

**Minute of the thirty-eighth meeting of the Water Industry Commission
for Scotland**

Held on 3 June 2008 in Stirling

Present: Professor David Simpson (Deputy Chairman)
Professor John Banyard
Dr Michael Brooker
Mr Charles Coulthard
Mr Alan Sutherland (Chief Executive)

In attendance: Mrs Katherine Russell (Director of Corporate Affairs and
Customer Service)
Mrs Donna Very
Mr Cameron McKean (Analyst) (item 5 and item 8)
Mr Ian Tait (Director of Investment) (item 6)
Mr Richard Khaldi (Analyst) (item 8)
Mr Colin McNaughton (Analyst) (item 8)
Ms Suzanne Baylis (Analyst) (item 8)
Mr Maynard Xu (Analyst) (item 8)

Deputy Chairman's opening remarks

The Deputy Chairman welcomed everyone to the meeting and thanked them for attending.

1. Apologies for absence

Sir Ian Byatt

2. Minute of previous meeting and review of action points

2.1 Minute of last meeting (04/08)

The Commission agreed that the minute was an accurate account of proceedings.

2.2 Review of action points (AP04/08)

The Commission were updated on action points from the previous meeting. The Commission noted it was in a satisfactory position.

3. Update on current issues

3.1 Working with stakeholders

3.2 Other current issues

- The Director of Corporate Affairs and Customer Service updated the Commission on the meetings that had taken place between the Director of Investment and quality regulators, Scottish Environment Protection Agency (SEPA) and Drinking Water Quality Regulator (DWQR). During the Director of Investment's meetings the importance of the appropriate regulator 'signing-off' Scottish Water's completed investment projects was emphasised.
- The Director of Corporate Affairs and Customer Service continues to hold regular monthly meetings with the General Manager for Regulation of Scottish Water.
- The Chief Executive informed the Commission that he had delivered the keynote address at the General Meeting of the Business Council for Sustainable Development UK. The theme of the meeting was Water Competition in Scotland. This event was hosted by Scottish Enterprise, and had attracted around 50 of the Council's members, including Ondeo Industrial Solutions.
- The Chief Executive reported that he had attended the Water UK Source Event where several stakeholders gave presentations on the future of the water sector – but that competition had received only the most cursory attention.
- The Chief Executive had also given a speech at a conference on infrastructure development in Scotland hosted by City and Financial and the Scottish Government.
- The Chief Executive reported that he had also met with Sydney Water and discussed the lessons learnt from the introduction of retail competition.
- Dr Brooker advised the Commission that Ofwat had published its Competition Agenda.
- Professor Simpson reported that he had met with a delegation from the Waste and Water Regulatory Office in Kosovo. The delegation had visited the Commission's office on 27 and 28 May. The Kosovars had congratulated WICS staff on the quality of their presentations to the delegation.

3.3 Update on the Central Market Agency (CMA)

The Commission noted the written update on the work of CMA submitted by its Chief Executive, Dr Jeremy Atkinson who unfortunately was unable to attend.

Action Point: The Chief Executive is to meet with CMA to discuss outstanding issues.

3.4 Oral update on Scottish Water's Draft Business Plan

The Chief Executive reported that Scottish Water had submitted its First Draft Business Plan for the period 2010-14.

The Chief Executive reported that, based on an initial review of the plan, there were no very serious issues arising. Further in-depth analysis would be carried out prior to feedback being given to Scottish Water in writing. The Commission noted this update and that it looked forward to Scottish Water's Board formally presenting the plan in July.

4. Corporate Affairs

4.1 Update on the office workplan (CP70/08)

The Commission noted the update on the office's workplan.

4.2 Update on framework contracts (CP71/08)

The Commission noted this update.

4.3 Update on recruitment (CP72/08)

The Commission noted that a Financial Manager had been successfully recruited.

The Chief Executive updated the Commission that recruitment for a senior engineer was ongoing. The prognosis was not positive.

4.4 Update on Annual Report Launch (CP73/08)

The Commission noted this paper.

Action Point: Commission members to advise of their attendance at this event.

5. Strategy

5.1 Oral update on licensees

5.2 Update on Schedule 3 (CP74/08)

The Chief Executive updated the Commission on his meeting with legal counsel regarding Scottish Water's Schedule 3 agreements. He informed the Commission that there may be some issues with some of these agreements that the Commission would need to consider.

5.3 Update on Section 29e (CP74/08)

The Commission considered the application process for Section 29e departures for Scottish Water's wholesale charges.

The Commission gave its approval to publish the application materials for Section 29e departures subject to minor amendment. The Commission commented that the worked example should be annotated to reflect that it is an indicative and simplified example.

5.4 Update on Communications Strategy (CP75/08)

The Commission noted this update.

6. Investment

Oral update on investment delivery and
Update on Investment progress (CP76/08)

The Commission noted the update on Scottish Water's investment performance. The Commission welcomed recent confirmation from SEPA and DWQR that they also place a high importance on output sign-off.

6.3 Response to Quality & Standards 4 letter from Scottish Government (CP77/08)

The Commission agreed the draft letter.

7 Financial

7.1 Update on Ministers' Principles of Charging (CP78/08)

The Commission noted this update on the Ministers' Principles of Charging for the Strategic Review of Charges 2010-14.

7.2 Scottish Water's Overall Performance Assessment (OPA) 2007-08 (CP79/08)

The Commission agreed to reduce Scottish Water's submitted OPA score for 2007-08 from 253 points to 248 points based on the Reporter's assessment of reported leakage reduction.

7.3 Scottish Water and Business Stream financial update for 2007-08 (CP80/08)

The Commission noted the update on Scottish Water's financial performance, Business Stream's financial performance and a consolidated view of both organisations' performance.

The Commission discussed how financial information for both organisations, following the separation of Business Stream from Scottish Water and the opening of its retail market, should be reported.

The Commission endorsed the proposed future method of reporting.

8. Strategy

8.1 Oral update on Scottish Futures Trust

The Chief Executive updated the Commission on the recently published Scottish Government response to its Scottish Futures Trust Consultation.

Action Point: Chief Executive to produce a paper for the next Commission meeting on Scottish Futures Trust.

8.2 Oral update on Albion Water appeal

The Chief Executive updated the Commission on the Albion Water appeal. Albion Water had won its case against Dwr Cymru's appeal in the High Court. It would now return to the Competition Appeals Tribunal for a final resolution.

8.3 Competition Strategy

The Chief Executive summarised last month's strategy day points and provided an overview on work that will be carried out over the next four years on competition.

The Commission agreed to continue further exploration of the Competition Strategy and looked forward to an update in September.

Action Point: The Chief Executive is to provide a business plan with more detailed costings and workplans to deliver by 2012 for approval at the September Commission meeting.