

**Minute of the fifty-ninth meeting of the Water Industry Commission for
Scotland**

Held on 7 September 2010 in Stirling

- Present:** Sir Ian Byatt (Chairman)
Professor David Simpson (Deputy Chairman)
Professor John Banyard
Dr Michael Brooker
Mr Charles Coulthard
Mr Alan Sutherland (Chief Executive)
- In attendance:** Mrs Katherine Russell (Director of Corporate Affairs)
Mr Ian Tait (Director of Investment) for section 6
Mr John Simpson (Director of Analysis) for section 7
Mrs Donna Very

Chairman's opening remarks

The Chairman welcomed everyone to the meeting and thanked them for attending the 59th meeting of the Commission.

1. Apologies for absence

None

2. Minute of previous meeting and review of action points

2.1 Declaration of conflicts of interest in relation to the Agenda

None

2.2 Minutes of last meeting (05/10)

The Commission agreed that the minute was an accurate account of proceedings.

3. Update on Current Issues

3.1 Working with stakeholders and other current issues (CP62/10)

The Commission noted CP62/10, an update on the work of stakeholders and significant external events.

3.2 Update from CMA

The Chairman welcomed the Chief Executive of the CMA, Dr Jeremy Atkinson to the meeting and thanked him for the update on market activity.

4. Corporate Affairs

4.1 Finance & Contracts paper (CP63/10)

The Commission noted this paper.

4.2 FOI update (CP64/10)

The Commission noted the good administrative procedures outlined in this paper and the principles and objectives of the policy.

4.3 Key messages for Competition Report (CP65/10)

The Commission approved the key messages for the Competition Report, which is due for publication in late September/early October, subject to clarity of sources of information and the way calculations had been carried out.

4.4 Key messages for Performance Report (CP66/10)

The Commission were asked to approve the key messages of the Performance Report. This report is a combined report covering customer service, investment and costs which would provide customers and stakeholders with a single assessment of the full range of Scottish Water's activities.

The Commission were not in a position to approve these key messages and asked that they be redrafted with more detail.

5. Competition

5.1 Oral update on licensees

The Chief Executive provided an oral update on licensees.

5.2 Update on Communications (CP67/10)

The Commission noted this update on activities being undertaken to communicate the work of the Commission.

5.3 Information paper on new retail areas (CP68/10)

The Commission welcomed the progress being made in these new retail areas and the need to ensure that appropriate engagement with SEPA is maintained.

6. Investment

6.1 Oral Update

6.2 Investment Update Paper (CP69/10)

The Director of Investment provided the Commission with an oral update on Scottish Water's investment delivery.

The Commission welcome this information and took comfort in the fact that Scottish Water has significantly improved its delivery of the investment programme although there still remain some problem areas from previous regulatory periods.

6.3 Water Resource Zone, Stage 4 sign off (CP70/10)

This paper was withdrawn prior to meeting.

7. Strategy

7.1 Implications of Independent Budget Review (CP71/10)

The Commission noted this paper. The Commission recognises that any change in the status of Scottish Water would have implications for regulation.

7.2 Oral update on I³

Following a broad ranging discussion, the Commission noted the following strategic points:

Scottish Water should own its strategy to the extent possible within the regulatory and governance regime that it operates in. This strategy should comprise both a 25 year long-term outlook and a series of plans relating to the price setting periods.

Licensed Providers, non-household and household customers should be more involved in planning and decision making. This would require engagement between Scottish Water and Consumer Focus Scotland and other customers. Such consultation and discussion should include local projects in addition to nationwide and strategic issues. In order to facilitate customer involvement, the Commission needs to consider carefully the collection and presentation of information, especially on costs and on issues of affordability.

The approach to the next Strategic Review of Charges should be focused, to the extent possible, on the achievement of outcomes and the delivery of outputs rather than on inputs and expenditure. This would involve careful consideration of appropriate incentives. At this review, any bias towards capital solutions should be carefully avoided. However, there is uncertainty over the nature of this capital bias and the methods that might be needed to correct it.

There is a lack of understanding around the underlying costs of activities in the water industry. It is in the interests of customers to improve the industry's understanding of these costs. This should also help to ensure compliance with the Competition Act 1998 and facilitate any enforcement action by the Office of Fair Trading. The analysis should be based on cash; this was more relevant to price setting than information from accruals accounting. This would require a revision to the regulatory accounts.

The implementation of I³ is contingent on maintaining close working relationships between the Commission, Scottish Water, the Scottish Government, Consumer Focus Scotland, WaterWatch Scotland and the quality regulators.

In the absence of agreement between Scottish Water and its customers, the Commission would be required to set price limits and, in doing so, would consider whether it might be appropriate to allow for a lower cash return overall.

7.3 I³ Timeline (CP72/10)

The Commission noted this paper.

7.4 Customer Involvement (CP73/10)

The Commission noted this paper.

7.5 Change in role of reporter (CP74/10)

Subject to approval from Scottish Government, the Commission approved the proposal to revise the reporting arrangements with Scottish Water through an appointment of a new Independent Auditor.

7.6 Appraisals and presentations of costs (CP75/10)

The Commission noted this paper

7.7 Joint working area on parameters underpinning price review (CP76/10)

The Commission noted this paper. Further work would be presented to the Commission on these parameters.

7.8 Scottish Water's Dashboard (CP77/10)

The Commission welcomes the construction of the dashboard table as it is most important that such information is shared jointly between the Commission and the Board of Scottish Water. The present version of the Dashboard was agreed subject to review of its operation during the next 15 months.