

# Strategic Review of Charges 2010-14

## Stakeholder information workshops 2009: Scottish Water's levels of service

Stirling, 26 February 2009

### Attended by

Jennifer Leonard	Scottish Environment Protection Agency
Tony March	Osprey Water Ltd
Sean McComish	Scottish Water
David Hughes Hallet	WaterWatch Scotland
Tom McClements	WaterWatch Scotland
Tommy Kane	Department of Geography & Sociology, Strathclyde University
Monica Garcia	UNESCO Centre for water law, policy and science
Gerard O'Loan	NHS national procurement
Bryan Wallis	Water UK
John Simpson	Water Industry Commission for Scotland (WICS)
Xinyue Li	WICS
Donna Very	WICS

### Opening remarks

Stakeholders were welcomed to the third workshop of 2009 on the Strategic Review of Charges 2010-14. This workshop would primarily focus on how we will encourage Scottish Water to continue to improve its levels of service to customers.

It was explained that strategic reviews were carried out in three key stages aimed at ensuring customers receive value for money:

1. Ministers set Scottish Water objectives for the industry over the regulatory control period, and define the principles of charging that must be followed.
2. Scottish Water proposes how it will deliver these objectives and the financing it will need to do so.
3. WICS scrutinises Scottish Water's proposals and set final caps on prices that Scottish Water to deliver the Ministers' objectives at the lowest overall reasonable cost.

At the end of this process, WICS determines limits on the amount Scottish Water can charge households in each year of the regulatory control period 2010-14. It also sets the 'default tariffs' that licensed suppliers must offer business and public sector customers in the competitive market, as well as limits on Scottish Water's wholesale charges to licensed suppliers.

It was explained that we measure Scottish Water's levels of service using an Overall Performance Assessment (OPA). This index, which was originally developed by Ofwat to monitor the companies south of the border, combines 15 individual service measures that customers consider to be most important.

For the 2009 review, WICS would focus on setting prices alone as opposed to using separate targets for Scottish Water to reduce costs and to improve customer service. This change in approach reflects the good progress that Scottish Water has made in improving its OPA score to date. WICS has proposed that by the end of the 2010-14 regulatory control period, Scottish Water should ensure that its performance as measured by the OPA is comparable to the three most efficient companies in England and Wales, without WICS needing to set specific targets for this.

## **Overview of issues discussed**

### *Financial*

One attendee asked whether charges are linked to inflation. It was confirmed that charges would very likely be linked to inflation as this is common regulatory practice.

Another attendee questioned whether there will be correlation between default tariffs and wholesale charges. It was noted that decisions will be made in May.

One attendee asked how default charges are calculated. It was noted that the structure looks like previous charges.

Another attendee asked about uncertainty in the level of public borrowing in the price review. It was noted that if borrowing were indeed lower, this would put pressure on delivery. However, Scottish Water may have ways around such constraints, e.g. leasing.

One attendee asked whether there is a link between the availability of borrowing and the economic recovery plan and whether we have lobbied for such a link. It was noted that it we had pointed out the need for Scottish Water to have reliable access to public borrowing.

Another attendee questioned the impact of low interest rates on the strategic review of charges. It was explained that the determination will make an allowance for Scottish Water's expected interest rate position, taking account of its fixed repayment schedule on the embedded debt and the prevailing interest rates.

### *Customer service*

One attendee asked how the compiling of information is audited and monitored. It was explained that Scottish Water provides most of the information through its Annual Return, which is audited by an independent technical Reporter. The remainder of the information is provided by DWQR, SEPA and WaterWatch Scotland.

One attendee asked what the role of the technical Reporter is. It was noted that the Reporter focuses on assessing the reliability of Scottish Water's regulatory information, including where assumptions have been made but not stated.

Another attendee questioned the calculation of the OPA – is it the actual number at the end of the year? It was stated that it is the total number over the whole year.

One attendee asked whether the OPA figure of 250 (Scottish Water's published target for 2009-10) is directly comparable to England and Wales. It was noted that the scores for England and Wales have been adjusted in order to compare like-for-like with Scottish Water's target.

One attendee asked if there are any plans to re-weight the OPA measures. It was noted that there is no such plan.

One attendee asked whether OPA is used to incentivise staff in England and Wales. It was noted that it is up to companies how to reward employees. Ofwat awards companies with high OPA and penalises companies with low OPA.

Another attendee asked whether water efficiencies are looked at. It was noted that water efficiency has been a problem in England and Wales for a long time. Ofwat has a legal duty to ensure water companies have plans in place. In Scotland, we are not yet in this position.

One attendee asked about leakage in Scotland. It was noted that we have set pragmatic targets for leakage reduction, and aim to reduce leakage to an economic level by 2014. Work is ongoing to assess this level. It was noted that if Scottish Water misses leakage targets, it will affect its OPA score.

One attendee asked about Slide 12 – Ofwat may introduce qualitative measures into the OPA in England and Wales. It was noted that we would much prefer to exclude qualitative measures from the OPA, and to consider them separately.

Another attendee asked whether OPA is built on what customers want or our view. It was noted that OPA is built on market research into customers' opinions of what is important for them. The attendee considered that we should take more account of customers' experience in the OPA.

END