



Katherine Russell

Director of Customer Service/Corporate Affairs  
Water Industry Commission for Scotland  
Ochil House  
Springkerse Business Park  
Stirling  
FK 7 7XE

**Director**  
Steve Inch  
BSc(Hons) DipTRP

06 SEP 2007

**Development & Regeneration  
Services**

Glasgow City Council

229 George Street  
Glasgow G1 1QU  
Phone 0141 287 8555  
Fax 0141 287 8444

Our ref	<b>PM/WIC consult Vol 3/07</b>
Your ref	
Ask for	<b>Phil Murray</b>
Phone Direct	<b>0141 287 8608</b>
Fax Direct	<b>0141 287</b>
Email	<b>@drs.glasgow.gov.uk</b>
Date	<b>31 August 2007</b>

Dear Ms Russell

**Water Industry Commission  
Strategic Review of Charges 2010-14  
Volume 3: Approach to assessing operating cost efficiency**

I refer to the above consultation document, and now enclose for your attention, on the attached sheet, my responses to the specific consultation questions. I would confirm that there is no objection to this response being made public; if you require any clarification in relation to these comments, please contact my colleague Phil Murray on 0141-287-8608.

Yours faithfully,

Steve Inch  
Executive Director Development and Regeneration Services  
Glasgow City Council

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## Responses to Strategic Review of Charges Volume 3 Consultation Responses

### Development and Regeneration Services, Glasgow City Council

1. **Do respondents agree that our approach to benchmarking Scottish Water's performance remains robust despite the separation of non-household retail activities in Scotland?**

*Response: Yes - Use of the same benchmarking techniques as at the previous review would appear to be logical, and should provide a degree of consistency of output. Given the breadth of the gap in performance standards between Scottish Water and companies in England and Wales the continued use of the OFWAT econometric models is appropriate, while incorporation of the WIC alternative model should allow more refined analysis of the impact of the various identified cost drivers.*

2. **Do respondents agree that we should take account of differences in the level of service and scope of activities in Scotland and in England and Wales?**

*Response: Yes – Notwithstanding WIC's reservations regarding setting clear objectives for improvement in the level of service, customers will rightly look for a year on year improvement. Given that Scottish Water, unlike their English and Welsh counterparts, now no longer have responsibility for delivery of retail services to non-household customers this significant difference in scope of activities, should be taken into account by WIC in their assessment, particularly as it could lead to a reduction in Scottish Water charges.*

3. **Do correspondents agree with our favoured approach to setting an appropriate efficiency challenge for Scottish Water?**

*Response: Of the two optional approaches, the use of 'adding back' of **known** operating costs incurred by Scottish Water Business Stream, rather than a reliance on deduction of **comparable** retail costs from English and Welsh benchmark companies would appear likely to result in a more accurate analysis.*

4. **Do respondents agree that our approach to assessing claims for special factors is reasonable?**

*Response: The WIC criteria against which claims for 'special factor' consideration are to be assessed appear necessarily rigorous – for example, all water companies are likely to claim that the outcome of the 'historic development of the water and sewerage systems in their area of supply' (presumably the lack of adequate infrastructure investment in the past), constitutes 'special factor' status, and as such, it might be difficult to determine genuine 'special factor' cases. A qualifying 'special factor' so far as Scottish Water is concerned, may well be the possible replacement of the Council Tax by 2010, and its implications for the costs of Scottish Water's current billing arrangements, dependent as they are on Council Tax collection procedures.*