

08/05

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

Held on 2 and 3 November 2005 in Stirling

In attendance

Commission: Sir Ian Byatt (Chairman)
Professor David Simpson (Deputy Chairman)
Professor John Banyard
Dr Michael Brooker
Mr Charles Coulthard
Mr Alan Sutherland (Chief Executive)
Mrs Katherine Russell (Secretary to the
Commission)

Miss Harriet Towler

Apologies for absence: None

Chairman's opening remarks

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

**Minute of the previous meeting and minute of meeting 28 and 29
September**

The Commission agreed that the minutes of the meeting of 28 and 29 September, and that of the previous meeting on 24 and 25 October were accurate accounts of proceedings.

Update on current issues

The Chairman noted that he and the Chief Executive had met with two MSPs earlier that week, Richard Lochhead and Rob Gibson. This meeting had focussed on investment in the Scottish water industry.

The Chairman noted that Audit Scotland had announced its intention to undertake a study of Scottish Water's current investment programme (Quality and Standards II) and the expected project overhang after April 2006. It was expected that this study would be completed by late 2006.

The Commission discussed the means of procurement of capital investment currently used in the Scottish water industry. They noted that they would explore this subject further.

The Commission noted the importance of monitoring the delivery of the ministerial objectives in the coming regulatory control period. They noted that they hoped to work jointly with the Scottish Environmental Protection Agency (SEPA) and the Drinking Water Quality Regulator (DWQR) to ensure that this was done effectively.

The Commission noted that monitoring would be particularly important with regard to environmental outputs and Unsatisfactory Intermittent Discharges (UIDs) where the exact solutions required to deliver ministerial objectives were as of yet uncertain. It was agreed that it would be important to work with SEPA to ensure that solutions that were consistent with the delivery of the ministerial objectives were identified, and that the most cost effective solution was adopted.

The Commission noted that an allowance would be made in the final determination to allow Scottish Water to undertake studies to identify exact UID or water treatment requirements. They noted that it would be important that these studies were carried out effectively. The Commission considered that the solutions proposed by Scottish Water should be approved by SEPA or the DWQR as appropriate. The Commission would have a role in ensuring that of the possible solutions approved by the quality regulators, those with the lowest net present value were chosen.

On 3 November, the Commission held a meeting with SEPA to discuss these proposals, these are recorded in a separate set of minutes.

Update on the Final Determination 2006-10

The Commission were updated on the analysis undertaken following the decisions made by the Commission at the meeting of 24 and 25 October. Where analysis had indicated that decisions previously made by the Commission could be revised, these were presented to the Commission and the rationale for the potential change explained.

The Commission accepted the revised figures presented. It was noted that, on average, this would result in nominal non-household charge caps increasing by 1% in each of the four years of the regulatory control period, and nominal household charge caps by 2%.

Presentation of the Final Determination 2006-10

The Commission discussed how the conclusions of the final determination could be communicated to customers and stakeholders most effectively.

The Commission agreed that the publication of the final determination on 30 November should be a positive outcome for Scottish customers. The Commission noted that the final determination allowed for expenditure which, if employed efficiently, would mean:

- customers benefit from reasonably stable real charges on average;

- the ministers' "essential" and "desirable" objectives are delivered, including;
 - the improvement of drinking water quality and waste water treatment standards;
 - the alleviation of development constraints; and
 - the improvement of levels of service to customers improve.
- funding for progress towards the economic level of leakage.

In reaching its conclusions, the Commission noted that it had taken account of the views of the DWQR and SEPA in a number of instances. They had also considered the views of Scottish Water, and another 33 representations on the draft determination.

The Commission noted however that Scottish Water would have to improve its performance. It noted that Scottish Water, in its second draft business plan, had proposed the delivery of the ministers' "essential" objectives only at a cost of average charge increases of 88%. The Commission noted that they did not believe that this was an acceptable outcome for Scottish Water's customers.

The Commission noted that they would look to ensure that the final determination was delivered through proper monitoring in conjunction with the quality regulators.

The Commission agreed a venue and schedule for the presentation of the final determination on 30 November.

Action

The Chairman requested that the office prepared a series of questions that they expected might be asked by those attending the press launch of the final determination, and provide potential answers to those questions.

Action

Licensing Consultation

The Commission reviewed the latest draft of the consultation on the licensing framework for retail access. They approved the publication of the document subject to a number of minor amendments.

The Commission noted that they would advise if they knew of any persons who may wish to receive a copy of the consultation document in addition to those already identified in the 'licensing' mailing list.

Action

The Commission further discussed two issues raised in the consultation paper. The first related to 'special agreements'. These are agreements currently entered into by Scottish Water for the provision of water and waste

water services, but which depart from the approved scheme of charges. The Commission agreed that in order to calculate the wholesale charge applicable for these special agreements, they would consider deducting a retail margin from these special agreements. Where Scottish Water had not notified the Commission of the existence of a 'special agreement' then they would assess the wholesale charge on the assumption that no departure from the scheme of charges had been made.

The second issue related to non-household metering. The Commission noted that the Ministerial Objectives require all non-household customers to be charged on the basis of meters by 2010. However, they agreed that metering will be an essential element of the successful introduction of retail access which is due to commence in 2008. The Commission therefore expect Scottish Water to have installed the majority of meters before the start of retail access. Furthermore any customer electing to change retail supplier must have a meter installed to facilitate the change in supplier within one calendar month of notifying Scottish Water of the intention to change. All customers will be billed on the basis of metered consumption as soon as the meter is installed. The Commission noted that the proposal to install meters but not utilise them before 2010, as impractical and potentially hindering the introduction of retail access.

Concluding remarks

The Chairman noted that he looked forward to the next Commission meeting on 28 and 29 November. However, he noted that he would unfortunately not be able to attend the second day of the meeting. Professor Simpson agreed to chair the meeting in his absence.