inspections of the connections at the Site to determine whether

⁹ SL-N6 Notification of completed service connection and meter installation.

connections are ready to be connected or not. However, taking into account that we would generally expect inspecting an SLO's work to be the exception rather than the norm, and we do not consider Bristol Water has demonstrated that the Site was an exception, we do not consider that Bristol Water should be recovering its costs for this task either for first, or remaining, connections.

What did Aquamain say in response to our revised decision?

4.98. Aquamain did not make any specific comments.

What did Bristol Water say in response to our revised decision?

4.99. With regards to Bristol Water **scheduling installations (step 13)**, Bristol Water set out that this is step is for booking slots for site visits usually at the request of an SLO.

4.100. With regards to the **internal water regulations check (step 16)**, Bristol Water set out that an approximate 10% of sample internal checks are undertaken by its regulations team to ensure that internal pipework complies with the latest regulations.

4.101. With regards to the **external water regulations check (step 17)**, Bristol Water set out that it is common for an SLO to request attendance on site to discuss service connection issues.

What is our final decision?

4.102. We do not consider that Bristol Water has provided any additional reasoning or evidence that would result in us changing our conclusions. As such, we are maintaining the position set out in our revised draft decision.

4.103. The table below sets out a summary of the costs we consider applicable for this phase.

Table 5 – Determined costs for Phase 3

| Task | Bristol Water cost | First connection | | Remaining connections | |
|--|--------------------|----------------------------------|-----------------|----------------------------------|-----------------|
| | | Does Bristol Water do this task? | Determined cost | Does Bristol Water do this task? | Determined cost |
| 12. GIS Technician update the GIS | £7.27 | Y | £7.27 | Y | £7.27 |
| 13. Schedule installations | £1.74 | Y | £0 | N | £0 |
| 14. Issue works order to contractor | £3.71 | N | £0 | N | £0 |
| 15. Raise relevant requests or notices | N/A | | | | |
| 16. Water Regulations check – internal | £1.95 | Y | £0 | Y | £0 |
| 17. Water Regulations check – external | £19.50 | Y | £0 | Y | £0 |
| 18. Install connection | N/A | | | | |
| Total | £34.17 | | £7.27 | | £7.27 |

Post-connection

4.104. This phase starts with creating an account and updating records and ends with a quality audit and debt recovery/monitoring of payments. Debt recovery/monitoring of payments is a step that Bristol Water carries out that no other company does.

4.105. With regards to **debt recovery and monitoring payments (step 22)**, Bristol Water set out that this involves a new supplies administrator checking that all charges associated with self-laid service connections have been paid by the SLO and starting a debt recovery process for any outstanding debt.

What did we say in our draft decision?

4.106. We set out that we considered that steps 19 - 21 in this phase are applicable to all connections whether the first connection at the Site or remaining

connections. Furthermore, we set out that these are steps that only Bristol Water, as the incumbent water company, can carry out and over 80% of all other companies carry out these steps for self-laid service connections.

4.107. In regards to **debt recovery/monitoring payments (step 22)**, we set out that we consider that, as the financial transactions associated with new service connections are predominantly in relation to a site, Bristol Water should be recovering its costs for this task for the first connection at the Site but not for any remaining connections.

What did Bristol Water say in its representations on the draft decision?

4.108. Bristol Water did not provide any specific comments.

What did Aquamain say in its representations on the draft decision?

4.109. Aquamain noted that these tasks should be less onerous than for connections carried out under section 45 of the Act because, when the water company does the work, it will need to process payment, and other documents it gets from its contractor. Using the update records amount from the draft decision, it considers the cost should be £6.68 per plot.

4.110. Aquamain also questioned why, given what we set out in [IN1606](#), it is expected to incur a cost for such checks on every connection. Aquamain notes that it already incurs significant costs demonstrating to Lloyd's Register that it is working in accordance with the quality systems WIRS¹⁰ compliance requires and Bristol Water should use the tools available through the WIRS controls administered on behalf of all companies by Lloyd's Register. It notes that self-lay is different to in-house connection provision where water companies may elect to supervise their contractors and carry out quality audits.

What did Bristol Water say in response to the third RFI?

4.111. In its response to the third RFI, Bristol Water clarified that it carries out all the tasks associated with this phase but that there is no outstanding debt associated with the Site and, therefore, this function has not been performed.

4.112. Bristol Water also clarified that **updating records (step 20)** involves it ensuring that all its records, such as the SAP extract, are complete and that everything that has happened at the Site has been logged. Bristol Water also clarified, in

¹⁰ Water Industry Registration Scheme ('WIRS')

an email on 1 February 2017, that the **Quality Audit (step 21)** involves checking that the requisite forms for the Site, such as the GIS forms, are correct and no additional information is required.

What did we say in our revised decision?

- 4.113. With regards to **create account (step 19)**, as per our draft decision, we consider that the cost Bristol Water incurs for this task should be recovered for each self-laid service connection.
- 4.114. With regards to **updating records (step 20)**, Bristol Water has set out that it carries out this task and it has referenced its SAP records as evidence of this. We consider that this is a task that Bristol Water will need to carry out to ensure its records are up to date and that, as such, it can recover its costs for first, and remaining, connections for the Site.
- 4.115. With regards to the **Quality Audit (step 21)**, Bristol Water initially set out that a Network Site Agent ensures the accuracy of returning paperwork including meter data capture forms. In an email on 1 February 2017, Bristol Water expanded on this confirming that it involves checking the requisite forms for the Site including the GIS forms. Based on this, we consider that the costs associated with checking such forms should be covered as part of the task for those forms and not separately. If there are exceptional circumstances where it needs to be recovered then Bristol Water should make this clear, but this was not the case here. As such, we do not consider Bristol Water can recover its costs for either first, or remaining, connections for the Site.
- 4.116. With regards to **debt recovery/monitor payments (step 22)**, we consider that, as there is currently no outstanding debt for the Site, and Bristol Water has confirmed this function has not been performed, that Bristol Water should not be recovering its costs for this task either for first, or remaining, connections for the Site.

What did Aquamain say in response to our revised decision?

- 4.117. Aquamain did not make any specific comments.

What did Bristol Water say in response to our revised decision?

- 4.118. With regards to the **Quality Audit (step 21)**, Bristol Water set out that this relates to the quality of data with a Network Site Agent checking submitted forms. It considers the cost of which if not recovered under Quality Audits should be recovered under **updating records (step 20)**.

4.119. With regards to **debt recovery/monitor payments (step 22)**, Bristol Water has set out that although there is not outstanding debt for the Site a check is performed to confirm this and debt recovery is then started if necessary.

What is our final decision?

4.120. We do not consider that Bristol Water has provided any additional reasoning or evidence that would result in us changing our conclusions. As such, we are maintaining the position set out in our revised draft decision.

4.121. The table below sets out the costs we consider applicable for this phase.

Table 6 – Determined costs for Phase 4

| Task | Bristol Water cost | First connection | | Remaining connections | |
|--------------------------------------|--------------------|----------------------------------|-----------------|----------------------------------|-----------------|
| | | Does Bristol Water do this task? | Determined cost | Does Bristol Water do this task? | Determined cost |
| 19. Create account | £1.74 | Y | £1.74 | Y | £1.74 |
| 20. Update records | £6.68 | Y | £6.68 | Y | £6.68 |
| 21. Quality audit | £6.50 | Y | £0 | Y | £0 |
| 22. Debt recovery / monitor payments | £1.74 | Y | £0 | Y | £0 |
| Total | £16.66 | | £8.42 | | £8.42 |

Batch connections

4.122. For the above phases, we have referred to the first connection at the Site and any remaining connections. We also recognise, however, that there will be connections at the Site which are connected in the same location and at the same time. In such situations, the connections may be done in batches (phases). In doing so, we consider the connections that are the first in a batch of connections will not involve the same number of tasks as for the first connection at the Site. Instead, we consider that the tasks associated with a connection that is the first in a batch of connections will be more comparable

to the number of tasks associated with remaining connections. The only difference being the inclusion of the following steps:

- Issue invoice (step 9);
- Receive payment (step 10); and
- Process payment (finance) (step 11).

4.123. We consider that these are steps that Bristol Water will not incur for each connection at the Site but will likely incur for those connections that are the first in a batch of connections. Taking this into account, we consider that Bristol Water should be charging a non-physical connection charge of £20.86 for such connections, which is £5.17 more than the non-physical connection charge for remaining connections reflecting the additional tasks referred to above.

Total non-physical connection charge

4.124. Taking into account the above, as set out in the table below, we consider that the level of non-physical connection charge Bristol Water can reasonably recover as a term in the Agreement is £28.70 for the first connection at the Site, £20.86 for any subsequent connections that are the first in a batch of connections and £15.69 for the remaining connections. This reflects our assessment of the costs Bristol Water is incurring for the administrative tasks associated with self-laid new connections.

Table 7 – Determined cost of the non-physical connection charge for the Site

| Phase | Determined cost (first connection) | Determined cost (first connections in a batch) | Determined cost (remaining connections) |
|--------------------|---------------------------------------|--|---|
| 1. Pre-connection | £7.84 | £0 | £0 |
| 2. Finance | £5.17 | £5.17 | £0 |
| 3. Connection | £7.27 | £7.27 | £7.27 |
| 4. Post-connection | £8.42 | £8.42 | £8.42 |
| Total | £28.70 | £20.86 | £15.69 |

D. Are the payment terms of the non-physical connection charge reasonable?

Aquamain's view

4.125. On 13 April 2015, Aquamain set out that it considers that the method in which Bristol Water recovers the non-physical connection charge does not provide it with certainty of the final costs, and this can negatively affect its business. That is, Bristol Water seeks to initially charge £105 for all connections to its network and only reduces this to £64 for those subsequent connections it deems to be 'subsequent connections' as the Site progresses. At the point of quotation Aquamain cannot, therefore, be sure what its actual costs will be when quoting onwards for its own customers.

Bristol Water's view

- 4.126. Bristol Water has set out that when non-physical connection charges are being calculated neither Bristol Water, nor the SLO/developer, has any idea which connections will be made as first connections and which will be made as part of a 'batch' of connections made at the same time.
- 4.127. Bristol Water considers it is not possible, therefore, to determine which rate should be charged until after the connections have been planned by the SLO and notified to Bristol Water. Bristol Water considers that plans often change even after it receives this notification and it does not know exactly how many connections have been made on any particular day until meter capture forms are received following connections being made.
- 4.128. Bristol Water has confirmed that it no longer takes the above approach and now charges for connections after they are made. This ensures Bristol Water can issue the correct charge.

Our decision

4.129. We consider that the way Bristol Water previously recovered its non-physical connection charge placed the balance of risk disproportionately on Aquamain, with it having to pay a larger than necessary charge initially. As such, we set out in the draft decision that the payment terms for the charges in the Agreement should be modified.

4.130. We set out in our draft decision that we considered that the non-physical connection charge for first connections should be for the first connection at the Site, with all subsequent connections being charged at the lower rate for remaining connections. Then, if the delivery of the Site is such that connections are called off in batches, creating further first connections, Bristol Water should seek payment from Aquamain for the difference between the charge for remaining connections and the charge for first connections that form part of a batch of connections after the connections are made.

4.131. As set out above, Bristol Water has confirmed that it no longer takes the above approach and now charges for connections after they are made. This ensures Bristol Water can issue the correct charge. We consider this is a sensible approach and the approach that should be applied in this case.

5. Conclusion

- 5.1. In light of the legal framework of the Act, and the evidence we have gathered from the parties to the dispute and from other water companies, we determine that:
- a. We have jurisdiction (under section 51B of the Act) to consider an appeal with respect to the terms of the Agreement between Bristol Water and Aquamain entered into under section 51A of the Act. We therefore have jurisdiction to consider the reasonableness of the level, and payment terms, of the non-physical connection charge Bristol Water has sought from Aquamain.
 - b. It is reasonable for Bristol Water to offer a term in the Agreement requiring payment of a non-physical connection charge because we consider that these are costs Bristol Water incurs in administering self-laid service connections. However, the level and timing of that charge should be different from that originally proposed by Bristol Water as a term in the Agreement.
 - c. The level of the non-physical connection charge should be:
 - £28.70 for the first connection at the Site;
 - £20.86 for any second and subsequent connections that are the first in a batch (phase) of connections; and
 - £15.69 for any remaining connections.
 - d. Bristol Water's payment terms for recovery of these charges should require payment of the appropriate charge after connections are made to ensure that the correct charge is recovered.

Annex 1

Table 1 – Tasks associated with the administration of a new water supply connection under section 45 of the Act

| Tasks associated with the administration of a new water supply connection |
|---|
| 1. Issue application form |
| 2. Review application form |
| 3. Undertake network study ^a |
| 4. Site survey ^b |
| 5. Design |
| 6. Issue quotation |
| 7. Receive payment |
| 8. Schedule installation |
| 9. Issue works order to contractor |
| 10. Raise relevant requests or notices ^a |
| 11. Water Regulations check ^b |
| 12. Install connection ^a |
| 13. Create account |
| 14. Update records |
| 15. Quality audit |

^a the independent review states that these tasks do not form part of the administration charge but, rather, are part of construction costs

^b the independent review states that these tasks are technical tasks

Table 2 – Tasks associated with the administration of self-laid new water supply connections (Bristol Water)

| Tasks associated with the administration of a new water supply connection | Self-laid service connection | Self-laid mains and service connections | Multiple connections ¹¹ |
|---|------------------------------|---|------------------------------------|
| 1. Issue application form | N | N | N |
| 2. Review application form | Y | Y | N |
| 3. Undertake network study | N/A | | |
| 4. Water Regulations record site in WRA | Y | Y | N |
| 5. Arrange pre-start meeting | Y | Y | N |
| 6. Site survey | Y | Y | Y |
| 7. Design | Y | Y | Y |
| 8. Issue Quotation | Y | Y | N |
| 9. Issue invoice | Y | Y | N |
| 10. Receive payment | Y | Y | N |
| 11. Process payment (finance) | Y | Y | N |
| 12. GIS Technician update GIS | Y | Y | Y |
| 13. Schedule installations | Y | Y | N |
| 14. Issue works order to contractor | N | N | N |
| 15. Raise relevant requests or notices | N/A | | |
| 16. Water Regulations Check – internal ¹² | Y | Y | Y |
| 17. Water Regulations Check – external | | | |
| 18. Install connection | N/A | | |
| 19. Create account | Y | Y | Y |
| 20. Update records | Y | Y | Y |

¹¹ For multiple connections, the associated tasks are done in addition to already having been done once for self-laid service connections.

¹² Please note this task is contained in the ‘tasks associated with a new water supply connection (table 1) as single step but Bristol Water splits this into two tasks (internal and external) for the ‘tasks associated with a self-laid new water supply connection.

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| Tasks associated with the administration of a new water supply connection | Self-laid service connection | Self-laid mains and service connections | Multiple connections¹¹ |
|--|-------------------------------------|--|--|
| 21. Quality audit | Y | Y | Y |
| 22. Debt recovery / monitor payments | Y | Y | Y |

Table 3 – Bristol Water costs associated with the administration of self-laid new water supply connections

| Tasks associated with the administration of a new water supply connection | Estimated cost attributable to task (£) | Determined cost (first connection) | Determined cost (subsequent first batch connections) | Determined cost (remaining connections) |
|---|---|------------------------------------|--|---|
| 1. Issue application form | £3.71 | £0 | £0 | £0 |
| 2. Review application form | £4.36 | £4.36 | £0 | £0 |
| 3. Undertake network study ^a | £0 | £0 | £0 | £0 |
| 4. Water Regulations record site in WRA | £3.48 | £3.48 | £0 | £0 |
| 5. Arrange pre-start meeting | £3.71 | £0 | £0 | £0 |
| 6. Site survey ^b | £48.75 | £0 | £0 | £0 |
| 7. Design ^b | £0 | £0 | £0 | £0 |
| 8. Issue Quotation | £10.90 | £0 | £0 | £0 |
| 9. Issue invoice | £1.74 | £1.74 | £1.74 | £0 |
| 10. Receive payment | £1.74 | £1.74 | £1.74 | £0 |
| 11. Process payment (finance) | £1.69 | £1.69 | £1.69 | £0 |
| 12. GIS Technician update GIS | £7.27 | £7.27 | £7.27 | £7.27 |
| 13. Schedule installations | £1.74 | £0 | £0 | £0 |
| 14. Issue works order to contractor | £3.71 | £0 | £0 | £0 |
| 15. Raise relevant requests or notices | £0 | £0 | £0 | £0 |
| 16. Water Regulations check ^b – internal | £1.95 | £0 | £0 | £0 |
| 17. Water Regulations check – external | £19.50 | £0 | £0 | £0 |
| 18. Install connection ^a | £0 | £0 | £0 | £0 |
| 19. Create account | £1.74 | £1.74 | £1.74 | £1.74 |
| 20. Update records | £6.68 | £6.68 | £6.68 | £6.68 |
| 21. Quality audit | £6.50 | £0 | £0 | £0 |
| 22. Debt recovery | £1.74 | £0 | £0 | £0 |
| Total | £130.91 | £28.70 | £20.86 | £15.69 |

^a the independent review states that these tasks do not form part of the administration charge but, rather, are part of construction costs

^b the independent review states that these tasks are technical tasks

Annex 2

The below tables set out the percentage of companies (not including Bristol Water) that carry out certain tasks associated with the administration of a self-laid service connection.

Table 8 – Review application forms (step 2)

| | |
|--|--------|
| Self-laid service connections | 94.44% |
| Self-laid service connections and mains | 100% |
| Multiple connections – same location and time | 50% |
| Multiple connections – different location and time | 72.22% |

Table 9 – Site Survey (step 6)

| | |
|---|--------|
| Self-laid service connections | 27.78% |
| Self-laid mains and service connections | 38.89% |

Table 10 – Design (step 7)

| | |
|---|--------|
| Self-laid service connections | 33.33% |
| Self-laid mains and service connections | 61.11% |

Table 11 – Issue Quotation (step 8)

| | |
|---|--------|
| Self-laid service connections | 88.89% |
| Self-laid mains and service connections | 94.44% |

Table 12 – Receive payment (step 10)

| | |
|---|--------|
| Self-laid service connections | 88.89% |
| Self-laid mains and service connections | 94.44% |

Table 13 – Schedule installations (step 13)

| | |
|---|--------|
| Self-laid service connections | 38.89% |
| Self-laid mains and service connections | 55.56% |

Table 14 – Water Regulations Check (steps 16-17)

| | |
|--|--------|
| Self-laid service connections | 83.33% |
| Self-laid mains and service connections | 83.33% |
| Multiple connections – same location and time | 77.78% |
| Multiple connections – different location and time | 66.67% |

Table 15 – Create account (Step 19)

| | |
|--|--------|
| Self-laid service connections | 100% |
| Self-laid mains and service connections | 100% |
| Multiple connections – same location and time | 94.44% |
| Multiple connections – different location and time | 94.44% |

Table 16 – Update records (step 20)

| | |
|--|--------|
| Self-laid service connections | 100% |
| Self-laid mains and service connections | 100% |
| Multiple connections – same location and time | 94.44% |
| Multiple connections – different location and time | 94.44% |

Table 17 – Quality audit (step 21)

| | |
|--|--------|
| Self-laid service connections | 88.89% |
| Self-laid mains and service connections | 94.44% |
| Multiple connections – same location and time | 83.33% |
| Multiple connections – different location and time | 88.89% |