

Eighty seventh meeting of the Water Industry Commission for Scotland

Held at WICS offices, Stirling on 27 January 2015

Present: Professor Gordon Hughes (Chairman)
Alan Sutherland (Chief Executive)
Ross Finnie
Libby Gawith

In attendance: Ian Tait – Director of Investment
Donna Very – Office Manager

Chairman's opening remarks

The Chairman welcomed everyone to the 87th meeting of the Commission.

1. Apologies for absence

No apologies were received

2. Minute of the last meeting and regular updates

2.1 Declaration of conflicts of interest in relation to the Agenda

2.1 There were no declared conflicts of interest.

2.2 Minute of last meeting

(05/14)

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

2.3 Summary of action points

(AP05/14)

The Commission noted the summary of action points and asked that the breakdown of cost to the Customer Forum be re-circulated to members.

2.4 Chief Executive's report

(CP01/15)

The Commission were updated on recent activities of the office.

The Chief Executive provided an update to the Commission on a meeting held on 26 January to discuss the future of the Strategic Review process. At this meeting there was some discussion around how the Scottish Government might deliver customer advocacy in line with the devolved powers under the Smith Commission proposals. There are currently no further plans for developing the 'Combined Economic Regulator' Model.

The Commission agreed that it would send a letter to Keith Brown, the new Cabinet Secretary for Infrastructure, Investment and Cities and invite him to meet the Commission.

The Chief Executive was telephoned by the Special Adviser to the European Commission's Task Force for Greece giving notice that the office may be asked to deliver a new regulatory training programme in the near future.

The Commission noted the relatively significant positive cash balance forecast for year end. This was attributed to a number of factors including a reduction in headcount and the successful Strategic Review process leading to lower than expected consultancy costs. The Chief Executive and Financial Controller had met recently to discuss the cash position and it is proposed that a proportion will be paid back to Licensed Providers while an agreed sum will be returned to Scottish Water on the provision that it is used to assist projects which benefit customers. The Commission was happy with this proposed approach.

The Commission discussed Citizens Advice Scotland's independent review of the Customer Forum which is being carried out by QMU and Ipsos Mori. The findings of this review will assist in developing proposals for the future of the Forum. The Commission stressed the importance of ensuring that the body responsible for representing the 'customer voice' in the regulatory process has a clear role and relationship with the statutory powers of the Commission.

3. Regular business

3.1 CMA update

The Commission noted the paper.

3.2 Financial and contracts update

(CP02/15)

The Commission noted the relatively significant positive cash balance forecast for year end. This was attributed to a number of factors including a reduction in headcount and the successful Strategic Review process leading to lower than expected consultancy costs. The Chief Executive and Financial Controller had met recently to discuss the cash position and it is proposed that a proportion will be paid back to Licensed Providers while an agreed sum will be returned to Scottish Water on the provision that it is used to assist projects which benefit customers. The Commission was happy with this proposed approach.

3.3 Audit Committee update (CP03/15)

The Commission noted the work of the Audit Committee. The Commission requested that the office consider the risk associated with the loss of a key employee (such as Director or the Chief Executive) and redraft the update associated with this risk. The Commission noted the work that is to be carried out by Aretai reviewing HR best practice.

4. Future planning

4.1 Hydro Nation

(CP04/15)

The Commission noted the update on the international work that is being carried out by the office in support of the Scottish Government's Hydro Nation initiative. The office will continue to support this initiative.

4.2 Scottish Government's plans for consumer representation

(CP05/15)

The Commission noted the update on the Scottish Government's proposals for consumer representation in Scotland following the Smith Commission.

5. Investment

5.1 Investment update

(CP06/15)

The Director of Investment provided the Commission with an update on Scottish Water's output delivery position as at the end of September 2014. The Commission expressed significant concern that there is further slippage in the delivery of the remaining outputs from the 2010-15 period and asked that Scottish Water be made aware of this concern. The Commission also agreed to raise this matter with Scottish Water at the presentation on Glasgow drainage.

6. Competition

6.1 Retail Update (Scotland)

(CP07/15)

The Commission noted the update on retail competition in Scotland.

The Commission noted the delay in the Scottish Procurement tender for the national water and wastewater contract for the public sector and discussed possible implications this would have for the market in Scotland.

6.2 Retail Update (England)

(CP08/15)

The Chief Executive updated the Commission on recent developments in the Open Water programme. He confirmed that Market Operator Services Limited (MOSL) had been confirmed as a private entity and provided an update around the procurement of the central systems. MOSL will be owned by the industry and a Board of Directors will be appointed. The Chief Executive reported that there was a very detailed work plan in place.

The Commission noted this update.

6.3 Level of retail margin **(CP09/15)**

The Commission discussed the level of retail margin set by OFWAT in its Final Determination and the implications this could have on the Anglo-Scottish market.

6.4 Open Water – MAP 2 **(CP10/15)**

The Commission noted the paper on the Market Architecture Plan 2 which was published on 11 December 2014.

6.5 Market Concentration **(CP13/15)**

The Commission noted the informative paper on market concentration.

7. Open Water

7.1 MOU – OWML and WICS **(CP11/15)**

The Commission noted the signed Memo of Understanding (MOU) that was currently in place between Open Water Market Limited and the Commission.

7.2 Delivery partner arrangement - OFWAT and WICS **(CP12/15)**

The Commission discussed the draft delivery partner arrangement (DPA) in detail and suggested there was a lack of clarity regarding key milestones, objectives and budgets. The Commission were not satisfied that the document provided a suitable format for agreement between public bodies. The Commission agreed that the current MOU could be developed, with additional appendices on, budget, milestones/objectives, revision/extensions and assets. This would offer a more appropriate arrangement for future joint working. .

Closing remarks

The Chairman thanked everyone for attending and confirmed the next date of the Commission as 8 April 2015.