

Workshop

Stakeholder workshop 2: Scottish Water's customer base and levels of service

Strategic Review of Charges 2010-14: Methodology
Stirling, 10 May 2007



Key dates for the price review

Methodology consultation published	10 May –26 July 2007
Methodology consultation period closes	19 October 2007
SW submits first draft business plan	30 May 2008
Ministers issue guidance	30 September 2008
SW submits second draft business plan	13 March 2009
Draft determination of price limits published	30 June 2009
Draft determination consultation closes	23 September 2009
Ministers issue directions	23 September 2009
Final determination of price limits published	30 November 2009

Methodology consultation

- The methodology consultation will be published in 4 volumes during May, June and July.
- For each volume we will hold two workshops for stakeholders.

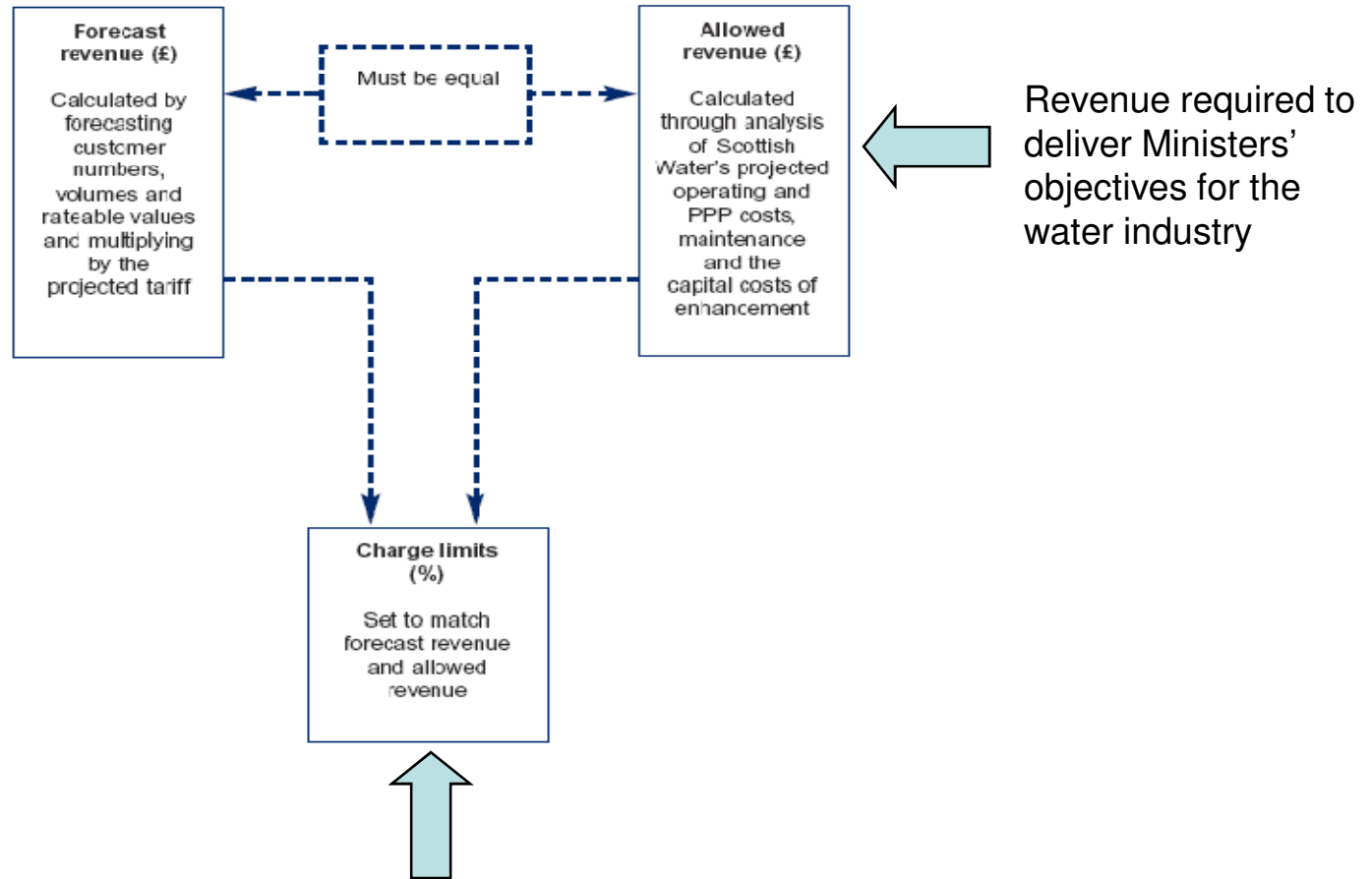
Volume	Publication date	Workshops
1. Financing Scottish Water	Today	12 April 2007 26 July 2007
2. Customer revenue and levels of service	31 May 2007	10 May 2007 16 August 2007
3. Operating costs	28 June 2007	31 May 2007 30 August 2007
4. Capital expenditure	26 July 2007	28 June 2007 20 September 2007

Volume 2 of the methodology consultation will consider the following high level issues...

- Scottish Water's customer base
- Levels of service
- The impact of competition – calculating wholesale charge caps and retail charge caps

Scottish Water's customer base is an important element of setting charge limits

The assumed **customer base** impacts on the charge caps set. The higher a customer base that the Commission assumes, the lower that charge caps (and therefore customer bills) need to be.



Charge caps are set consistent with the lowest overall reasonable cost of delivering Ministers' objectives

We plan to consider the following issues in the methodology....

- How accurate is information about Scottish Water's customer base? Will the development of a Central Market Agency help to improve the accuracy of non-household information?
- At the last review we forecast Scottish Water's future customer base by taking into account ministerial objectives for growth and the release of development constraints. Is it reasonable to take such an approach at the next review?
- Should we provide incentives for Scottish Water to give accurate information about its customer base at the outset of the review? And if so, how can this be done?

At the 2006-10 we used Ofwat's Overall Performance Assessment (OPA) to measure the levels of service Scottish Water provides its customers.

- The OPA combines a number of measures of performance to calculate a single performance score.
- This performance score is a valuable tool for making comparisons with England and Wales.
- However, at the 2006-10 review we were unable to use some of the OPA measures as information was not collected on a consistent basis with England and Wales.

OPA component	Included or not	Basis and comparability of measure
Inadequate pressure	Included	Actual performance, equivalent measure
Supply interruptions	Included	Actual performance, equivalent measure
Hosepipe restrictions	Included	Assumed performance
Drinking water quality	Included	Actual performance, some difference in definition of measure
Sewer flooding (overloaded sewers)	Included	Actual performance, equivalent measure
Sewer flooding (other causes)	Included	Actual performance, equivalent measure
Sewer flooding (at risk)	Included	Actual performance, equivalent measure
Company contact (3 out of 4 measures)	Included	Actual performance, equivalent measure
Assessed customer service	Not Included	
Sewage sludge disposal	Included	Actual performance, equivalent measure
Sewage treatment works compliance	Included	Actual performance, equivalent measure
Category 1 & 2 pollution incidents (sewerage)	Not Included	
Category 3 pollution incidents (sewerage)	Not Included	
Category 1 & 2 pollution incidents (water)	Not Included	
Leakage	Included	Assumed performance

We also used the OPA to set milestones for Scottish Water to improve...

- In 2005 when we calculated Scottish Water's allowed for operating expenditure, we assumed it would offer the same levels of service as companies in England and Wales.
- However, in reality a gap existed between Scottish Water's levels of service and that of the English and Welsh companies.
- We therefore set Scottish Water targets to begin to close this gap.

2004-05 actual	2005-06	2006-07	2007-08	2008-09	2009-10
177	-	195	213	232	250

We plan to consider the following issues in the methodology....

- Should we set further OPA targets for Scottish Water?
- Can our use of the OPA be enhanced? For instance, by using measures previously not included.
- How will the introduction of retail competition impact our use of the OPA?

In April 2008 the new retail market will open. We need to take account of this change in the price review.

- In the next review, we will take account of the introduction of competition by calculating:
 - A cap on the charge Scottish Water can make to its household customers for water and sewerage services.
 - A cap on the charges Scottish Water can make to retailers for providing wholesale water and sewerage services to the retailers' (non-household) customers.
 - A default tariff which retailers must offer to non-household customers (to be enforced through licence conditions).
- At the 2006-10 price review we approached this issue by calculating the household and non-household revenue required by Scottish Water. We then deducted retail costs.

We plan to consider the following issues in the methodology....

- What approach should we take to calculating wholesale and retail charge charges caps? – should we take the same approach as the 2006-10 review?

Any other issues?