

## **Appendix 2: Key steps of negotiation process**

### **Step 1: October 2012–November 2012**

We set out our initial expectations of what we consider to be the most important inputs to the next Strategic Review of Charges.

We will shortly set out our view on the scope for improvement in levels of service as currently measured and in unit operating costs. We will also set out our expectations on the use of operating cost solutions to deliver better services and on the efficient use of capital investment. We will also set out our thoughts on the financial strength that we believe Scottish Water should maintain in order to protect the interests of current and future customers and the scope for trade-offs between investment, borrowing and prices.

We would be happy to explain our thinking on these initial expectations to the Customer Forum in more detail if that would be helpful.

### **Step 2: November 2012**

Scottish Water should publish its draft 'strategic vision'.

We would expect that, in publishing its vision, Scottish Water will have consulted with the Customer Forum and other stakeholders on how customers' priorities will be decided.

We would also expect that Scottish Water will be able to offer an initial view of what its longer term plans are likely to mean for customers' bills both in the next and in future regulatory control periods. This view is likely to reflect Scottish Water's understanding of what the Scottish Government may decide on the objectives to be delivered and on the charging principles to be followed.

### **Step 3: November 2012–February 2013**

We will comment on the consistency of Scottish Water's draft strategic vision with the input expectations we had set out at Step 1. We will also comment on other material factors which we regard as either strengths or weaknesses of the vision and why we have come to this view.

### **Step 4: November 2012–February 2013**

Scottish Water should engage with the Customer Forum and other stakeholders to understand their views on its draft strategic vision and any other matters arising.

**Step 5: October 2013**

Scottish Water will finalise and publish both its strategic vision and its draft business plan for the next regulatory control period. The draft business plan should be consistent with the longer term strategic vision and the objectives and charging principles set out by the Scottish Government. We would expect that, in publishing its business plan, Scottish Water will wish to engage with the Customer Forum and other stakeholders on emerging thinking and priorities.

**Step 6: December 2013–January 2014**

We will comment in detail on the draft business plan, identifying both strengths and weaknesses. These comments will take the form of short, published notes. They will highlight those areas of the plan that we consider to be most material in value for money terms. Again, we would be happy to explain our thoughts further to the Customer Forum.

**Step 7: January 2014–April 2014**

The Customer Forum negotiates with Scottish Water to agree the draft business plan from a customer perspective. The agreed draft business plan should be fully consistent with Ministerial Objectives and with the ranges the Commission has set out unless there are demonstrable reasons for going outside those ranges to the benefit of customers. The Forum may also wish to seek the views of the quality regulators on the impacts of Scottish Water's proposals on customers.

**Step 8: April 2014**

The Customer Forum either reaches or fails to reach agreement with Scottish Water. In the event that the Forum fails to reach agreement, we would like to receive a letter explaining, in detail, the areas of agreement and disagreement and why the Forum felt unable to reach agreement. We would ask for a similar letter from Scottish Water.

**Step 9: June 2014**

We publish our draft determination which will take the form of the agreement on the Business Plan between Scottish Water and the Customer Forum. In the event that there is no agreement, we would publish our draft determination, based on the information provided in the letters from the Forum and from Scottish Water, Scottish Water's business plan and all our earlier comments during the Strategic Review.

**Step 10: June 2014–August 2014**

We receive responses to the draft determination from interested parties. These will be forwarded to the Customer Forum, alongside a commentary from us on the views received.

**Step 11: June 2014–September 2014**

The Customer Forum seeks to agree a final settlement with Scottish Water based on the draft determination and on our commentary on the views received.

**Step 12: September 2014**

The Customer Forum either reaches or fails to reach agreement with Scottish Water. In the event that the Forum fails to reach agreement, we would like to receive a letter explaining, in detail, the areas of agreement and disagreement and why the Forum felt unable to reach agreement. We would ask for a similar letter from Scottish Water.

**Step 13: November 2014**

We publish our final determination which will take the form of the agreement on the Business Plan between Scottish Water and the Customer Forum. In the event that there is no agreement, we would publish our final determination, based on the information provided in the letters from the Forum and from Scottish Water, Scottish Water's business plan and all our earlier comments during the Strategic Review.

**Step 14: January 2015**

Scottish Water has two months to accept the final determination or ask for it to be referred to the Competition Commission.