

Ninety third meeting of the Water Industry Commission for Scotland

On 4 February 2016

Present: Professor Gordon Hughes (Chairman)
Alan Sutherland (Chief Executive)
Ross Finnie
Libby Gawith

In attendance: Katherine Russell – Director of Corporate Affairs and Strategy
Ian Tait – Director of Investment
Simon Parsons – Scottish Water (item 5 only)
Geoff Aitkenhead – Scottish Water (item 5 only)
Tom Harvie-Clark – Scottish Water (item 5 only)
Shona Coan – Financial Controller (items 3.2)
Charles Yates – Head of Competition (item 6 only)
Donna Very – Office Manager

Chairman's opening remarks

The Chairman welcomed everyone to the 93rd meeting of the Commission.

1. Apologies for absence

No apologies were received.

2. Minute of the last meeting and regular updates

2.1 Declaration of conflicts of interest in relation to the Agenda

There were no declared conflicts of interest.

2.2 Minute of last meeting (06/15)

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

2.3 Summary of action points (AP07/15)

The Commission noted the summary of action points. The Chair requested that a date be sought for a joint board meeting with Scottish Water and the board of the CMA. The Chairman and Chief Executive confirmed that they will meet with Scottish Water's Chief Executive and new Chair on 03 May.

2.4 Chief Executive's report (CP01/16)

The CEO updated members on the recent work of the office. The Commission discussed the impact that changes in the profile of borrowing would have for Scottish

Water. The Commission noted the update from the Chief Executive regarding progress with the development of the competitive market south of the border.

The Chief Executive informed the commission that Laurie Macfarlane, Head of Analysis, would be leaving at the end of February for a new position in London. The Commission requested further information on the trend of analytical staff employment over the last 5 years. The Chief Executive provided an update on the recent round of analyst recruitment and the upcoming assessment centre in March.

3. Regular business

3.1 CMA update (CP02/16)

The Commission noted this update.

3.2 Financial and contracts update (CP03/16)

The Commission noted this update. The Commission discussed the forecast cash balance and noted that some of this surplus would be ring-fenced for the rural connections pilot. The Commission also noted that Scottish Water and Licensed Providers will be given a refund from the remaining surplus.

Ross Finnie, Chair of the Audit Committee, provided an update on the recent work carried out by the internal auditor. He informed the Commission that at the last meeting of the Audit Committee it was noted that the Commission had not reviewed its appetite for risk for quite some time. The Commission agreed that it would be useful to have a facilitated session on risk appetite and asked the Financial Controller to investigate options for taking forward this session ahead of the June Commission meeting.

The Commission expressed concern regarding the proposed expenditure on retaining the former members of the Customer Forum as an advisory panel. The Commission would not approve any further expenditure for this work until there was more clarity on the role of the Customer Forum going forward. The Commission requested a paper on the Customer Forum for the next meeting.

4. Strategic Review

4.1 Hydro Nation (CP04/16)

The Chief Executive provided an update on the recent activities of the office in support of the Hydro Nation initiative. The Chief Executive informed the Commission that the Scottish Government remain fully supportive of the office's involvement in this area.

4.2 Advisory Panel update (CP05/16)

The Commission noted the papers for the next Advisory Panel and noted the cancellation of the April Advisory Panel session. The Chief Executive confirmed that the July and October Advisory Panel meetings remain as scheduled.

5. Investment

5.1 Investment update (CP06/16)

In light of the Commission's ongoing concerns with regard to Scottish Water's progress on output delivery, Scottish Water were invited to attend this meeting. The Chairman welcomed representatives from Scottish Water to the meeting.

Scottish Water provided an update on their progress with the delivery of the 2015-21 programme, including the delays associated with delivering the remainder of the 2010-15 programme and the Glasgow drainage project. The Commission sought assurances that lessons had been learned from the shortfall in delivery experienced at the end of the previous investment period and that improved delivery processes were in place. Scottish Water outlined the new delivery processes that have been established and the expected impact of these on the output delivery profiles, which will be reflected through the re-baselining process which will form part of the delivery plan update.

The Chairman thanked Scottish Water for their update and wished them success with the delivery plan. The Commission would welcome similar sessions in the future.

6. Competition

6.1 Retail update (Scotland) (CP07/16)

The Commission noted this update and authorised the implementation of the Deemed Contract scheme.

6.2 Retail Market Open Letter (CP08/16)

The Commission noted the update on the Retail Market Open letter. The Commission were content with the recommendations set out in the paper.

6.3 BES Licence Application (CP09/16)

The Commission considered the BES water and sewerage licence application. The Commission discussed the recent fine imposed by OFGEM on BES for mis-selling and the implications it may have. The Commission were minded to grant this licence application subject to the usual scope for representations and agreed that it should be a requirement for BES Water Ltd to maintain an escrow account.

6.4 Anglian Water Business Suspension of Performance Charging (CP10/16)

The Commission had no objection to the proposals outlined in the paper.

6.5 Joint licence application (CP11/16)

The Commission noted the recent work of the office in working with OFWAT to establish a coordinated licence application system for England and Scotland water supply and

sewerage licence applicants. The Commission discussed the draft application form process and agreed the proposed approach.