
Wholesale-Retail Code Change Proposal – Ref CPW058

Modification proposal	Code Change Proposal – CPW058 – Removing Processes A1-A5 (New Connections)
Decision	The Authority has decided to approve this Change Proposal
Publication date	24 May 2019
Implementation date	26 July 2019

Background

Schedule 1 of the [Wholesale Retail Code](#) (WRC) contains the Wholesale Contract which incorporates the Operational Terms (in part 3 schedule 1). The Operational Terms provide standard processes concerning how a Wholesaler and Retailer co-ordinate operational activities. This Change Proposal relates to processes A1-A5 of the Operational Terms which detail the process for new connections.

In March 2016, a Change Proposal was raised by Thames Water Commercial Services ([CPW030](#)) to remove processes A1-A5 from the Operational Terms. At that time, the Interim Code Panel preferred suspension rather than removal of processes A1-A5 of the Operational Terms. The Change Proposal was published in March 2016 and processes A1 to A5 of the Operational Terms were suspended in May 2016, to be reinstated in October 2018, if a new proposal had not been adopted by that date.

The suspension was implemented to provide time to investigate and draft a solution for a new connections process. A further Change Proposal was raised in January 2018 ([CPW031](#)) following further changes to the regulatory landscape, which included charging rules on new connections, licence changes for new appointment and variations, the Code for Adoption Agreements, the PR19 Methodology and the development of the Developer Services Measure of Experience (D-Mex).

In addition to these changes, there were other factors under consideration, such as:

- interaction with performance standards
- discrepancies in timings for registering new Supply Point Identification Numbers (SPIDs)

- the implementation activities that parties will need to undertake to deliver the suspended process and the benefits to end customers arising from the provisions

It was considered that the risk associated with implementing processes A1-A5 of the Operational Terms in line with the original timescales was significant. Until the impact of the impending regulatory change and other measures had been assessed, it was decided that the suspension period would be extended to 1 April 2020.

The issue

Trading Parties have expressed concerns about investing time and resource into creating the systems and processes set out in the currently suspended Operational Terms, particularly as they may not be used by Retailers.

Processes A1-A5 detail the interactions between Retailers and Wholesalers when a Retailer requests new connections services on behalf of a Non-Household Customer. However, an active market for making new connections currently exists. Retailers can already engage in the market through Wholesalers' existing new connections processes.

It is considered by the vast majority of Trading Parties to be disproportionately costly to try to make the processes fit for purpose, and that the benefits of introducing them would not outweigh the costs.

The modification proposal¹

This proposal seeks to remove any codified rules regarding the interaction between Wholesalers and Retailers from the WRC. It is proposed that the provisions relating to new connection services provided within the Operational Terms (processes A1 to A5), which are currently suspended until 1 April 2020, be removed.

¹ The proposal and accompanying documentation is available on the MOSL website at <https://www.mosl.co.uk/market-codes/change#scroll-track-a-change>

Industry consultation and assessment

In November 2018, Ofwat organised a Panel sub-group, which brought together Panel members, MOSL, CCWater, Defra and Ofwat to assess whether or not to reinstate the suspended provisions.

The Panel issued a Request for Information on 26 February 2019 and invited responses by 12 March 2019. The Request for Information sought industry views on the draft proposal, which contained the proposal that processes A1-A5 (New Connections) should be removed from the WRC. There were 23 responses from 14 Wholesalers, six Retailers, and three others. Of the 23 respondents, 21 were in favour of implementing the proposed solution, and two respondents disagreed.

Appendix 1 of this document details the consultation questions, and provides a summary of the responses received.

Panel recommendation

The Panel discussed this Change Proposal in its meeting on 26 March 2019 and recommended its implementation. Ten members voted for the proposal and one voted against. The member that did not vote to recommend the Change Proposal for approval considered that removing the process from the codes would not be in the best interests of the market. The Panel published its recommendation report on 29 March 2019. It recommended that Ofwat approve this proposal on the basis of improving the principles of efficiency, proportionality and transparency in addition to furthering the Operational Terms Objective. The suggested implementation date is 26 July 2019.

Our decision

We have considered the issues raised by the modification proposal and the supporting documentation provided in the Panel's Final Report. We have concluded that the implementation of CPW058 will better facilitate the principles and objectives of the WRC detailed in Schedule 1 Part 1 Objectives, Principles and Definitions and is consistent with our statutory duties.

Reasons for our decision

We set out below our views on which of the applicable Code principles are better facilitated by the modification proposal.

Efficiency

We think that the proposal will avoid the potential for operating codified processes which are not consistent with Wholesalers' existing processes and with broader regulatory change.

Proportionality

We think that the proposal is proportionate as the investment required to implement the suspended processes would be disproportionate to the potential customer benefit. Removing the Part A processes A1-A5 would enable the time that would have been spent on ensuring that the processes are fit for purpose and in line with recent regulatory changes to be spent on dealing with other, more appropriate, matters.

Transparency

While the new connections processes set out in the WRC continue to be suspended, there is potential uncertainty regarding the intended operational processes at the conclusion of the suspension. In our view, the proposal will help to provide clarity to Trading Parties now and avoid abortive spend in preparation for the end of the suspension of Part A of the Operational Terms.

Operational Terms

The proposal will help to clarify the direction for establishing the operational processes for new connections.

Decision notice

In accordance with paragraph 6.3.7 of the Market Arrangements Code, Ofwat approves this Change Proposal.

Emma Kelso
Senior Director, Markets and Enforcement

Appendix 1 – Request for Information questions and summary of responses

This section summarises the responses received following the Request for Information (RFI) for DCP026 which was issued on 26 February 2019 and closed on 12 March 2019. In total, 23 responses were received, of which 14 were from Wholesalers, 6 from Retailers, and three from others.

21 agreed with the proposed solution to remove the processes A1-A5 (new connections) and two respondents disagreed.

Those in favour generally had the view that there was no benefit to keeping processes A1-A5, as other developments such as the introduction of the D-MeX performance commitment would be more effective in delivering service improvements.

One respondent (Fair Water Connections) disagreed on the basis that it felt that the standardisation of the new connections processes would create consistency and create significant improvements. Another, a Retailer, disagreed on the basis that more time should be taken to ask important questions and mitigate risks.

Question 1: Do you agree with the proposal that Processes A1-A5 (New Connections) should be removed from the Codes? Please explain your answer.

21 Respondents agreed with the proposal (14 Wholesalers, 5 Retailers and two others), and two disagreed (1 Retailer and 1 other).

It was generally considered by those in favour that there was no benefit to keeping the suspended processes and that other activity, such as the introduction of D-MeX performance commitments would be more effective in the delivery of improved service levels. It was felt that, to keep the processes set out in the WRC would drive significant levels of investment without giving customer benefit. It was reported that developer feedback was not supportive of keeping processes A1-A5, as it would lead to the inefficient use of resources. It was felt by several respondents that, to retain processes A1-A5 would add confusion and create bureaucracy, through an unnecessary level of interaction being required.

The respondents that disagreed felt that codification of the processes, with the standardisation involved, would lead to improvements and assist independent providers of services working across a number of water providers. It was also felt that more time should be taken to review and mitigate risks.

Question 2: Do you think that the proposed red line delivers the intent of the Change Proposal? Please explain your answer.

20 Respondents (13 Wholesalers, five Retailers and two others) agreed with the proposal. Three Respondents (one Wholesaler, one Retailer and one other) disagreed.

It was generally felt by those agreeing to the striking out of the processes A1-A5 that leaving the terms in a postponed state adds anxiety and confusion, while removing the provisions completely avoids generating unnecessary work.

Two Respondents disagreed with proposal generally, whilst one Wholesaler did not see clear evidence that it would be in the interests of the customer for temporary building supplies to be left in the market.

Question 3: Do you agree that the proposed change better facilitates the Objectives and Principles of the WRC? Please explain your answer.

20 Respondents (13 Wholesalers, five Retailers and two others) agreed with the proposal. Three respondents (one Wholesaler, one Retailer and one other) disagreed.

It was generally felt by those agreeing to the proposed changes that improved efficiency and proportionality were facilitated by the approach, and that the benefits of retaining processes A1-A5 in the Codes have not been proven.

Those who disagreed felt that the proposal runs counter to the Objectives and Principles of the WRC, feeling that efficiency, transparency, barriers to entry, customer contact and seamless markets would be adversely affected.

Question 4: Do you agree that the proposed implementation date of 30 September?

19 Respondents (13 Wholesalers, five Retailers) agreed with the proposal. Three respondents (three other) disagreed, and one (Retailer) stated N/A.

Question 5: If Ofwat approval to implement was received by the end of May, would you agree with an earlier implementation date of 26 July?

21 Respondents (14 Wholesalers, five Retailers and two others) agreed with the proposal. One respondent (one Other) disagreed, and one (Retailer) stated N/A.

Those who agreed with the proposal felt that earlier implementation would provide clarity, and that there was no clear justification for a lengthy implementation period.

