

CC Water - Lessons to be learned from PR09: A consultation response from the Water Industry Commission for Scotland.

WICS considers that this report from CC Water represents an important contribution to the current debate on regulatory reform and the involvement of customers. We comment in two broad areas:

- Improving focus on customers' priorities; and
- Current steps being taken in Scotland to involve customers and ensure Scottish Water owns its business plans.

Improving Focus on Customer Priorities.

We agree that incorporating customer views are essential to maintaining the legitimacy of the price review process. We further agree that customer views have not always been adequately taken into account. To this end, it may be useful to focus on who the primary decision taker is. Customer views on environmental directives, for example, need principally to be communicated before they are confirmed in European and then in UK law. But there is scope for customers to review the speed and interpretation with which such directives are implemented to ensure that it is reasonable and as cost effective as possible.

At a price review, there would be considerable value in ensuring that customers' priorities are properly understood and reflected in business plans. For example- does the baseline level of service represent accurately what customers value? Are the proposed outcomes consistent with what customers' priorities or, perhaps, the result of a supplier response to what it thinks the regulator wants to see?

Customer research should shape business plans and the price setting process. The outcomes should be consistent with efficient delivery by the suppliers and the settled view of customers. Suppliers should establish how priorities are best made operational: for example- in what order and based on what criteria should odour issues be addressed.

Finally, we agree that customer involvement has been made more difficult by the complexity of the regulatory framework, the short time available for consultation on draft conclusions and the lack of transparency in how answers have been reached. Reducing the amount of information collected by regulators would be an important step forward. We should be able to regulate effectively with less information than a supplier needs to manage its affairs.

Steps being taken by WICS – the I-Cubed programme.

The CC Water rightly identifies that focus on price setting should be customer-centric. There needs to be effective engagement with customers about the issues that matter and that are within the power of the supplier and/or the regulator to address. In our view this may be principally about establishing an agreed approach to addressing issues and prioritising improvements- rather than individual customer scrutiny of each and every project and its rationale. This is at the heart of our I Cubed project.

Within I Cubed, we are also moving to improve the focus on long-term strategic planning and ensure that Scottish Water clearly owns its strategy and its business plan. The water company must be accountable for its decisions to its customers and should not seek to avoid responsibility.

Our I Cubed project has worked in close collaboration with Scottish Water, CFS Scotland, Waterwatch Scotland, the Scottish Government and environmental regulator. We are close to agreeing a customer forum, which will comment and advise on the price review and will negotiate on the customer service initiatives that should be pursued by Scottish Water. This would involve members of the forum negotiating on areas that are covered as part of the day-to-day “customer experience”, such as investment to improve security of supply, reduce instances of sewer flooding etc. The key would be to agree the framework for taking decisions rather than to specify individual projects.

Equally important, members of the forum could advise and comment on the baseline levels of service (for example are all elements of what currently constitutes baseline service actually valued by customers?) and whether they believe that the scope for efficiency has been reasonably assessed.

The engagement of members of the forum will be both prior to Scottish Water completing its initial business plan and afterwards. We will publish discussion papers on Scottish Water’s business plan and facilitate meetings between Scottish Water and the Customer Forum. The Draft Determination would reflect the results of this process. In our view, this quite radical overhaul allowing for meaningful customer engagement before the regulator publishes even its initial conclusions should address the perceived deficit in customer involvement, which, in our view, CC Water rightly identifies. As such, our proposals should improve the overall legitimacy of the regulatory price-setting process in the eyes of customers.