

**Minute of the twenty-fifth meeting of the Water Industry Commission
for Scotland
Held on 3 and 4 April 2007 in Stirling**

Present:

Sir Ian Byatt (Chairman)
Professor David Simpson (Deputy Chairman)
Dr Michael Brooker
Mr Charles Coulthard
Professor John Banyard

In attendance:

Mrs Katherine Russell (Director of Corporate Affairs and
Secretary to the Commission)
Dr John Simpson (Director of Analysis)
Miss Harriet Towler (Corporate Affairs Manager)
Mr Ian Tait (Director of Investment and Asset
Management) for item 5.
Mr Cesar Raffo (Analyst) for item 7.2

Chairman's opening remarks

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

1. Apologies for absence

Mr Alan Sutherland (Chief Executive)

2. Minute of previous meeting and review of action points

The Commission agreed that the minute, subject to minor amendment, was an accurate account of proceedings.

The Commission were updated on other action points from the previous meeting and noted it was a satisfactory position.

3. Update on current issues

Professor Simpson reported that a research group into public services, which had been discussed by the Commission at its March meeting, had commenced research. A steering group with 10 members had also been established to discuss the findings of the group.

Professor Simpson also reported that he would shortly be giving a presentation to the Institute of Technology at Napier University.

Mr Coulthard reported that the new regulator for utilities in Northern Ireland had been established (Northern Ireland Authority for Utility Regulation, NIAUR) and had recently licensed Northern Ireland Water to supply water and waste water services. The Commission noted it looked forward to working with the NIAUR in the future.

Dr Brooker reported that he would shortly be attending his first Ofwat board meeting as a member.

Professor Banyard reported that he had had a useful discussion with Philip Green, Chief Executive of United Utilities, prior to the Comiston lecture.

The Chairman reported that this year's Comiston lecture had gone well and extended his thanks to the speaker, Philip Green.

The Chairman also reported that a presentation he had given to the European Regulatory Policy Institute would shortly be published. He would also be giving a talk at the Centre for Regulated Industries in April.

Dr Simpson reported that the Commission's programme of stakeholder information days for the 2010-14 price review would commence shortly.

The Secretary to the Commission reported that liaison meetings with Scottish Water continued to progress well. She also reported that the Chief Executive had recently met with the new Managing Director of Scottish Water Business Stream, and planned to meet with him regularly.

4. Corporate Affairs

The Commission discussed the key messages it wished to communicate in its annual report for 2006-07 (CP37-07). The Commission noted that the report would use unaudited accounts. The Commission requested that the report set out the benefits that had been delivered to customers over the last year as a result of Scottish Water's improving performance and regulation. The Commission agreed the report should be launched on 7 June. **Action – Harriet Towler**

The Commission noted the minutes of the March meeting of its Audit Committee (CP38-07).

The Commission approved the proposed changes to its risk register (CP39-07). However, the Commission recommended that the Chief Executive should re-assess both the risk and impact of Scottish Water not delivering its investment programme. **Action – Katherine Russell**

The Commission reviewed a proposed management statement and financial memorandum from the Scottish Executive (CP40-07). The Commission welcomed the Audit Committee's recommendation of the Financial Memorandum and approved the document. The Commission also welcomed the work that had been carried out on the management statement. However, the Commission expressed its concern that the current form of drafting appeared potentially to prejudice its ability properly to discharge its statutory functions. As such, the Commission agreed that further work should be carried out on the document. This would be communicated to the Scottish Executive. **Action – Katherine Russell**

The Commission noted CP41-07, an update on progress with its workplan.

The Commission noted CP42-07, an update on its framework contracts. The Commission noted that in general it was satisfied with the position, but expressed disappointment with the progress of one project.

The Secretary to the Commission provided an update on current operational arrangements with Waterwatch and future proposed changes to these arrangements. The Commission noted that a full pay review would be carried out at both the Stirling and Alloa offices.

5. Investment

The Commission noted papers CP43-07, the Output Monitoring Group report for the third quarter of 2006-07, and CP44-07, an update on the size of the overhang from the Quality and Standards II investment programme. The Commission noted its concern that there were signs of further delay in the delivery of the programme. The Commission noted that the actual delivery position would be clearer if the weighted value of projects completed was also used as a measure of progress. The Commission agreed that its concerns should be noted in its Annual report in June, and Investment and asset management report later in the year if still applicable. The Commission's concerns would be communicated to the Chairman of Scottish Water. **Action - Chairman**

6. Competition

The Commission noted and welcomed CP45-07, the minute of the March meeting of the Licensing Framework Implementation Group (LFIG).

The Commission noted CP46-07, and update on the establishment of the Central Market Agency (CMA) for the new retail market. The Commission noted that in order to establish the CMA as a legal entity separate from the Commission, a substantial programme of work would need to be undertaken. The Commission noted that this coincided with a busy period in the licensing workplan and would place a heavy burden on the Director of Licensing as the Chief Executive designate of the CMA. The Commission therefore re-iterated the importance of filling the Director of Competition post.

The Commission noted CP47-07, an update on activity from potential entrants into the new retail market. The Commission noted the importance of securing applications for licences for the new retail market. The Commission agreed that it would review the number of licence applications received in September, and agree an alternative course of action if necessary. **Action – Jeremy Atkinson**

The Commission noted CP48-07, an update on the development of market arrangements and welcomed the progress made.

The Commission considered CP49-07, an application for authority to be delegated to the Chief Executive to approve the monitoring, enforcement and penalties policy for the new market. The Commission noted that this document had been consulted on, and that no significant changes to the document would be required. The Commission agreed to delegate authority in these circumstances.

The Commission considered CP50-07 an application for authority to be delegated to the Chief Executive to determine standard licence conditions and ensure they are aligned with the provisional licences held with Scottish Water Business Stream. The Commission noted the time constraints on carrying out this exercise, and agreed to delegate authority on that basis.

7. Costs, performance and levels of service

The Commission noted CP51-07 and welcomed progress with the wholesale charges project.

The Commission noted CP52-07, an update on Scottish Water's financial performance for quarter three of 2006-07. The Commission welcomed the improvement in Scottish Water's operating efficiency but expressed its concern that capital expenditure had not shown expected progress.

The Commission noted Scottish Water's response to the points raised by its transfer pricing review. The Commission welcomed the positive response from Scottish Water and requested that the implementation of proposed actions be verified. **Action – John Simpson**