

Stakeholder workshop 3: Scottish Water's customer service

Strategic Review of Charges 2010-14: 2009 workshops
Stirling, 26 February 2009

Programme for the morning...

Overview of the price review process

Overview of our approach to customer service

Your views and questions

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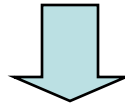
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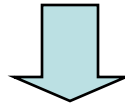
Your views and questions

The price review process focuses on delivering value for money for customers. The process can be summarised in three high level steps....

1. Ministers set objectives for the industry over the regulatory control period, and define the principles of charging that must be followed.



2. Scottish Water proposes how it will deliver these objectives, and the financing it will need to do so.



3. We scrutinise Scottish Water's proposals and set final caps on prices that finance Scottish Water to deliver the Ministers' objectives at the lowest overall reasonable cost.

At the end of the process, we are able to determine the following:

1. Limits on the amount Scottish Water can charge household customers annually between 2010-14.
2. The 'default tariffs' that licensed suppliers in the newly competitive market are required to offer all business and public sector customers in Scotland.
3. Limits on the wholesale price Scottish Water can charge retail suppliers of business and public sector customers.

The final outcome is a regulatory contract setting out what Scottish Water must achieve and the financial parameters in which it must do so.

We're now reaching the final stages of the price review...

When?	What?	Why?
Expected by end of February 2009	Ministers issue principles of charging statement	Sets out principles that should underpin charge caps. For instance, household charges should be linked to council tax.
13 March 2009	Scottish Water publishes its second draft business plan	Scottish Water sets out the funding it will need to achieve Ministers' objectives. Used by us to calculate price limits.
30 June 2009	Draft determination published	We publish our draft view on price limits – a 12 week consultation period follows.
23 September 2009	Ministers issue directions	Ministers issue formal directions to Scottish Water, revising where appropriate in the light of the draft determination.
30 November 2009	Final determination published	We publish our final view of price limits.
31 January 2010	Competition Commission appeal deadline	Scottish Water has a two month period to accept or reject our determination.

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At the 2005 review 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 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
Scottish Water	177	-	195	213	232	250
Companies	288-324					

To date this approach has proved successful in incentivising improvements...

	2004-05 actual	2005-06	2006-07	2007-08	2008-09	2009-10
Milestones	177	-	195	213	232	250
Actual score	177	165	232	248		

- Scottish Water has improved its OPA score by 50% since 2005.
- In 2007-08 its score was 16% ahead of our milestone.
- For customers this means:
 - fewer experienced flooding from their properties sewer,
 - fewer experienced problems of inadequate pressure,
 - fewer experienced lengthy unplanned interruptions to supply,
 - better drinking water quality, and
 - written complaints dealt with more quickly.

For this review, we have proposed a different approach to customer service...

- We will continue using the OPA as an objective measure of performance.
- We have worked with Waterwatch, SEPA and DWQR to ensure we can use some of the OPA measures that were previously not comparable with England and Wales. This includes:
 - pollution incidents;
 - leakage targets; and
 - assessed customer service.
- But because of SW's successes to date, we will not set milestones this time...

Instead we will ask Scottish Water to match the performance of the top 3 English and Welsh companies in 2007-08 by 2014 in terms of both their OPA score and operating costs...

- By considering operating costs and levels of service together, we will get a more accurate measure of Scottish Water's comparative operating efficiency.
- We know the expected level of performance is realistically achievable.
- We avoid any uncertainty about how Ofwat will expect the companies to perform during 2010-15.
- We avoid any uncertainty about how Ofwat may change OPA measures during 2010-15.
- We are lessening the risk of asking customers to pay for improvements in service that they do not want.

In its first draft business plan, Scottish Water accepted our proposed challenge...

- It planned to improve its OPA score by 99 points by 2014.
- It used a joint household customer survey with Waterwatch to support its planned priorities:
 - address low pressure;
 - provide secure drinking water quality;
 - plan for climate change;
 - reduce interruptions to supply;
 - improve bathing water quality;
 - reduce leakage; and
 - address internal and external flooding from over-loaded sewers.
- It requested an allowance for capital investment to help achieve this, specifically for improving security of supply, improving wastewater compliance and reducing pollution incidents.

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**For more information on the price review please go
to:**

**[www.watercommission.co.uk/view_future_prices.
aspx](http://www.watercommission.co.uk/view_future_prices.aspx)**