

**Minute of the eighteenth meeting of the Water Industry Commission for
Scotland
Held on 1 and 2 August 2006 in Stirling**

Present:

Sir Ian Byatt (Chairman)
Professor David Simpson (Deputy Chairman)
Dr Michael Brooker
Mr Charles Coulthard
Mr Alan Sutherland (Chief Executive)

In attendance:

Mrs Katherine Russell (Director of Corporate
Affairs and Secretary to the Commission)
Miss Harriet Towler (Corporate Affairs Manager)
Dr John Simpson (Director of Analysis) for item 6.
Dr Jeremy Atkinson (Director of Licensing) for item
7.
Mr Ian Tait (Director of Investment and Asset
Management) for item 5.
Mr Craig Mackenzie (Analyst) for item 6 (CP128-
06).
Mr James Fennessey (Secondee) for item 6
(CP124-06)
Mr Tim Matthews (Team Octopus) for item 4
(CP120-06).

Chairman's opening remarks

The Chairman welcomed everyone to the meeting and thanked them for attending.

1. Apologies for absence

Professor John Banyard.

2. Minute of previous meeting and review of action points

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

The Commission were updated on actions from the previous meeting and noted it was a satisfactory position. However, for clarity, the action register should be extended to include expected completion dates. **Action**

3. Update on current issues

The Commission noted CP114-06, CP116-06, CP117-06 and CP118-06. The Commission noted, in relation to CP115-06, that it was important to keep up to date on the work the Scottish Environment Protection Agency (SEPA) was carrying out on the Water Framework Directive.

The Commission also noted that it would be important to maintain links with key stakeholders in general in the coming months. A series of meetings would be arranged. **Action**

The Chairman reported that he had continued his programme of meetings with stakeholders across Scotland. This month he had met with representatives from the Scottish Borders Council, Scotch Whisky Association and the Glasgow Chambers of Commerce.

The Chairman further reported that he had met with the Chair of Scottish Water, Ronnie Mercer at Ochil House. During this time, Mr Mercer had met with staff from the Commission's office.

The Secretary to the Commission reported that she would shortly be having monthly meetings with Scottish Water's General Manager for Regulation. The Chairman encouraged other Directors to take part in these meetings, as and when appropriate.

Professor Simpson reported that he was currently reading a paper published by the Fraser of Allander Institute on risk and borrowing in the Strategic Review of Charges 2006-10. He would draft a response for the Commission to consider.

The Chief Executive reported that the office's away day had been a success, and that in the coming months the Commission would be presented with the output.

4. Corporate Affairs

The Commission noted the update on the office workplan (CP119-06). The Commission requested monthly updates on the work of the office's framework contractors. **Action**

The Commission agreed consideration should be given to the Audit Committee taking on a "value for money" assessment of these contracts. **Action**

The Chairman welcomed Mr Tim Matthews of Team Octopus to the meeting, to report of his findings during a review of the Commission's, and former Commissioner's, publications (CP120-06). The Commission found Mr Matthews' recommendations worthwhile, and welcomed the provision of training to staff to improve writing styles. Both the Chairman and Mr Coulthard expressed an interest in attending these sessions.

The Commission noted CP121-06 on the importance of keeping accurate records of meetings and the implications of the Freedom of Information Act 2002.

5. Investment

The Commission noted CP122-06 on the status of the Quality and Standards II (Q&SII) overhang, and remaining analysis to be completed. The Commission requested that this analysis should be completed by September so that the Commission could write to the Scottish Executive on the final closing position of the Q&SII overhang. **Action**

The Commission reviewed the key themes proposed for the forthcoming Investment and Asset Management Report. The Commission noted that it would be important that the report should inform customers whether they are receiving value for money by linking expenditure to outputs delivered. In doing so, the term 'outputs', and how they are monitored by the Commission and the OMG, should be clearly explained. **Action**

6. Costs, performance and levels of service

The Commission reviewed the Executive Summary of the Customer Service Report (CP124-06). The Commission approved the draft, subject to the inclusion of the planned role of Waterwatch in assessing the qualitative customer service performance of Scottish Water. The Commission also noted that the inclusion of a foreword would not be appropriate, however, the context to the report should be explained at the outset. A copy of the report would be circulated to Scottish Water for information prior to its publication. **Action**

The Commission considered whether to initiate an interim determination for 2007-08 (CP125-06). The Commission agreed that, based on the evidence presented, there were no grounds for the Commission initiate an interim determination. The Commission noted that at present, the most material item which could prompt an interim determination in the future would a smaller reduction in Scottish Water's non-household customer base than had been anticipated in the final determination. The Commission noted that this decision was predicated on information from Scottish Water that had either been assigned a low accuracy rating or was not available in full.

The Commission noted the update on progress with the wholesale charging study (CP125-06). The Commission noted the timetable for establishing a wholesale scheme of charges had been revised. The Commission were concerned about the slow progress being made by Scottish Water in this regard. The Commission discussed how Scottish Water could be assisted with the information return it had been asked to completed for the project. The Commission also discussed possible outcomes should a charges scheme not be decided. The Commission noted that the ultimate sanction would be a referral to the Office of Fair Trading under the terms of the Competition Act

1998. However, the Commission hoped a scheme could be in place by July 2007, and that a draft scheme might be available in time for the first licence applications, scheduled for January 2007. This matter would be discussed with Scottish Water's Chair. **Action**

The Commission discussed issues arising from Scottish Water's Annual Return (CP127-06). The Commission noted its disappointment with the quality of information provided in the 2005-6 Annual Return, and the difficulties experienced by the Reporter. The Commission agreed that it would be important to work with Scottish Water to improve the quality of its information submissions. In particular, the Commission hoped Scottish Water would prioritise improvements in information relating to capital maintenance, the OPA and leakage. This would be discussed with Scottish Water's Finance Director. **Action**

The Commission reviewed a "question and answer" (Q&A) paper prepared on issues surrounding trade effluent charging (CP128-06). The Commission noted that it was important that the Q&A should consider a wider range of issues. An amended version will be prepared which takes accounts of Commission comments. **Action**

The Commission noted CP129-06, a letter issued to Scottish Water on Schedule 3 of the Water Services etc (Scotland) Act 2005.

7. Licensing

The Commission noted CP130-06, and update on the first two meetings of the Licensing Framework Implementation Group (LFIG).

The Commission also noted CP131-06 an update on the progress with developing the Market Code. It requested a briefing be written on the different codes that would be used in the market and their intended purpose. **Action**

The Commission noted CP132-06, CP133-06 and CP134-06 on the Terms of Reference for a Central Market Authority (CMA), the process for tendering the contract for the CMA, and an initial report written by Gemserv on the possible role for a CMA. The Commission welcomed the initiation of the process to establish a CMA, but noted the importance of the CMA simply having an administrative function in the new market. A short brief on the likely functions of the CMA would be written for the Commission. A copy of Gemserv's report would be placed on the Commission's website. **Actions**

The Commission discussed the principles which would underpin the Terms of Reference for the LFIG. The Commission approved the principles, and wished to see a final version of the terms of reference once approved by the LFIG itself and its Chairman. **Action**

The Commission noted the proposal that there should be a default customer service code for retailers to complement the default tariffs that the Commission were minded to require. The Commission agreed that there

should be a default customer service code, and that this code should embrace, as fully as possible, the relevant sections of Scottish Water's existing customer service code. The LFIG would be asked to contribute to, and approve this code, prior to it being sent to the Commission for final approval. **Action**

8. Any other business

The Commission discussed who they hoped would give the Comiston Lecture 2007. A short list was devised, and the top candidate approached. **Action**

Minute approved on:

Minute authorised by: