

19 October 2007

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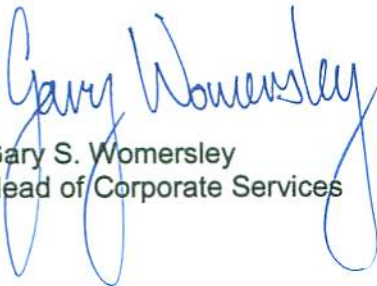
Dear Katherine

Strategic Review of Charges 2010-14: Methodology – Volumes 1 to 4

Please find enclosed Waterwatch Scotland's response to the above named WICS consultation.

In addition to the comments within the body of the response, I feel it is appropriate to also additionally mention how much the differing style and approach of WICS to this consultation exercise has been well received and commented on by WWS Members. In this regard, I would welcome discussing the possibility of WICS further utilising current WWS meetings and events in respect of any future consultations.

Yours sincerely



Gary S. Womersley
Head of Corporate Services



Response to the Water Industry for Scotland's Strategic Review of Charges 2010-2014: Methodology

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Waterwatch Scotland

Introduction

Waterwatch Scotland (WWS) is the national complaints handling authority for all domestic and non-domestic water customers and consumer representative body for the water industry in Scotland.

Our role is to:

- Investigate complaints
- Represent customers' views and interests
- Influence policy
- Inform and advise

From the 1st April 2006, Waterwatch Scotland replaced the former Water Customer Consultation Panels. Waterwatch Scotland is independent of Scottish Water (SW) and other agencies, including the Water Industry Commission for Scotland. As a result of the Water Services etc. (Scotland) Act 2005, our current role and remit has been strengthened.

How We Represent Customers

- WWS responsibility for second tier complaints handling means that we can take forward individual customer grievances;
- WWS can also identify complaint trends and seek to mitigate future occurrences;
- WWS can make statutory recommendations to Scottish Ministers, the Scottish Government, SW and other industry regulators on customers' behalf: Scottish Environment Protection Agency (SEPA), Drinking Water Quality Regulator (DWQR) and Water Industry Commission for Scotland (WICS).

To enable us to successfully represent customers, it is important for WWS to be aware of customer views and concerns on any matter relating to the water industry.

National Committees

WWS has four National Committees who address issues and influence policies that affect all customers. Their areas of responsibility are:

- Charging
- Investment
- Service Quality
- Customer Engagement

The Committees look at the whole of the water industry and keep up to date with issues so they can assist and challenge ministers, SW and industry regulators. When WWS is consulted by others, the Committees respond on customers' behalf. Issues and concerns on any matters that are raised at our public meetings across Scotland are also shared with Committees. This is vital in providing us with evidence of how customers are affected by the water industry.

Regional Panels

WWS has five Regional Panels made up of 20 members. The Convener is a member of and Chairs each Panel. The Regional Panel areas are determined by statute and follow local authority boundaries.

- North West
- South West
- Orkney Shetland and Western Isles
- North East
- South East

Corporate Office

WWS is supported by a professional team of staff, based at its Corporate Office at Alloa, who provide the necessary backup and support for the organisation's various roles.

Our dedicated Customer Support Unit can investigate unresolved complaints. If customers have made a complaint to SW (or other water/sewerage service providers) in the first instance and are not satisfied with how it has been handled, our staff investigate further. Our Research and Information Unit primarily services the National Committees and can assist the Customer Support Unit in complex complaints. The Corporate Service function services the Convener and Regional Panel requirements and otherwise manages all aspects of the Corporate Office and organisational requirements.

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Overall Approach – General Comments

1. WWS welcomes the consultations on WICS Strategic Review of Charges 2010-14 and the opportunity to represent consumers' views and interests.
2. WWS supports WICS commitment to work in partnership with co-regulators, WWS, SW and the Scottish Government.
3. WWS commends the consultation documents for their clarity of content and presentation and setting out in a more accessible way the pertinent issues of what is a long, complex and technically demanding process and subject area.
4. WWS welcomed the use of stakeholder information days that covered specific issues.
5. WWS welcomes the adhering to best practice by WICS in meeting the 12 week consultation criteria and its clarity with regards to key dates and events in the process.
6. WWS notes that information from stakeholder information days was not readily available from WICS website and that steps should be taken to address this in future. WWS reiterates its previous recommendation that consideration be given to allow website users to send in questions and comments and for these to be acknowledged promptly by WICS staff.
7. WWS underlines the continued need to find a variety of means by which customer and other stakeholder views may be ingathered.
8. WWS underlines the importance of engaging not only with domestic and non-domestic customers, but community, voluntary and other interest groups.
9. WWS would welcome working further with WICS on possible further improvements to the format of future stakeholder information days, in particular the use of WWS Regional Panel meetings throughout Scotland to allow a more public input and the possibility of a "Citizens' Jury" or "Focus Group" approach to be further developed.

WWS considers the following points to be important for customers:

- Value for money. Customers do not want to pay too much for the service they receive.
- Customers want clarity, openness and accountability.
- Customers would benefit from certainty, i.e. as much warning as possible on changes to charges to enable them to budget.
- Information on how and why people are charged.
- Equity - WWS believes that this generation should pay for itself.
- Affordability and the link to benefits.

- Quality and continuity of service.
- Charges in relation to long-term investment. WICS should avoid decisions based on short-term factors only.

WWS would like WICS to have regard to overall affordability and affordability for different households. This would give WWS a view on how the new charging system will impact on households. Many low income households are unable to afford charge levels now.

Volume 1: Financing & governance of Scottish Water

Q1 Do respondents agree that the level of operating risks faced by Scottish Water is broadly similar to those faced by companies south of the border if not, how are they different and how should this be allowed for in prices?

WWS agrees that the level of operating risks faced by SW being broadly similar to those faced by companies in England & Wales should be the initial presumption adopted by WICS – evidence from WWS meetings and contacts from customers indicates that England & Wales are the basis of comparison most readily referred to by customers. Any rebuttal from this initial presumption should require to be justified by SW and assessed “in the round” by WICS.

Q2 Do respondents agree that using proper comparisons with England and Wales remains the most effective way to regulate Scottish Water? If not, how should we set prices and measure levels of service?

WWS agrees that using proper comparisons with England & Wales remains the most effective way to regulate SW, in the absence of competition. WWS would hope that there is future scope for extending comparisons further with other jurisdictions, e.g. Scandinavia or developing specifically Scottish criteria on a proactive basis, rather than purely following only English & Welsh criteria on a reactive basis, even if only partially, to help contribute to a more Scotland-centric approach.

Q3 Given that we have a duty to promote the interests of customers, are we taking sufficient steps to protect customers from unnecessary risks? If not, what other steps should we be taking?

WWS generally accepts the need to protect customers from unnecessary risks and welcomes proposals such as the gilts buffer to protect customers from unnecessary risks, in addition to the £50 million credit line agreed with Scottish Ministers. WWS emphasises the need for robust balances, checks and ring-fencing as to when the gilts buffer can and cannot be used in order to maintain and safeguard the interest of customers.

Q4 Do respondents agree with our use of the RCV, ‘gilts buffer’ and rolling incentives?

WWS welcomes the intention behind the initiatives referred to i.e. safeguarding customers’ interests. WWS considers that in addition to suitably robust governance arrangements for such initiatives, that the appropriate balance has to be struck between incentivising SW and safeguarding customers. In this regard WWS looks forward to the continued development of customer service criteria forming a key part of any incentivisation of SW staff, in particular WWS working with WICS to develop the qualitative aspects of customer service feeding into such processes, in addition to purely quantitative data.

With regards to the actual technical aspects of the initiatives referred to, WWS makes no comment, such technical aspects being outwith WWS remit. WWS considers however that with regard to its PPP facilities, that an onus be on SW to seek to renegotiate such contracts where this will benefit customers.

Volume 2: Customer revenue, levels of services & the new competition framework

Q1 What are respondents' views on our approach to establishing the revenue and customer baseline for the Strategic Review of Charges 2010-14?

WWS shares WICS concerns re the general quality of data available to establish the correct revenue and customer baseline – particularly with regards to non-domestic customers where such data issues are a significant heading for complaints received and even greater underlying cause for complaints, notwithstanding previous allowances made by WICS to SW in SRC 2006-10 to improve its knowledge and understanding of its assets, which should have helped in this regard. WWS therefore welcomes all efforts to cleanse the relevant data and for SW to clarify what revenues are due to it. Bearing in mind previous allowances given to SW, which should have had an impact on such information and the quality of data, WWS are keen however that any incentives given to SW do not result in customers paying twice in this regard.

Q2 What are respondents' views on our proposals to encourage Scottish Water to continue to improve the level of service it provides to customers?

WWS agrees that GMS does not fully cover all aspects of customer service – WWS are however working with SW to continue to improve the GMS from a customer perspective, including a comprehensive review of SW's Code of Practice. Current customer service criteria do not, in general, cover the whole panoply of customer service issues with more emphasis being placed on quantitative rather than qualitative measures. This is often compounded by such measures of customer service being so near to 100% compliance that they do not give a meaningful comparative measure of performance. WWS welcomes WICS initiatives to date that would see WWS contributing qualitative assessment data into the overall measurement of SW performance from its 2nd tier complaints handling and customer representative role. WWS looks forward to progressing further developments in that regard, in particular, WWS looks forward to the possibility of a scenario where SW is incentivised to progress customer service within the organisation in a manner that is meaningful to customers.

Q3 How do respondents view the changes we are making to reflect the new competition framework?

WWS is anxious to ensure that for non-domestic customers the protection relating to customer service that GMS and Code of Practice previously offered is not lessened as the result of the introduction of competition – through complaints to us we are aware of situations where customers are in a worse off position post-competition e.g. payment of leakage allowances. WWS considers a code of practice equivalent outlining default levels of services is an essential element of any licensing arrangements. Bearing in mind its general 2nd tier complaints-handling role, WWS would wish to be involved in the preparation of such a code of practice equivalent for retail licensed providers and the monitoring of performance of retailers in respect of their codes.

Volume 3: Approach to assessing operating cost efficiency

Q1 Do respondents agree that our approach to benchmarking Scottish Water's performance remains robust despite the separation of non-household retail activities in Scotland?

Further to previous responses, WWS agrees that WICS should be comparing like with like between Scotland and England. WWS believes that an appropriate balance requires to be struck between the development of future mechanisms for benchmarking and the at times disproportionate costs in ascertaining the benchmarking criteria.

Q2 Do respondents agree that we should take account of differences in the level of service and scope of activities in Scotland and in England and Wales?

Further to previous responses, WWS believes that where real difference exists this should be taken into account. WWS would welcome (and seek to be involved in) the identification of those areas where customer service could be improved, even where this included additional annual operating costs to deliver such benefits. Bearing in mind the "lag" behind English & Welsh companies we would resist any agreement to dilute levels of service further. The relevance of OPA scoring diminishes as companies approach the 100% and WWS would welcome ways of developing OPA further, in particular with reference to the inputting of qualitative assessment criteria into the process. WWS also believes that overt steps need to be taken to allow Scotland to catch-up and not constantly lag behind OPA scoring in England & Wales and is disappointed that more avenues are not being pursued in that regard.

Q3 Do respondents agree with our favoured approach to setting an appropriate efficiency challenge for Scottish Water?

WWS welcome what has been said but we want to see continuous improvement. There should be an equivalent level of service for an equivalent level of cost.

Q4 Do respondents agree that our approach to assessing claims for special factors is reasonable?

Yes, WWS believes that it is reasonable because WICS say the presumption will be that there are not any special factors. SW have got to supply evidence to prove it.

Volume 4: Approach to capital expenditure

Q1 What are respondents' views on how we propose to assess the size of investment programme that Scottish Water should be expected to deliver efficiently?

WWS considers the scope of this question to be outwith its remit and accordingly have no comment to make on the aspect concerned.

Q2 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.

WWS agrees with the approach. In particular WWS welcomes the emphasis placed on ensuring that the investment programme is no larger than can reasonably be delivered, on the potential continuity of such programmes from one regulatory regime to another and on allowing for the possibility of a more strategic, long-term approach.

WWS has had experience of complaints which would all be ameliorated if not stopped by such aspects being provided for. This ultimately is considered as vital to maintain customer support and faith in future investment programmes.

Q3 What are respondents' views on how we propose to determine an appropriate allowance for capital expenditure?

WWS would like the emphasis on investment to be more for the long-term, looking at the whole life-cycle costs. WWS also believes that for Q&S 4 there should be a longer planning horizon. WWS believes that moving away from the present emphasis on purely short-term solutions i.e. what is the cheapest solution over any four year term, should be promoted further and welcome WICS comments re it taking a differing approach in this regard. WWS also welcomes any initiatives that would see correct levels of capital expenditure for infrastructure maintenance.

Q4 Should we consider an application by Scottish Water for an 'early start' to delivering the required investment outputs for 2010-14?

WWS welcomes the approach being entertained by WICS and see this as ultimately being in the customers interest – the costs would require to be spread over future years for the benefit of the customer in the long run.

Q5 Are the methods that we propose for monitoring Scottish Water's performance in delivering the outputs required by the regulatory contract appropriate.

WWS agrees with the methods but stresses the need to allow flexibility within any regulatory period.