

**Minute of the twenty-ninth meeting of the Water Industry Commission
for Scotland**

Held on 7 August 2007 in Stirling

Present:

Sir Ian Byatt (Chairman)
Mr Charles Coulthard
Professor John Banyard (Via conference call)
Mr Alan Sutherland (Chief Executive) (Via conference call)

In attendance:

Mrs Katherine Russell (Director of Corporate Affairs and Secretary to the Commission)
Miss Harriet Towler (Corporate Affairs Manager)
Dr John Simpson (Director of Analysis)
Dr Jeremy Atkinson (Chief Executive, CMA Scotland) for item 3.

Chairman's opening remarks

The Chairman welcomed everyone to the meeting and thanked them for attending.

1. Apologies for absence

Professor David Simpson (Deputy Chairman)
Dr Michael Brooker

2. Minute of previous meeting and review of action points

I. Minute of last meeting (06/07)

The Commission agreed that the minute was an accurate account of proceedings.

II. Review of action points (AP06/07)

The Commission were updated on action points from the previous meeting. The Commission noted it was a satisfactory position.

3. Update on current issues

I. Working with stakeholders

The Chief Executive reported that he, and the analytical team in the office, had recently met with representatives from the Northern Ireland Authority for Utility Regulation (NIAUR). He noted that the NIAUR was facing similar regulatory challenges with regard to water that had been faced in Scotland in 1999.

The Chief Executive reported that the office continued to have regular liaison meetings with the Scottish Environment Protection Agency (SEPA). He had recently met with SEPA's Director of Environmental Protection and Improvement and had discussed the Seafield wastewater treatment works, progress with building a treatment works at Campbeltown, and Scottish Water's progress with its investment programme.

The Chief Executive reported that the office had also recently met with the Drinking Water Quality Regulator (DWQR) to discuss Scottish Water's progress with its investment programme.

The Chief Executive also reported that the office had continued to regularly meet with the Scottish Executive.

The Chief Executive updated the Commission on recent meetings with Scottish Water and Scottish Water Business Stream.

The Secretary to the Commission reported that she and the office's Directors continued to have regular working level meetings with Scottish Water's General Manager for Regulation.

The Director of Analysis reported that he had been liaising with Audit Scotland in relation to its annual report on Scottish Water's accounts.

The Chairman reported that he had met with the Chairman of Scottish Water to discuss Scottish Water's progress with its capital programme, and the outcome of Scottish Water's investigation into the Seafield incident.

The Chairman reported that he and the Chief Executive had had a useful meeting with the Chairman and Chief Executive of Ofwat regarding competition and the cost of capital.

The Chairman also reported that he had held an informative meeting with John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth.

II. Other current issues

The Chairman welcomed Dr Jeremy Atkinson, Chief Executive of the Central Market Agency (CMA Scotland) to provide an update on progress with establishing the entity. Dr Atkinson reported that the CMA, which will facilitate the transfer of customer information in the new retail market for non-household customers, had been incorporated on 1 August. Dr Atkinson was now working to recruit new staff and establish the working procedures of the Board of the CMA. The Commission noted that the Board of the CMA would receive technical advice from a panel formed by licence holders. The Commission emphasised the importance of the Board making objective decisions which did not unduly favour existing licensees or new potential entrants.

The Chief Executive updated the Commission on steps being taken to give Waterwatch Scotland greater operational independence from the Commission.

4. Corporate Affairs

I. Update on the office workplan (CP101-07)

The Commission noted the update on the office's workplan.

II. Update on framework contracts (CP102-07)

The Commission noted the update on its framework contractors, and that the office was considering employing more engineering expertise internally.

III. Update on stakeholder workshop 4 (CP103-07)

The Commission noted and welcomed the summary of its fourth stakeholder information day for the 2010-14 price review.

IV. Update on the Licensing Framework Implementation Group (CP104-07)

The Commission noted and welcomed the minute of the last meeting of its Licensing Framework Implementation Group.

5. Investment

I. Updating the Capital Investment Return (CIR) (CP105-07)

The Commission were updated on plans to improve reporting of Scottish Water's capital delivery. It was noted that these improvements should prove beneficial for both the Commission's external monitoring

and Scottish Water's internal reporting. The Commission were also updated on plans to recruit further engineering expertise to the office.

The Commission noted this update.

6. Competition

- I. Draft self supply and specialist licences for consultation (CP106-07/CP106b-07)

The Commission noted that paper CP106-07 had been updated to reflect legal advice received following the circulation of Commission papers. The Commission noted that the revised paper sought delegated authority for the Chief Executive to issue the notices and directions required to modify the standard licence conditions for specialist and self-supply licences.

The Commission noted CP106b-07 and associated documents. The Commission agreed to delegate authority to the Chief Executive to modify standard licence conditions for specialist and self-supply licences, providing he acted within the Commission's previously agreed policy.

- II. Incorporation of the Central Market Agency (CMA) (CP107-07)

The Commission noted this update on the incorporation on the CMA and welcomed the progress being made.

7. Costs, performance and levels of service

- I. Update on the annual return and regulatory accounts (CP108-07)

The Commission were updated on Scottish Water's annual information submission for 2006-07. The Commission noted that Scottish Water had made good progress in improving the reliability of its information, but that some issues remained.

The Commission noted this update.

- II. Annual decision on the requirement for an interim determination (CP109-07)

The Commission noted its process (set out in the Strategic Review of Charges 2006-10), to make an annual decision as to whether an interim of charges is required. The Commission noted the recommendation not to seek to reduce charges using an interim determination for 2008-09 as there were no material changes in Scottish Water's circumstances from 2007-08.

The Commission expressed its concern at growing evidence that Scottish Water's investment programme was delayed. However, the Commission noted that there was not yet evidence to suggest that the projected shortfall in delivery was sufficiently material to trigger an interim determination.

The Commission agreed not to seek an interim determination of charges for 2008-09.

III. Phasing of metered wholesale charges (CP110-07)

The Commission were updated on the Scottish Executive's decision regarding the phasing of metered charges for non-household customers. It was noted that the phasing programme would be completed by 2011-12.

The Commission noted this update with interest.