

**Minute of the third meeting of the Water Industry Commission for
Scotland
Held on 8/9 August 2005 at Ochil House, Stirling**

In attendance

Commission: Sir Ian Byatt (Chairman)
Professor John Banyard (via conference call)
Dr Michael Brooker
Mr Charles Coulthard
Professor David Simpson
Mr Alan Sutherland (Chief Executive)

Mrs Katherine Russell (Director of Corporate
Affairs and Customer Services)
Miss Aileen O'Neill

1. Chairman's opening remarks

The Chairman welcomed everyone to the meeting and Professor John Banyard via a conference call.

2. Agreement of Minutes of 12 July 2005

The Commission approved the minutes as an accurate account of the meeting of 12 July 2005.

3. Current Developments

The Chairman asked members of the Commission to give an update on recent developments. The Chief Executive began with an outline of a meeting held with the newly appointed Deputy Minister for Environment and Rural Affairs, Rhona Brankin. The Commission also agreed that a programme of regular meetings with stakeholders should be set up.

Action

The Chief Executive updated the Commission on capital investment issues and letters received from Scottish Water. The Chief Executive advised that he would keep the Commission closely in touch with further developments.

Action

Communications with Scottish Water with regards to clarification of the key messages of the draft determination were also discussed. The Chief Executive started the discussion by bringing the Commission up to date with the correspondence so far with Scottish Water regarding the possibility of a formal, detailed process for queries about the draft determination.

The Commission noted that the draft determination was issued by the then Commissioner. The Commission believes it provides sufficient detail for Scottish Water to give its representation and there should not be any formal,

detailed enquiries process. It is expected that Scottish Water would inform the Commission's office of any material errors it found in the draft determination. It was agreed to confirm the approach to such requests adopted by the Water Industry Commissioner.

A meeting to discuss special factors has been arranged with Scottish Water but this meeting is not binding on the Commission as it refers to a submission made to the former Commissioner.

Scottish Water's submission of special agreements was discussed. It was noted that the submission was late but that details for some 37 special agreements had now been received. The information provided will now be scrutinised in detail. The Chief Executive will report back to the Commission on the implications for wholesale charges.

Action

The Chairman informed the Commission that the Scottish Ministers had appointed Professor Simpson to be the Deputy Chairman of the Commission. The Chairman also outlined the agreed portfolios of the Commission members:

- Sir Ian Byatt – Explaining the Commission's work to customers and other stakeholders
- Professor Simpson – Licensing framework
- Professor Banyard – Capital investment
- Mr Coulthard – Audit Committee Chairman
- Dr Brooker – Water/Sewerage operating cost issues and incentives

The Chairman highlighted the need for any communications to the Scottish Executive or Scottish Water to come collectively from the Commission rather than individual members. All communication should therefore be passed through the Chairman or Chief Executive.

The Chairman discussed the meeting arranged with Scottish Water on the 24th August and expressed his hope that the non-executive directors of Scottish Water would be present. The Chairman indicated that he would contact Scottish Water explaining that this meeting was not to discuss the draft determination.

Action

Professor Simpson updated the Commission on an Ofwat workshop he had attended regarding water supply licensing arrangements. It was noted that it would be useful to learn from Ofwat's experience with these arrangements.

4. Code of Conduct

It was noted that the Scottish Executive had provided the Commission with a document that was standard for public bodies.

Action

5. Audit Committee

Mr Coulthard outlined his proposed approach to chairing the audit committee. He explained that he saw the role of the Committee as to advise if the decision-making processes of the Commission were reasonable. It was not to make decisions. It was noted that the "On Board" folder issued by the Scottish Executive to Commission members contained an audit checklist. Mr Coulthard proposed that the Audit Committee should comprise a majority of non-Commission members.

The Commission agreed the remit of the Audit Committee, per the paper, subject to the revisions to points 4 and 5.

6. Staff Issues

Work has been commissioned to establish the relevant organisational structure for the new Commission. A further piece of work will be commissioned to review this structure in terms of remuneration and incentives. The Chief Executive will keep the Commission updated on this work prior to any submission to the Scottish Executive.

Action

The importance of keeping staff up to date was emphasised and the minutes from Commission meetings will now be circulated to all staff once they have been approved.

Action

It was also decided that when Commission meetings are being held over two days, there would be a lunch each day in the office for all staff and Commission members. On the first day a member of the Commission staff would raise an issue for general discussion over lunch. At lunch on the second day, members of the Commission would provide an update on the Commission meeting.

7. Meetings

A number of meetings will be held in August/September with various organisations and circulated to Commission members. The aim of these meetings is to gather views on incentives and governance in the water industry.

Action point

Commission members were to inform Aileen O'Neill if they wish to go to the WCCP conference on the 30th August.

Action

8. Shepherd+ Wedderburn update on licensing

The Chairman welcomed Gordon Downie and Liz McRobb from Shepherd+ Wedderburn, Jenny Stewart and Michael McVeigh of Ernst & Young, and Jeremy Atkinson of the Commission's office to the meeting.

The timeline for the licensing process, with a final deadline of 31st March 2006, was outlined to those present at the meeting. The Commission discussed whether an interim licence, as had been planned, should be granted to the retail subsidiary of Scottish Water on 1 April 2006, or whether, as desired by Scottish Water, a permanent licence could be granted.

It was noted that it might be useful to establish who in Scottish Water would be the main contact(s) for the retail subsidiary, at both the director and at an operational level.

Action

The Chairman thanked Ernst & Young and Shepherd+ Wedderburn for their input to the discussion on licensing.

9. Shepherd+ Wedderburn presentation on draft rules of procedure

The Chairman welcomed Gordon Downie and Hazel Moffat to the meeting to provide the Commission with guidance on draft rules of procedure. Ms Moffat outlined for the Commission the three schedules that had been drafted covering issues reserved to the Commission, code of conduct and terms of references for committees. It was agreed that Commission members would submit their comments on these drafts to Katherine Russell.

Action

The Commission agreed to establish a Remuneration Committee. The Chief Executive informed the meeting that a pay remit had to be submitted to the Executive for November.