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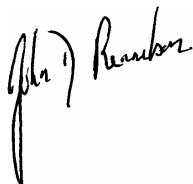
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Date: 19/10/07

Dear Ms. Russell

HIGHLAND COUNCIL RESPONSE TO THE CONSULTATION ON THE STRATEGIC REVIEW OF CHARGES 2010-2014: METHODOLOGY

Please find attached the response of Highland Council to the above consultation. We have restricted comments to Volume 4 of the consultation, which relates to the approach to capital expenditure. The Highland Council will of course welcome further discussion with the Water Industry Commission for Scotland in due course.

Yours sincerely



John D Rennilson

What are respondents' views on how we propose to assess the size of investment programme that Scottish Water should be expected to deliver efficiently?

The Highland Council has set out its Programme for the next four years. This programme includes the following key actions:

- **We will continue to engage with Scottish Water and others to ensure that lack of infrastructure does not hold up housing and other developments;**
- **We will work with the Scottish Government, local partners and the private sector to enable 6000 new houses, with appropriate amenities to be built in the Highlands over the next 4 years;**
- **We will ensure that as part of this 2000 affordable houses for rent and low cost home ownership are built over the next 4 years;**

The Council therefore welcomes the opportunity to contribute to the debate being undertaken at present. Over the course of the last few years, we have worked very closely with Scottish Water to ensure that the delivery of the current investment programme meets the key sustainability objectives for this area. Despite a difficult start and a lot of debate as to what the priorities of the investment programme were, progress has been made and clear priority projects identified. As acknowledged to Scottish Water, the Council welcomes the fact that a significant number of these projects are underway, although many remain outstanding. These outstanding projects should not be overlooked, and in setting the investment programme it should be recognised that they will need to be completed in the 2010-14 period to ensure that all development constraints are removed.

In assessing the size of the investment programme that Scottish Water should be expected to deliver efficiently, the procedure set out in Volume 4 is robust. The Council would however caution The Water Industry Commission for Scotland against encouraging Scottish Water to focus in on the larger projects only. Many parts of the Scottish Water infrastructure within the Highland Council area is based on small scale assets that are currently constrained. Whilst the objective should be to focus in on finding economies of scale wherever possible, this must not be at the cost of stalling improvements which have already been identified as critical. The role that these small projects have played and will continue to play in ensuring the sustainable development of some of our most fragile communities must be protected and promoted within the investment programme set for Scottish Water. The Council does recognise that the delivery of small scale improvements may not offer the same rates of return as major improvements elsewhere, and will continue to emphasise the significant role Scottish Water have to play in these areas.

It is encouraging that a strategic approach to major improvements is being highlighted as a key factor in setting the investment programme for Scottish Water. A good example of long term strategic planning to which Scottish Water have contributed is the development of the A96 Corridor between Inverness and Nairn. It is hoped that this partnership approach to the delivery of wastewater treatment and water supply capacity will continue to be beneficial as and when the investment programmes are set. The role of such key strategies as the National Planning Framework should be an important guide to the development of such projects. The delivery of the infrastructure to support the strategic assets in areas such as the A96 Corridor will continue to be an important subject for dialogue. The Council would encourage the Water Industry Commission to look at the mechanisms for the delivery of the networks (Parts 2 and 3) which may require to be front funded, with the capital costs clawed back through developer contributions over time.

Do respondents have views on how we propose to define the scope of the investment programme required to deliver ministerial objectives for the water industry?

It is important that the definition of the scope of the investment programme is clear and transparent, and the approach set out within the document should ensure that this is achieved.

Volume 4 sets out what is likely to be required of Scottish Water in its investment programme baseline. The Council welcomes the detail which will be provided, and suggests emphasis is placed on likely delivery dates of projects. Whilst recognising that slippage is an almost inevitable fact in some projects, providing as much certainty as possible for the Council and communities alike is very important.

What are respondents' views on how we propose to determine an appropriate allowance for capital expenditure?

The suggested approach is a reasonable approach.

Should we consider an application by Scottish Water for an early start to delivering the required investment outputs for 2010-2014?

The Council has been consistent in encouraging Scottish Water to adopt a pragmatic approach to removing development constraints which are not specifically identified for investment within the 2006-2010 period. If progress can be made on some of these projects early, and it makes sense to do so for whatever reason, then the Council would fully support such an approach. The development of a strategic solution to the Gairloch (and surrounding areas) water supply is an example of where such projects might come forward early. The Council has also drawn attention to the situation in Skye & Lochalsh where there are real concerns over water supply in the medium to long term. If action can be progressed earlier rather than later, then that would be fully supported by the Council.

Are the methods that we propose for monitoring Scottish Water's performance in delivering the outputs required by the regulatory contract appropriate?

Yes.