

Seventy-ninth meeting of the Water Industry Commission for Scotland**Held in Stirling on 15 October 2013**

Present: Professor Gordon Hughes (Chairman)

Mr. Alan Sutherland (Chief Executive)

Mr. Ross Finnie

Mrs. Libby Gawith

Mr. John Reynolds

In attendance: Mr. Ian Tait (Director of Investment)

Ms Katherine Russell (Director of Corporate Affairs)

Mr. Richard Khaldi (Head of Competition)

Chairman's opening remarks

The Chairman welcomed everyone to the 79th meeting of the Commission.

1. Apologies for absence

None

2. Minute of previous meeting and regular updates**2.1 Declaration of conflicts of interest in relation to the agenda**

No conflicts of interest were reported.

2.2 Minute of last meeting (02/13)

The Commission agreed that the minute was an accurate record of the last meeting.

2.3 Summary of action points

The Chief Executive updated the Commission on the independent staff review by Judith Hardy. Ms Hardy's initial report would be given on Thursday this week when the Chief Executive was due to meet with her. The Scottish Government had also provided

Scottish Water's voluntary redundancy scheme to the office and had indicated that it may be amenable to a similar scheme should the office believe it to be appropriate.

2.4 Oral update on current issues

The Chief Executive provided a brief oral update which the Commission noted.

3. Regular Business

3.1 CMA update

The Commission discussed the market shares of the licensed providers as detailed in the CMA update paper. The Commission was pleased to see that more switching had taken place. It also discussed how some of the smaller new entrants were gaining market share quickly alongside the larger entrants from the English water companies.

The Head of Competition provided a brief update on the SAA project and confirmed that he would check with the CMA as to whether formal sign-off from the Commission was needed to allow licensed providers access to the information generated by the project.

3.2 Update from Audit Committee (CP47/13)

There were no issues that should be reported to the Commission.

There was some discussion at the Audit Committee on the nature and extent of some of the risks included in the risk register.

4. Competition

4.1 Competition update (CP48/13)

The Commission noted the paper.

5. Investment

5.1 Investment update (CP49/13)

The Director of Investment discussed the paper with the Commission. It was noted that in the first quarter Scottish Water had slipped behind on some OMG targets and the paper provided Scottish Water's explanations as to why. The Director of Investment confirmed that the overall OMD measure remained ahead of target at present but was likely to fall behind target by the end of the regulatory period as it was already acknowledged that there will be some carry-over of projects into the next regulatory period.

The Commission discussed Scottish Water's position with regards to the Commonwealth Games in 2014 and was pleased to hear Scottish Water's view that it will have completed all necessary works in good time.

Finally, the Commission discussed the issue of historic sludge that has been raised by SEPA in its recent meeting with the Chief Executive. The Commission noted SEPA's position and noted that the way in which Scottish Water will deal with this issue will form part of the ongoing negotiations between Scottish Water, SEPA and the Customer Forum.

6. Strategic Review of Charges

6.1 Customer Forum – timeline for papers (CP51/13)

The Commission discussed how, and in what timeframe, it would review the briefing papers for the Customer Forum, before they were published. The CEO outlined the proposed content of the papers. The Commission was broadly content with the proposed timetable and content.

The Commission concluded that themed briefing notes would be more descriptive and objective. It saw the Chairman's strategic overview as critical because it would allow a more subjective commentary to be made.

The Commission asked that sufficient time be allowed in the agenda at its next meetings to discuss issues arising on the Strategic Review of Charges.

The Commission heard that Scottish Water's Board hoped to use its meeting at the end of February to approve an agreement with the Customer Forum. The Scottish Water Board will also receive a detailed update at its January meeting.

The Commission asked for both electronic and paper copies of Scottish Water's draft business plan.

The Commission also agreed that it was looking forward to Scottish Water's presentation of its draft business plan. The Commission wished to focus on asking questions and understanding the draft plan's rationale.

6.2 Prospects for prices (CP50/13)

The Commission was given an updated presentation on the prospects for prices. This included the Office's view as to what was likely to be in the draft business plan.

The Commission discussed this presentation and the consequent prospects for prices. The Commission discussed Scottish Water's likely proposals on capital expenditure and operating expenditure. It also reviewed the prospects for growth in the number of connected properties during the regulatory control period.

The Commission also discussed Scottish Water's customer research results (as agreed with the Customer Forum) and the customers' priorities that research indicated.

There was a discussion on annual as opposed to review period charge caps, together with the possibility of reviewing the level of the non-household default tariffs once Scottish Water's Business Plan is received. This would involve consulting with the licensed providers in Scotland.

The Commission closed its discussion by considering some of the issues that it may be minded to include in the draft determination, separate from its consideration of prices. This included a discussion of the Innovation Panel and Scottish Water's proposal to use a decommissioned treatment works as an innovation test bed. Also the new lead (pb) level standard was discussed together with the proposal to run a lead treatment pilot.

There was a discussion about the possibility of the issue of rural private supplies being studied over the course of the review period as well as the agreement with Scottish Water that it would introduce an efficient procurement obligation for any improvements. The Commission recognised the need to monitor any such process carefully.

Chairman's closing remarks

The Chairman thanked everyone for their attendance at this meeting and confirmed that the next meeting will take place on 03 December 2013.