

Date: 15 October 2012

Peter Peacock  
Chair  
Customer Forum  
Birchwood  
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Dear Peter

Alex Neil, the Scottish Government's Cabinet Secretary for Infrastructure and Growth, recently wrote to Professor Gordon Hughes, Chairman of the Water Industry Commission for Scotland, to initiate the next Strategic Review of Charges.

I am writing to you now in your capacity as Chairman of the Customer Forum. As you know, the purpose of the Customer Forum is to play a formal role in the Strategic Review process by:

- working with Scottish Water on a programme of quantitative and qualitative research to establish customers' priorities for service level improvement and expectations in terms of the level of charges;
- understanding and representing to the Commission and to Scottish Water the priorities and preferences of customers (as a whole) in the Strategic Review of Charges 2015-20 process as identified through the customer research; and
- seeking to secure, through its participation in that process, the most appropriate outcome for customers (as a whole) based on those priorities and preferences.

We would like you to seek to agree by April 2014 a Business Plan for delivery by Scottish Water in 2015-20. Such a Business Plan should be fully consistent with

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**Chairman** Professor Gordon Hughes

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Ministerial Objectives and with the views and ranges that the Commission will set out in notes and papers over the period to early 2014, unless there are demonstrable reasons for going outside those ranges to the benefit of customers.

I am now writing to provide more information about issues that may be of particular relevance for the Customer Forum in its discussions with Scottish Water.

As you know, the Water Services etc. (Scotland) Act 2005 established the governance framework for the water and sewerage industry in Scotland. The Scottish Government sets the frequency and timetable for each Strategic Review of Charges. It also determines the high-level environmental, quality and customer service objectives that Scottish Water must deliver. The Commission is then required to establish the lowest reasonable overall cost at which these objectives should be delivered.

The Scottish Government also sets out the charging principles it considers should be followed in deciding the tariffs paid by customer groups for specific services. It also identifies the amount of borrowing the Government will make available to the industry and the level of cross-subsidies between groups of customers it considers appropriate.

Under the 2005 Act, the Commission determines charges within this policy framework. It has no remit to challenge the policy objectives.

However, as the Scottish Government's objectives are defined as outcomes, there is scope to challenge the way that Scottish Water proposes to achieve these outcomes. In particular, there may be scope for the outcome to be delivered later in the regulatory control period or in a way that is different from the approach initially proposed by Scottish Water.

After we publish our discussion papers in late 2013/early 2014, the Customer Forum may wish to explore, in discussion with the environmental and water quality regulators, how Scottish Water has decided what needs to be done in order to meet the objectives set out by the Scottish Government and the associated costs of this activity. Discussions may also extend to any customer priorities and preferences for expenditure beyond those mandated outcomes, as well as the cost challenge on those discretionary outcomes.

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In order to assist these discussions I have provided more information about key areas that the Customer Forum may wish to consider, the notes and papers that will be provided by the Commission, and about the Strategic Review process itself. This information is set out in the following appendices to this letter:

Appendix 1 outlines the key areas that the Customer Forum may wish to take into consideration during discussions with Scottish Water. To assist the Customer Forum we plan to produce detailed papers about each of these key areas. Appendix 1 also includes information about when we will publish these papers. Our views on these key areas will be updated in the discussion papers that we will publish on Scottish Water's Business Plan, and these will assist the Customer Forum in the process of reaching agreement with Scottish Water on its Business Plan.

Appendix 2 provides an outline of the steps that we consider are most relevant for the work of the Customer Forum.

Appendix 3 is the timeline of the Strategic Review of Charges process.

This letter and appendices are intended to bring helpful clarity to the process and are not intended to limit the ability of the Forum to reasonably ask questions and seek justifications on matters they believe should be pursued in the customer interest as the process unfolds.

We look forward to working with you and the other members of the Customer Forum to ensure that customers in Scotland continue to receive high-quality, value for money water and sewerage services.

Yours sincerely

Alan Sutherland  
Chief Executive

*Cc Douglas Millican, Scottish Water  
Trisha McAuley, Consumer Focus*

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