

**Minute of the thirty-second meeting of the Water Industry Commission
for Scotland**

Held on 30 and 31 October 2007 in Edinburgh

Present:

Sir Ian Byatt (Chairman)
Professor David Simpson (Deputy Chairman)
Professor John Banyard
Dr Michael Brooker
Mr Charles Coulthard
Mr Alan Sutherland (Chief Executive)

In attendance:

Mrs Katherine Russell (Director of Corporate Affairs and
Secretary to the Commission)
Miss Harriet Towler (Corporate Affairs Manager)
Mrs Donna Very (PA to the Chairman and Chief
Executive) for items 1 to 7.

Chairman's opening remarks

The Chairman welcomed everyone to the meeting and thanked them for attending. The Chairman noted that he looked forward to meeting with the board of Scottish Water later that day.

1. Apologies for absence

None

2. Minute of previous meeting and review of action points

I. Minute of last meeting (09/07)

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

II. Review of action points (AP09/07)

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
- II. Other current issues

The Chief Executive reported that:

- He and the Chairman had recently held a series of dinners regarding competition in the Scottish water industry and invited representatives of the English and Welsh companies to attend.
- He had written an article on competition for this quarter's "Buying and using utilities magazine".
- He was commissioning further advice on communicating the introduction of competition to customers.
- An engineer had been successfully recruited.
- Both the Commission's Customer service and Investment reports had been published.
- Members of the office had met with members of Ofwat's competition team.

Professor Simpson, Professor Banyard, Dr Brooker and Mr Coulthard all reported that they had visited Scottish Water's new treatment plant in Milngavie and its operations management centre. They expressed their thanks to Scottish Water for hosting the visit.

Professor Simpson reported that he had attended a dinner in Glasgow hosted for the Chairman. The dinner was attended by stakeholders in the water industry and had proved a useful event.

Professor Simpson also reported that the David Hume Institute would present its research into public service delivery, which had been part sponsored by the Commission, on 22 November.

The Chairman reported that he had held useful meetings with the Minister for the Environment, the Chief Executive of Glasgow City Council, the Chief Executive of Scottish Enterprise, and the Chairman of Scottish Water. The Chairman also reported that he and the Chief Executive would be hosting a discussion at the European Policy Forum.

III. Update on the Central Market Agency (CMA)

The Commission noted a written summary of developments with the CMA, submitted by its Chief Executive, Dr Jeremy Atkinson (who was unable to attend the meeting in person). The Commission welcomed

the proposal that a formal process for alerting the CMA when new licence applications have been received should be established.

4. Corporate Affairs

I. Update on the office workplan (CP136-07)

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

II. Update on framework contracts (CP137-07)

The Commission noted the update on its framework contractors. The Commission welcomed the action that the office was taking to manage effectively its contractors.

III. Update on stakeholder workshop 8 (CP138-07)

The Commission noted and welcomed the summary of its eighth stakeholder workshop for the next price review.

5. Strategy

I. Addressing the delay in the capital programme to adjust prices or to extend the regulatory period (CP139-07, CP140-07).

In its Investment report 2006-07, the Commission had raised concerns about a slow start to output delivery by Scottish Water. The Commission noted there is a growing risk that there may be an overhang into the next period. The Commission considered a number of issues that could be used to resolve this issue.

The Commission met with Scottish Water's board to discuss the delivery of the programme. The Commission noted Scottish Water's determination to deliver the current programme, and to catch up on the reported slow start. The Commission noted that the next six months would be critical in this respect.

The Commission agreed it remained concerned about the progress towards delivering the outcomes required over the remainder of this regulatory control period. It agreed that unless there was a marked improvement in some of the leading indicators (delivery of the overhang; capital expenditure stages one, two and three; cash committed; and delivery of outcomes signed off by the Quality regulators), it would have to consider whether it should seek an interim determination next September.

The Commission requested that a letter be sent to Scottish Water setting out its position and proposing an increase in monitoring of the

capital programme from quarterly to monthly submissions during the next critical six months.

Action:

- II. Responses to the Strategic Review of Charges 2010-14 methodology consultation (CP141-07)

The Commission welcomed the responses that it had received to its consultation on the methodology for its next price review.

The Commission noted CP141-07.

6. Competition

- I. Update on the governance code (CP142-07)

The Commission noted the position with regards to a governance code between Scottish Water and Scottish Water Business Stream.

- II. Update on Aquavitae's licence application (CP143-07)

The Commission noted that following its decision at its last meeting, licences had been granted to Aquavitae UK Limited.

- III. Scottish Water/Scottish Water Business Stream service agreements (CP144-07)

The Commission approved the terms of five service agreements proposed between Scottish Water and Scottish Water Business Stream (SWBS) on the condition that the parties seek further consent to any extension to any of those agreements beyond 31 March 2008.

The Commission noted that they would receive a further two agreements in December for approval.

- IV. Update on Schedule 3 agreements (CP145-07)

The Commission noted that Leading Counsel, had been instructed to advise on the Commission's responsibilities under Schedule 3 of the Water Services etc (Scotland) Act 2005. Counsel's opinion would be presented at the December Commission meeting.

- V. Update on trade effluent (CP146-07)

The Commission noted the update on the future provision of trade effluent services in the competitive market.

7. Investment

I. Appointment of Reporter services (CP147-07)

The Commission noted that Scottish Water has completed its procurement process for the appointment of a regulatory Reporter for the next three years. As required under the arrangements to appoint a Reporter, Scottish Water was seeking agreement from the Commission to their proposal to re-appoint David Arnell of Black and Veatch.

The Commission approved Scottish Water's proposal to re-appoint David Arnell of Black and Veatch.

8. Costs, performance and levels of service

I. Costs and performance report 2006-07 (CP148-07)

The Commission considered a draft of its Costs and performance report for 2006-07. The Commission approved this draft subject to minor amendment.

The Commission requested that a letter be sent to Scottish Water setting out its view on Scottish Water's performance during 2006-07 and the implications this would have for the gilts buffer.

Action: