

Minute of the seventy-sixth meeting of the Water Industry Commission for Scotland

Held on 01 May 2013 in Stirling

Present: Professor Gordon Hughes (Chairman)

Mr Alan Sutherland (Chief Executive)

Mr Ross Finnie

Mrs Libby Gawith

Mr John Reynolds

In attendance: Mr Ian Tait (Director of Investment)

Mr Richard Khaldi (Head of Competition)

Mrs Claire Nichols (Head of Communications)

Mr Laurie MacFarlane (Analyst), agenda item 3

Mr David Walters (Analyst), agenda item 4

Mrs Donna Very (PA)

Chairman's opening remarks

The Chairman welcomed everyone to the 76th meeting of the Commission.

1. Apologies for absence

None

2. Minute of previous meeting and regular updates

2.1 Declaration of conflicts of interest in relation to the agenda

No conflicts of interest were reported.

2.2 Minute of last meeting (01/13)

The Commission agreed the minute was an accurate record of the last meeting.

2.3 Summary of action points (AP02/13)

Mr Khaldi provided the Commission with an update on some outstanding action points. The Commission asked that at future meetings all action points be added to the list and that updates on actions be provided at subsequent meetings.

2.4 Oral update on current issues

The Chief Executive provided an oral update on current activities.

The Chief Executive briefed the Commission on recent developments within the water industry in England and Wales, including publication of Ofwat's 'Setting price controls for 2015-20 – business planning expectations'. The Commission noted that the draft determination in England and Wales will be published around the same time as the Commission's.

It also noted that because of the referendum in September 2014, the Scottish Parliament will have a period of Purdah. The Chief Executive explained that it had been necessary to amend the timing of the final stages of the Strategic Review of Charges to reflect this. CP25/13 provided the details of the revised timeline.

The Chief Executive updated the Commission on the progress of the High Level Group.

The Chairman briefed members on recent discussions held at the Regulatory Chairman Group (RCG) on the new Competition and Markets Authority (CMA) and its responsibilities. The Chief Executive advised that he is scheduled to meet with Alex Chisholm, CEO-designate of the CMA in June.

2.5 CMA update

The Commission noted the very helpful update paper from the CMA and the additional information relating to volumes.

2.6 Finance and contracts paper (CP14/13)

The Commission noted this update paper. The Audit Committee Chairman informed the Commission that an Audit Committee meeting had taken place on 30 April. The Commission noted that the internal audit was now complete and three medium risks had been identified. The external audit will be carried out in early July.

2.7 Business Case (CP15/13)

The Commission noted the update on the negotiations with the Scottish Government on the introduction of a new pay grading structure and progression arrangement for employees. The Commission discussed analyst retention and succession planning.

The Business Case will go to the Remuneration Committee next month for approval.

3. Strategic Review of Charges

3.1 Methodology for Strategic Review of Charges 2015-21 (CP18/13)

The Commission discussed Scottish Water's initial shadow credit rating and how this compares with England and Wales. The Commission noted that the financial model is currently being developed and will be independently audited. A tender will be prepared for this work.

3.2 Analysis of Scottish Water's key submissions (CP17/13)

The Commission noted that the Customer Forum had received a series of Service Improvement Reports from Scottish Water on future capital maintenance, capacity enhancement and quality and environmental investment. WICS will provide comment and additional information to assist the Customer Forum in its discussions with Scottish Water.

3.3 Customer Forum update (CP18/13)

The Commission discussed the future status of the Customer Forum and restated its own statutory responsibilities in relation to price setting. The Commission also discussed the dialogue that the Forum will have with Scottish Water to establish the package of service levels and charges that the Forum considers reasonable; this will be within the overall ranges established by the Commission.

The Commission discussed the preparatory work that is being carried out to assist the Customer Forum in documenting the details of any agreement with Scottish Water. If the Customer Forum and Scottish Water are able to reach an agreement, this will form a part of the final determination which is subject to approval by the Commission.

3.4 RIU update (CP19/13)

The Commission noted this update and will continue to watch developments.

3.5 Combined regulator update (CP20/13)

The Commission noted this update and the upcoming David Hume Institute event.

3.6 SRC timeline (CP25/13)

The Commission noted this paper.

4. Competition

4.1 Competition update (CP21/13)

The Commission noted the update on competition activity.

4.2 Clear Business Water licence application (CP22/13)

4.3 Yorwater (Yorkshire Water) licence application (CP23/13)

4.4 Cobalt licence application (CP24/13)

The three licence applications were considered under one discussion.

The Commission discussed the licence application process, including the use of the escrow mechanism for new entrants without a trading history. The Commission requested a paper providing further information about the use of the escrow mechanism.

The Commission agreed to grant all licences as applied.

Chairman's closing remarks

The Chairman closed the meeting, thanking attendees and noting that the next meeting will take place on 11 June 2013.