

**Minute of the sixty-third meeting of the Water Industry  
Commission for Scotland**

**Held on 25 and 26 January in Stirling**

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- Present:** Sir Ian Byatt (Chairman)  
Professor David Simpson (Deputy Chairman)  
Professor John Banyard  
Dr Michael Brooker  
Mr Charles Coulthard  
Mr Alan Sutherland (Chief Executive)
- In attendance:** Mr Ian Tait (Director of Investment)  
Mr John Simpson (Director of Analysis)  
Mr Mark Nolan, section 6.3  
Miss Sophia Wilson, section 6.3  
Mr Alexander Rodriguez (Analyst) section 6.6  
Mrs Donna Very  
Miss Kirsty Love

**Chairman's opening remarks**

The Chairman welcomed everyone to the 63<sup>rd</sup> meeting of the Commission.

**1. Apologies for absence**

None.

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

**2.1 Declaration of conflicts of interest in relation to the Agenda**

None

## 2.2 Minutes of last meeting (09/10)

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

## 2.3 Summary of action points (AP01/11)

The Commission noted that the action regarding I<sup>3</sup> was not fully covered in paper CP10/11.

## 3. Information papers 1 – Standing items

### 3.1 Update from CMA

The Commission noted the update from the CMA. It noted that Aimera continues to acquire SPIDs while Satec is making steady progress.

### 3.2 Update on current issues (CP01/11)

The Commission noted this paper, in particular Waterwatch's concerns with the position on tariffs used for metered customers and the reliance on a tax-based method of charging. It would be useful to see the results emerging from SEPA's consultation on its proposals for strengthening environmental regulation.

### 3.3 Finance and contracts paper (CP02/11)

The Commission noted this paper, and the cumulative savings against this year's budget. They may be needed later in the regulatory period, depending, inter alia, on the rate of inflation in the future. The Commission welcomes economies being made; but expresses concerns about the difficult position on the recruitment and retention of staff.

### 3.4 Update on investment (CP03/11)

The Commission noted this paper. A further update paper should be prepared for the March meeting when more information becomes available.

### 3.5 Update on communications (CP04/11)

The Commission noted this paper and commented on how pro-active Scottish Water has been throughout the period of adverse weather conditions.

## 4. Information papers 2 – Any other issues

### 4.1 Metering trials (CP05/11)

The Commission noted modest progress with the metering trials and emphasised the importance of better information in this area. The Commission continues to require monthly progress updates.

### 4.2 Scottish Water's dashboard (CP06/11)

The Commission welcomed this paper and its content. It agreed that the dashboard should be published on its website with clear definitions.

## **5. Decision papers**

### **5.1 Default tariffs (CP07/11)**

The Commission agreed the proposed set of default tariffs for non-household customers.

### **5.2 Management Statement (CP08/11)**

The Commission agreed to approve the revised management statement subject to drafting amendments:

## **6 Discussion papers**

### **6.1 Draft response to consultation on proposed Scottish Government white paper on a Hydro Nation. (CP09/11)**

The Commission agreed that its response should be confined to any implications for regulation. It noted that this paper canvasses possible extra activities for Scottish Water, and then registered the following issues:

- If additional regulation is required, who would be the regulating body, and would it require further resources?
- Core activities must be adequately ring fenced.

The Commission also discussed the possibility of an extension into the area of flooding and noted that this should be a non-core activity.

The Commission agreed this paper subject to some minor amendments. It will be sent to the Minister and then published on the Commission's website.

### **6.2 Update on financial issues (CP10/11)**

The Commission discussed this paper, and agreed that a further issues paper should be prepared for the next Commission meeting (March 2011), looking at alternative scenarios using the ready reckoner calculations.

The Commission understands that Scottish Water has enough cash for the ensuing financial year (2011-12), but is concerned about future borrowing constraints; serious thought and consideration must be given to this.

### **6.3 Communication strategy – initial thoughts (CP11/11)**

The Commission welcomed the opportunity to discuss the proposed Communications strategy and agreed that further discussions should take place before implementation.

### **6.4 Recommendations on Bolt and Audit Scotland reports (CP12/11)**

The Commission agreed, subject to amendments, that this paper be circulated to Scottish Government, SEPA and DWQR, before being published on its website.

#### 6.5 Draft response to CC Water consultation – Lessons from PR09 (CP13/11)

The Commission agreed the suggested draft response to the report of CC Water, subject to minor amendments. This paper should be published on the Commission's website.

#### 6.6 Update on the possible impact of carbon pricing on Scottish Water (CP14/11)

The Commission discussed the possible impact of carbon pricing on Scottish Water. It identified a number of affects on Scottish Water from the operation of the CRC Energy Efficiency Scheme depending on the nature and scale of any levy or 'shadow-price' that would be imposed.

It identified five issues that will merit careful consideration:

- Direct conflicts arise between traditional environmental concepts in the water industry and policies for decarbonising it. Trade-offs need to be considered very widely.
- Customers would face higher charges if electricity prices were to increase significantly.
- The economic level of leakage would fall, the effect depending on the scale of any levy or 'shadow-price' imposed.
- Investment appraisal would be affected; the consequences would depend on the value of carbon embedded in capital works as well as the levy or 'shadow-price' imposed of operating costs.
- There could be an increase in the relative costs of products such as steel that involve energy-intensive methods of production.

#### 6.7 Proposals for timeline and process for the next price review (CP15/11)

This paper was discussed in some detail by the Commission. Reassurance is required on funding of the customer forum. It was agreed, however, that it is desirable to have such a forum, but the Commission stresses the importance of it being both independent and temporary for the term of the price review. It was agreed that the drafting of the remit and criteria for board members should be looked at in the April meeting before sign off.

### **Chairman's closing remarks**

The Chairman thanked everyone for attending and brought the meeting to a close.