

Price setting: The Strategic Review of Charges

We have a statutory duty to promote the interests of customers. One of the principal ways we do this is to set limits on the prices that Scottish Water's customers pay. The process we carry out to set price limits is called a Strategic Review of Charges (or price review).



Why are strategic reviews important for customers?

Strategic reviews are designed to ensure that customers get value for money from the water and wastewater services they pay for. A strategic review therefore considers both the price customers pay, and the service they receive in return over a defined period of time. Strategic reviews impact on all customers of the Scottish water industry.

The strategic review is important for **household customers** because at the review we set a limit on the amount Scottish Water can charge. We also set out the improvements in service that Scottish Water is required to deliver.

The strategic review is important for **business customers** because at the review we determine 'default tariffs'. These are the tariffs that all licensed retailers must offer to their business customers. The tariffs are designed to protect customers from unreasonable price increases. They are enforced separately by us under retailers' licence conditions.

The process in more detail

The strategic review process is carried out over several years, and involves a number of different stakeholders. It is designed to be a consultative process, which takes into account the views of customers and their representatives.

The Government sets objectives for Scottish Water

The strategic review begins with a **commissioning letter** from the Minister for Transport, Infrastructure & Climate Change from the **Scottish Government**. The commissioning letter sets out the timescale over which price limits must be set, and the date by which the review must be complete. The current strategic review is in force for four years (2006-10). We have already received a commissioning letter for the 2010-14 review.

Ministers also set **objectives** for Scottish Water to achieve over the review period, and determine a series of **principles** that should underpin the way customers are charged. Ministers first consult on these objectives and principles before issuing guidance, and finally a legal direction to Scottish Water, setting out what it must achieve.



Scottish Water plans to meet these objectives

Scottish Water considers how much funding it will need to achieve these objectives. It sets out its requirements in two business plans. These business plans also detail the projects that Scottish Water will undertake to deliver the Ministers' objectives.

We test Scottish Water's plans for value for money to customers

We carefully scrutinise Scottish Water's proposals to determine whether they represent value for money for customers. We also consider whether Scottish Water's proposals are appropriate to deliver the required objectives. We ask the **Drinking Water Quality Regulator (DWQR)** and the **Scottish Environment Protection Agency (SEPA)** for assistance in this respect. We convert Scottish Water's funding requirements into annual limits on the prices it can charge customers over the review period.

We consult on our decision

We first issue a **draft determination** of charges. This sets out our price limits in draft, and provides stakeholders such as **Waterwatch Scotland** (the customer representative) with the opportunity to give us their views.

It also provides Ministers with the opportunity to revise the objectives in the light of the impact on prices, before issuing a final legal direction. We consider all representations on the draft determination before publishing a **final determination** of charges.

After the review has been published

The final determination is effectively a binding contract on Scottish Water, setting out what it must achieve and the budget it must not exceed over a given time period. As such, Scottish Water must carefully consider whether to accept the contract.

Scottish Water has the right to appeal against the determination to the Competition Commission. Should Scottish Water appeal the determination, the Competition Commission will scrutinise our price limits in detail. The Competition Commission has the power to accept our determination, or set price caps higher or lower than we have determined.



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