

**Minute of the twenty-eighth meeting of the Water Industry Commission  
for Scotland**

**Held on 3 July 2007 in Stirling**

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Present:

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

**Chairman's opening remarks**

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

**1. Apologies for absence**

Professor David Simpson (Deputy Chairman)

**2. Minute of previous meeting and review of action points**

I. Minute of last meeting (05/07)

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

II. Review of action points (AP05/07)

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

### **3. Update on current issues**

#### **I. Working with stakeholders**

The Chief Executive reported that the office continued to have regular liaison meetings with the Scottish Environment Protection Agency (SEPA). The Commission encouraged the office to retain this regular contact with SEPA throughout the price review process.

The Chief Executive reported that the office also continued to have regular liaison meetings with the Drinking Water Quality Regulator (DWQR), most recently to discuss Scottish Water's annual return. There were currently no issues being raised by the DWQR.

The Commission welcomed Waterwatch Scotland's attendance with at its stakeholder workshops for the next price review, and the positive feedback that had been provided.

The Commission discussed the useful meeting it had had last month with the Scottish Executive.

The Chairman reported that he had recently met with Stewart Stevenson MSP, Minister for Transport, Infrastructure & Climate Change, and had found it a useful discussion. He hoped to meet with John Swinney MSP, Minister for Finance & Sustainable Growth, later in the month. The Chairman also reported that he had attended a meeting for public sector leaders at the invitation of the First Minister, Alec Salmond MSP.

The Chief Executive reported that the office continued to have regular liaison meetings with Scottish Water. The Commission also noted that the office was holding working level workshops with Scottish Water on leakage. The Commission welcomed the news that it would be meeting with Scottish Water's Board in October.

The Chief Executive reported that he was holding monthly meetings with the Managing Director of Scottish Water Business Stream. This dialogue was proving productive in the run up to the opening of the competitive market.

#### **II. Other current issues**

Mr Coulthard declared a new interest. He reported that he had recently been appointed to the panel conducting an independent review of the finance and governance of the new Northern Ireland Water.

The Chief Executive reported that he had attended a recent Institute of Economic Affairs conference on water, and had been interested in the

comments made by the Defra Minister, Ian Pearson, MP on competition.

The Chief Executive also reported that Shepherd and Wedderburn's round-table breakfast briefing on competition in the Scottish water industry had been well attended and produced some interesting debate.

The Chairman reported that he had recently attended a useful Postcomm forum on the Royal Mail. He had also attended a first meeting of Chairman of related regulatory bodies.

#### **4. Corporate Affairs**

##### **I. Commission's self-appraisal (CP87-07)**

The Commission approved the proposed self-appraisal, subject to minor amendment. The Commission's self-appraisal would be placed on the website.

##### ***Action***

##### **II. Update on the office workplan (CP88-07)**

The Commission noted the update on the office's workplan.

##### **III. Update on framework contracts (CP89-07)**

The Commission noted the update on its framework contractors. The Commission emphasised the importance of its Directors providing full and frank opinions on the work of its framework contractors, and holding them to account where necessary.

##### **IV. Update on stakeholder information day 3 (CP90-07)**

The Commission noted and welcomed the summary of its third stakeholder information day for the 2010-14 price review.

##### **V. Update on Waterwatch Scotland**

The Chief Executive reported that Waterwatch Scotland was in the process of finalising its corporate plan. It was hoped that this plan would shortly be agreed with the Scottish Executive, and a future budget agreed. The Commission noted this update.

##### **VI. Update on the Audit Committee (CP91-07)**

Mr Coulthard, Chairman of the Audit Committee, updated the Commission on the Committee's last quarterly meeting. Mr Coulthard reported that consideration was being given as to whether the

Commission could be listed as being eligible to re-claim VAT. The Commission would be kept updated.

The Commission noted the minutes of the Audit Committee meeting.

## 5. Investment

- I. Update on the Output Monitoring Group (OMG) (CP92-07)
- II. Update on the Quality and Standards II overhang (CP93-07)

The Commission expressed its concern about the emerging delays in the delivery of the current investment programme and the overhang of investment from the 2002-06 programme. The Commission recognised that substantial further improvement in the information available about Scottish Water's progress in delivering its capital investment programme was essential. The Commission also discussed how progress could be more effectively and understandably presented. This should include consideration of both outputs delivered and expenditure.

The Commission agreed it was important that the graphical presentation of Scottish Water's performance in its Investment and Asset Management report (scheduled for publication in October) complemented that of the OMG reports.

### ***Action:***

The Commission noted both CP92-07 and CP93-07.

## 6. Competition

- I. Update on the Licensing Framework Implementation Group (LFIG) (CP94-07)

The Commission noted and welcomed the minutes of the last LFIG meeting.

- II. Update on activity from potential entrants

The Chief Executive reported that Satec Limited's application for standard licences to supply water and sewerage services in the new retail market was progressing through the application process. He also reported that two other companies were showing an interest in applying.

The Commission noted this update.

- III. Update on wholesale charges

The Chief Executive reported that he was awaiting confirmation that Scottish Water's Board had accepted the proposed revisions to the

wholesale charges scheme for 2008-09. He anticipated that should the scheme be endorsed by Scottish Water, it would be ready for publication in August.

The Commission noted this update.

IV. Revised process for approving licence applications (CP95-07)

The Commission noted that the changes agreed at its June meeting to the process for assessing licence applications had been incorporated. The Commission agreed a further change to the process document to specify the time within which the office should consider the initial application.

The Commission approved the revised process subject to this amendment being incorporated.

V. Scottish Water/Scottish Water Business Stream separation (CP96-07)

The Commission understood that Scottish Water Business Stream intended to apply for permanent licences to supply in the new retail market in September. The Commission had previously set three tests relating to governance, separation and financing which Scottish Water Business Stream must pass in order to receive permanent licences.

The Commission noted that Scottish Water Business Stream had yet to demonstrate that its Board could operate independently of Scottish Water. This was a pre-requisite of receiving permanent licences. Furthermore, the Commission noted that Scottish Water Business Stream had some way to go before it would be ready to enter its market readiness testing. This situation would be monitored closely.

The Commission noted the update.

VI. Update on Gemserv and the Central Market Agency (CMA) (CP97-07)

The Commission noted that the incorporation of the CMA for the new retail market would take place as soon as practicably possible. Responsibility for the Commission's contract with Gemserv, the market services provider, would be transferred to the CMA once fully operational.

The Commission noted this update.

VII. Update on data cleansing (CP98-07)

The Commission noted that Scottish Water Business Stream is manually processing customer records to improve their quality. Scottish Water Business Stream had recently increased the resources dedicated to this task, and good progress was being made. Scottish Water

Business Stream would be required to transfer this data to the CMA to populate its register of supply points, and facilitate the transfer of customers between retailers in the new market.

The Commission noted this update.

VIII. Programme for communicating competition

The Commission noted that a programme had been devised to raise awareness of the opportunities that exist for both non-household and licensed providers in the new retail market. The Commission recommended that this programme be staggered, reflecting the two audience types, and first focus on potential market entrants.

The Commission noted the programme.

**7. Costs, performance and levels of service**

I. Scottish Water's Code of Practice (CP100-07)

The Commission understood that it has a statutory duty to approve Scottish Water's Code of Practice, showing due regard to the views of the Water Customer Consultation Panels (Waterwatch Scotland). Scottish Water's existing Code of Practice, which was approved by former Commissioner, had recently been revised to reflect the changes in Scottish Water's structure brought about by the Water Services etc (Scotland) Act 2005. Principally, references to non-household customers had been removed.

The Commission noted that its intention to approve the revised Code of Practice had been communicated to Waterwatch Scotland. No objections had been raised.

The Commission approved Scottish Water's revised Code of Practice. Scottish Water would be informed of this approval.

**Action:**