

Our approach to the 2010-14 price review: A consultation

Overview

This document is the first step in the next price review, which will cover the period 2010 to 2014.

We are seeking views on our approach, the way we communicate with stakeholders, the issues the review will cover and the timeline.

CONSULTATION

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Introduction

Context

Every four years, we set limits on the prices that Scottish Water can charge customers for water and sewerage services. This consultation document sets out our proposed overall approach to the next price review, which covers the period 1 April 2010 to 31 March 2014.

We are seeking views on how we propose to communicate with stakeholders, the main issues the review will consider, and the proposed timeline when key elements of the review will take place, including opportunities for stakeholders to get involved.

Associated documents

- 'The Strategic Review of Charges 2006-10: The final determination', Water Industry Commission for Scotland, November 2005.

How to respond to this consultation

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Please submit your response no later than **Friday 30 March 2007**. We will publish all responses to this consultation unless respondents request otherwise.

Printed copies of this consultation are available from the address above.
Electronic versions are available on our website at
www.watercommission.co.uk.

Executive summary

Introduction

Our role is to promote the interests of customers, ensuring that they receive value for money for their water and sewerage services. As part of this role, we set limits on Scottish Water's customer charges. This price review process (also called the 'Strategic Review of Charges') takes place every four years. This consultation document is the first step of the next price review, which covers the period 1 April 2010 to 31 March 2014.

In this document, we set out our proposed overall approach to the review, the way we propose to communicate with stakeholders, and the main issues the review will consider. We also set out a proposed timeline when key elements of the review will take place, including opportunities for stakeholders to get involved.

We would like all stakeholders to have their say at this early stage.

Our proposed overall approach

We would like the review to be as open as possible, so customers and other stakeholders are well informed, are able to join in the debate and are given ample opportunities to take part in ways that suit them. By conducting an open and accessible process, we hope that our final decisions will be based on well thought-out and wide-ranging views. As is right and proper, such a process will also be open to public scrutiny.

In carrying out the next price review, we intend to:

- follow the five principles of better regulation in our work (these are: accountability, consistency, proportionality, targeting and transparency)¹;
- adopt a staged approach, clearly outlining each part of the process, how and when stakeholders can contribute, and on what basis our decisions will be made;
- ensure that written information such as publications are easy to read, relevant to their target audiences and widely available;
- develop our approach based on the valuable experience from the last price review (which covered 2006-10);
- provide other more direct opportunities to explain our approach and hear views, such as stakeholder information days and briefings;

¹ The Better Regulation Task Force (which on 1 January 2006 became the Better Regulation Commission) was an independent body that advised Government on action to ensure that regulation, and its enforcement, accord with the five Principles of Good Regulation. The Task Force recommended that regulators adopt five principles of good regulation in their approach to price setting.

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- work closely and in a cooperative way with our co-regulators (the Drinking Water Quality Regulator (DWQR) and the Scottish Environment Protection Agency (SEPA)), the customer representative body (Waterwatch Scotland), and with Scottish Water and the Scottish Executive;
- allow sufficient time for individuals and organisations to consider our proposals, raise any issues with us, and formulate their own responses.

We would like stakeholders to give us their views on our proposed overall approach.

How we intend to encourage customers and other stakeholders to get involved

We wish to actively encourage wide participation. Over the next four years, we propose to provide a range of opportunities for this.

We intend to:

- conduct two consultations, the first on our methodology for determining price limits, and the second on our draft determination of price limits;
- hold regular stakeholder information days during key stages of the process – these information days will provide an open forum for stakeholders to ask questions and express their views;
- update MSPs by meeting them approximately twice a year and by publishing briefings on particular issues that will affect their constituents;
- upgrade our website and use it to keep stakeholders informed, and to alert subscribers when there are new items of information that might interest them.

We encourage stakeholders to let us know if there are any other ways in which we could communicate with them during the review process.

The issues the review will cover

We expect to address a wide range of issues during the review. Many of these will be highly technical, financial or regulatory matters, such as the use of financial ratios and the cost of capital. Not all stakeholders will necessarily wish to comment on such issues. However, we will ensure that we provide straightforward explanations of each topic that we cover, and the potential impact on customers.

Some of the major issues that the review will need to address include:

- governance and incentives;
- calculation of price limits;
- customer service;
- investment and quality;
- supply and demand/water resources;
- capital maintenance;
- operating cost efficiency; and
- capital expenditure efficiency.

We would like to hear from stakeholders if they think there are other key issues that should be considered as part of the review.

A staged approach

It is important that people and organisations have enough time to consider the issues, consult with others where necessary and formulate their responses. Good practice guidance² suggests that people should be allowed 12 weeks to respond to a consultation. Our draft timeline follows this guidance.

Table 1 sets out the timeline for the key activities relating to the review, leading up to publication of our final decisions (the final determination) on 30 November 2009. This includes the proposed opportunities for stakeholders to get involved. Figure 1 sets out the calendar of events.

We would like to hear stakeholders' views about the proposed timeline.

² The Cabinet Office's code of practice on consultation, see www.cabinetoffice.gov.uk/regulation/consultation.

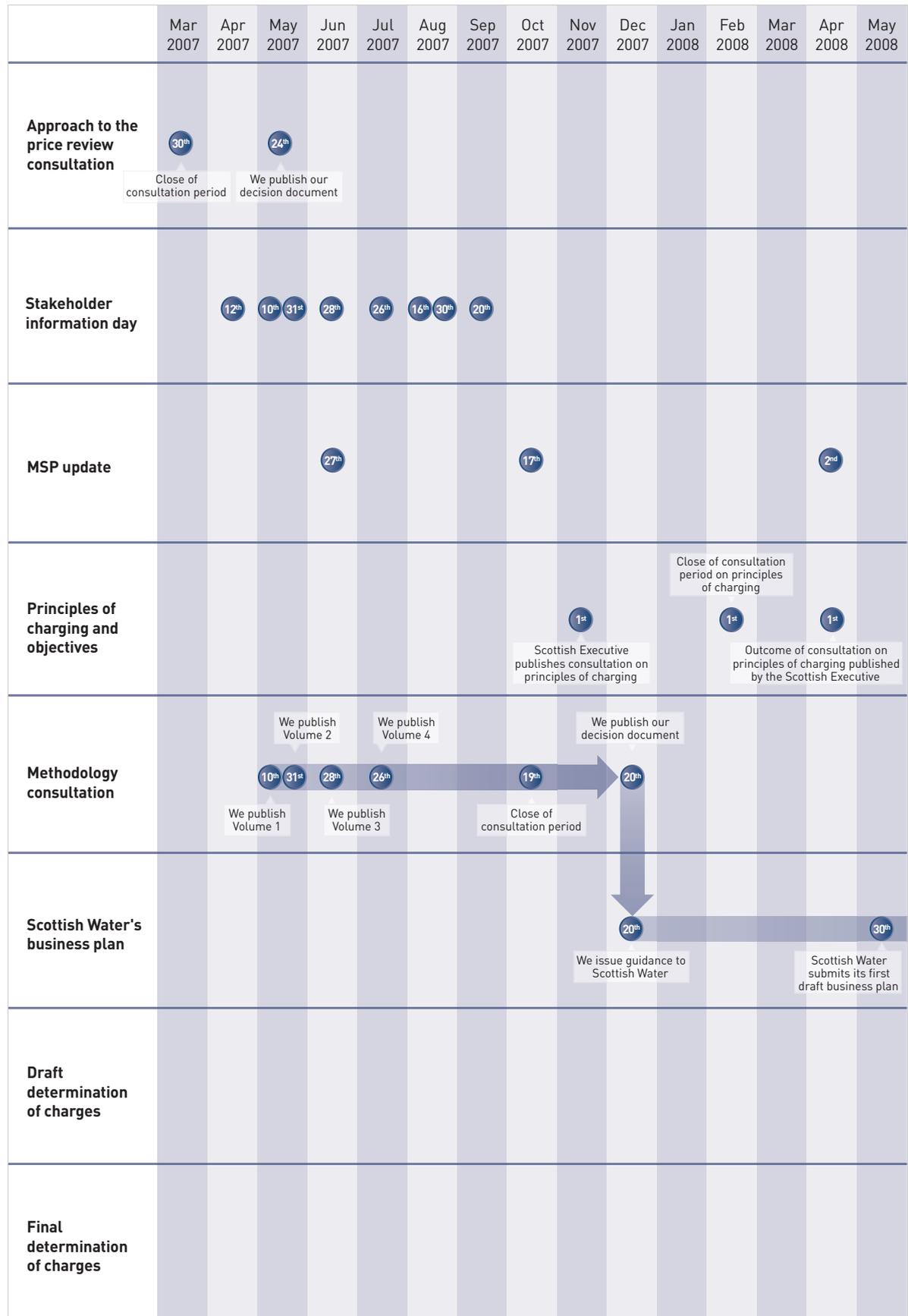
Table 1: Timeline of key milestones

Event or activity	Proposed date
Consultation on our proposed approach closes	30 March 2007
Stakeholder information day 1 to discuss Volume 1 of our methodology for the price review, which will cover how Scottish Water is financed	12 April 2007
Publish methodology Volume 1: Financing Scottish Water	10 May 2007
Stakeholder information day 2 to discuss Volume 2 of our methodology for the price review, which will cover customer revenue and levels of service	10 May 2007
Publish our decisions on the proposed approach to the price review	24 May 2007
Publish methodology Volume 2: Customer revenue and levels of service	31 May 2007
Stakeholder information day 3 to discuss Volume 3 of our methodology for the price review, which will cover Scottish Water's operating costs	31 May 2007
MSP update	27 June 2007
Publish methodology Volume 3: Operating costs	28 June 2007
Stakeholder information day 4 to discuss Volume 4 of our methodology for the price review, which will cover Scottish Water's capital expenditure	28 June 2007
Publish methodology Volume 4: Capital expenditure	26 July 2007
Stakeholder information day 5, a follow-up on our methodology consultation Volume 1 on financing Scottish Water	26 July 2007
Stakeholder information day 6, a follow-up on our methodology consultation Volume 2 on customer revenue and levels of service	16 August 2007
Stakeholder information day 7, a follow-up on our methodology consultation Volume 3 on operating costs	30 August 2007
Stakeholder information day 8, a follow-up on our methodology consultation Volume 4 on capital expenditure	20 September 2007
MSP update	17 October 2007
Close of consultation on methodology Volumes 1, 2, 3 and 4	19 October 2007
Scottish Executive publishes consultation on principles of charging	1 November 2007
We publish our decisions on the methodology for the price review	20 December 2007
We issue guidance to Scottish Water on its first draft business plan	20 December 2007

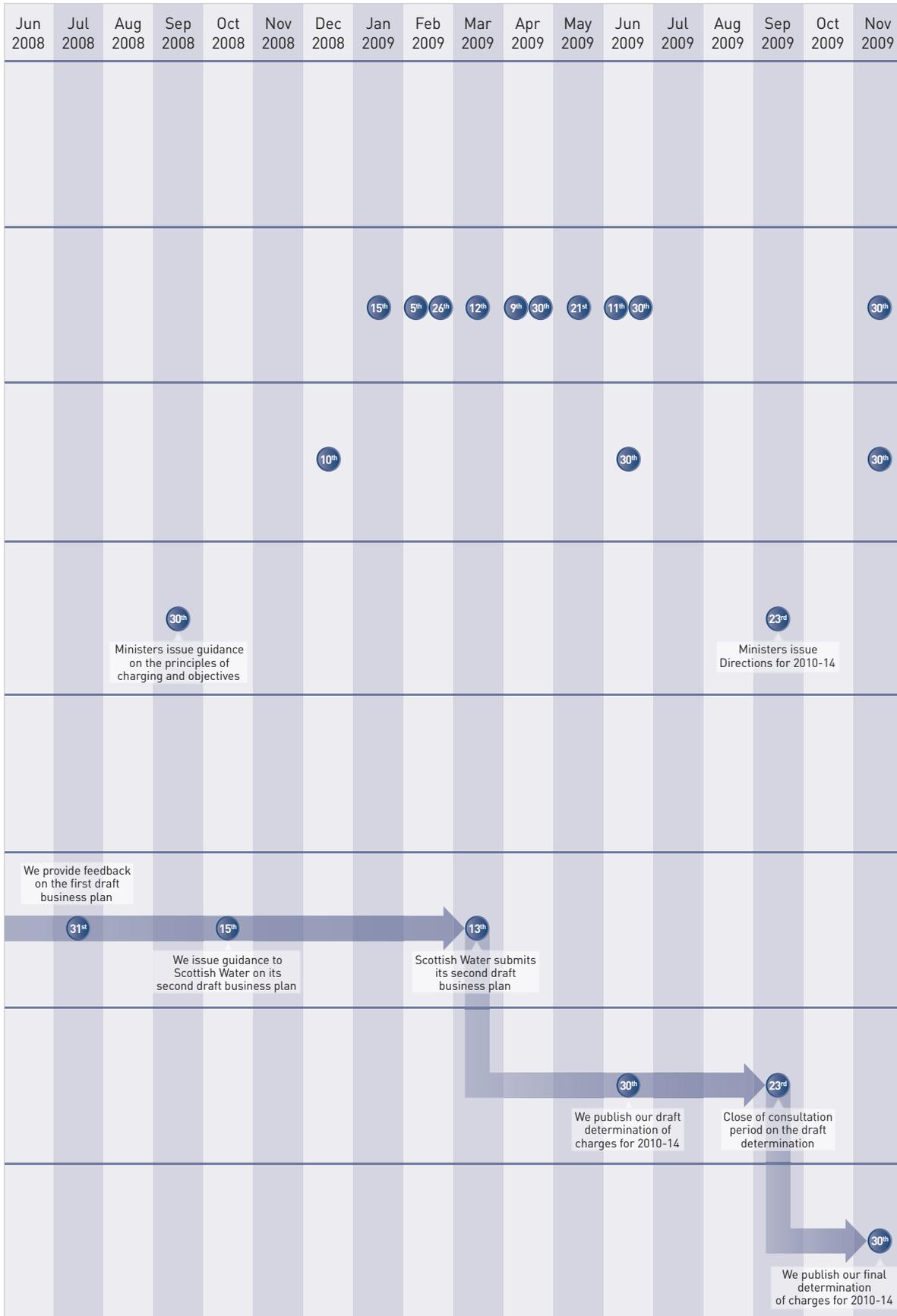
Event or activity	Proposed date
Close of Scottish Executive consultation on the principles of charging	1 February 2008
Scottish Executive publishes decisions on the principles of charging	1 April 2008
MSP update	2 April 2008
Scottish Water submits its first draft business plan	30 May 2008
We respond to Scottish Water's first draft business plan	31 July 2008
Ministers issue guidance on the principles of charging and objectives	30 September 2008
We issue guidance to Scottish Water on its second draft business plan	15 October 2008
MSP update	10 December 2008
Stakeholder information day 9 to discuss governance and incentives	15 January 2009
Stakeholder information day 10 to discuss how price limits are calculated	5 February 2009
Stakeholder information day 11 to discuss customer service	26 February 2009
Stakeholder information day 12 to discuss investment and quality	12 March 2009
Scottish Water submits its second draft business plan	13 March 2009
Stakeholder information day 13 to discuss supply and demand/water resources	9 April 2009
Stakeholder information day 14 to discuss capital maintenance	30 April 2009
Stakeholder information day 15 to discuss operating cost efficiency	21 May 2009
Stakeholder information day 16 to discuss capital expenditure efficiency	11 June 2009
We publish our draft determination of price limits for 2010-14	30 June 2009
Stakeholder information day 17 to discuss our draft determination	30 June 2009
MSP update	30 June 2009
Close of period for representations on the draft determination	23 September 2009
Ministers issue Directions for 2010-14	23 September 2009
We publish our final determination of price limits for 2010-14	30 November 2009
Stakeholder information day 18 to discuss our final determination	30 November 2009
MSP update	30 November 2009

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Figure 1: Calendar of events



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Next steps

The final date for responses to this consultation is **Friday 30 March 2007**. We encourage all interested parties to get in touch with us to express their views about our proposed approach. We will publish a response to the consultation findings on **Thursday 24 May 2007**.

Please use this opportunity to take part in the debate.

Questions for consultation

Respondents are invited to comment on our proposed overall approach to the 2010-14 price review. We would also welcome views on the following specific points.

Are there any other ways that stakeholders would like us to communicate with them?

We propose to use a combination of written material, face-to-face meetings and our website to communicate. Will our plans for the website be useful to stakeholders? Are there other ways that stakeholders would like to be kept informed or contribute to the debate?

How can we ensure that stakeholder information days are as useful as possible?

This might include, for example, the issues that are covered, where the meetings are held and the format of the meetings.

Are MSP updates and briefings the most effective way to communicate with MSPs, as representatives of customers?

Are there any other key issues that should be examined as part of the price review?

Chapter 1: Our proposed overall approach

Introduction

We exist to promote the interests of water and sewerage customers. One of the ways in which we ensure that customers receive best value for money is by setting prices which allow Scottish Water to deliver water quality, environmental and customer service objectives at the lowest reasonable overall cost³.

Price reviews are carried out every four years. At the last review we set prices for the period 2006-10. We are now beginning the process of price setting for the four years 2010-14.

The last review gave us valuable lessons on which to build. In recent months, we have talked to a wide range of stakeholders to hear their views on what we did well and what we could have done more effectively. This invaluable feedback is shaping our approach for the 2010-14 review.

An open and transparent process

We want our work to be open and transparent. This review should be as accessible as possible, so that customers and other stakeholders can contribute their views in various ways. We want our final decisions to be based on well informed, well thought-out and wide-ranging views.

In carrying out the price review we intend to follow the five principles of better regulation. These are:

- accountability;
- consistency;
- proportionality;
- targeting; and
- transparency.

We are developing the ways in which we present written information. Our publications should be easy to read, relevant to their target audiences and widely available. We want to highlight the issues that matter most to stakeholders.

Much of the information we will deal with during the review will cover financial or technical regulatory issues. We aim to ensure that these issues are presented in a straightforward manner and that the rationale for, and implications of, our approach is clear to stakeholders.

We are currently developing our website as a communication tool. We will make sure that our site is informative and easy to use. It will signal the progress of the review and offer opportunities to take part. We also plan to publish a Plain English glossary of the terms that we use during the review process.

³ It is Scottish Ministers who determine these objectives, through a process called 'Quality and Standards'.

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Throughout the review we will provide other, more direct opportunities to explain our approach and hear views. These include stakeholder information days and briefings for MSPs. We will also look for suitable opportunities to contribute articles to newspapers and magazines and to take part in radio and television interviews.

A staged process

For stakeholders to make valid contributions, they need sufficient warning of the main stages of the review, and enough time to consider our proposals, raise any issues with us, and formulate their own responses.

The staged approach clearly outlines each part of the process, so that participation can be full and fair. We will also make clear the basis for our decisions, enabling interested parties opportunities to examine and challenge our thinking.

Chapter 4 sets out the timeline of key activities leading up to publication of the final price limits.

A collaborative process

The price review is a collaborative process. Scottish Ministers commission the price review in a letter to us. Ministers also make decisions about the outputs that Scottish Water must achieve in terms of water quality, environmental performance and customer service. The investment that is required to meet these outputs is then determined through discussions between the Commission, our co-regulators (the DWQR and SEPA), the customer representative body (Waterwatch Scotland), Scottish Water and the Scottish Executive. Ministers also issue the principles of charging that should underpin customers' charges.

We will work closely with these partners throughout the review process.

We invite all stakeholders to give us their views on our proposed overall approach to the 2010-14 price review.

Chapter 2: How we will encourage customers and other stakeholders to get involved

As we value the input that customers and other stakeholders can make to the price review process we are providing various opportunities to encourage wide participation.

Two formal consultations

The first consultation will cover the methodology we will use in determining the price limits. There are a number of components involved in this, and our consultation will group these components into four volumes:

Methodology volume	Date volume is published
Volume 1: Financing Scottish Water	10 May 2007
Volume 2: Customer revenue and levels of service	31 May 2007
Volume 3: Operating costs	28 June 2007
Volume 4: Capital expenditure	26 July 2007

The final date for responses on all four volumes will be **Friday 19 October 2007**, just over 12 weeks after Volume 4 is published. Once responses have been considered we will publish a decision document on **Thursday 20 December 2007**.

The second consultation will be on our draft determination of price limits. Using information submitted to us by Scottish Water, and following the consultation on our methodology, this document will set out draft price limits for the period 2010-14. We plan to publish this document on **30 June 2009**. Stakeholders will be invited to make representations on our provisional decisions. We will take account of these representations in preparing our final determination.

We will welcome responses on these consultations by letter, fax or email.

Stakeholder information days

We plan to hold regular stakeholder information days during key stages of the process. These information days will provide an open forum for stakeholders to ask questions and express their views.

At our last price review (for the period 2006-10) we held stakeholder information days at approximately six-weekly intervals for the final two years of the process. For this review, we

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plan to hold stakeholder information days at an earlier stage. To encourage more focussed debate, each information day will cover a specific issue and will be timed around key events. To help inform debate we will also publish a short paper in advance of each stakeholder information day, outlining the key issues that are likely to be discussed.

We plan to hold four stakeholder information days before publishing the four volumes of our methodology consultation, and a further four information days during the consultation period. These information days will provide stakeholders with an opportunity to comment on the issues the methodology consultation will consider before it is published; once published, stakeholders will again have opportunities to ask questions or seek clarification before submitting their responses.

We will also hold eight stakeholder information days in the run up to publishing our draft determination of price limits. These information days will focus on the key issues for the review (these are outlined in Chapter 3).

We also plan to hold stakeholder information days on the same days that we publish our draft determination and final determination of price limits. These stakeholder information days will provide the opportunity to ask specific questions about our provisional and final decisions on price limits, and how we reached these decisions.

In the past, stakeholder information days have usually been held at our offices in Stirling⁴. We would welcome views about whether it would be beneficial to hold information days in other cities across Scotland.

Issue to be considered	Date of stakeholder information day
The methodology	
Methodology Volume 1: Financing Scottish Water	12 April 2007
Methodology Volume 2: Customer revenue and levels of service	10 May 2007
Methodology Volume 3: Operating costs	31 May 2007
Methodology Volume 4: Capital expenditure	28 June 2007
A follow-up on methodology Volume 1	26 July 2007
A follow-up on methodology Volume 2	16 August 2007
A follow-up on methodology Volume 3	30 August 2007
A follow-up on methodology Volume 4	20 September 2007

⁴ At the 2006-10 price review the stakeholder information day for the draft determination was held in Glasgow and for the final determination in Edinburgh.

Issue to be considered	Date of stakeholder information day
Preparing the draft determination	
Governance and incentives	15 January 2009
Calculation of price limits	5 February 2009
Customer service	26 February 2009
Investment and quality	12 March 2009
Supply and demand/water resources	9 April 2009
Capital maintenance	30 April 2009
Operating cost efficiency	21 May 2009
Capital expenditure efficiency	11 June 2009
Price limits	
Publication of draft determination of price limits	30 June 2009
Publication of final determination of price limits	30 November 2009

MSP updates

We will update MSPs by meeting them approximately twice a year and by publishing briefings on particular issues that affect their constituents.

Communicating through our website

We are currently upgrading our website to be more informative and accessible. The website will become a central depository for information relating to the review, and our on-going monitoring and licensing work.

We will use the website to keep stakeholders informed and to alert them to new items of interest. We are considering, for example, establishing a service whereby interested stakeholders are able to subscribe to receive e-mails about upcoming events and activities and about our progress against the review timeline. This could form part of a wider service whereby stakeholders can subscribe to receive e-mails detailing all updates to our website.

We would welcome stakeholders' views as to whether these would be useful additions to our service.

We encourage stakeholders to let us know if there are any other ways in which we could communicate with them during the review process.

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Questions for consultation

Are there any other ways that stakeholders would like us to communicate with them?

We propose to use a combination of written material, face-to-face meetings and our website to communicate. Will our plans for the website be useful to stakeholders?

Are there other ways that stakeholders would like to be kept informed or contribute to the debate?

How can we ensure that stakeholder information days are as useful as possible?

This might include, for example, the issues that are covered, where the meetings are held and the format of the meetings.

Are MSP updates and briefings the most effective way to communicate with MSPs, as representatives of customers?

Chapter 3: The issues the review will cover

Rigorous, objective regulation of Scottish Water has already delivered lower bills for customers, better levels of service, cleaner water and improved environmental performance. Scottish Water has become more efficient as it has met the challenge of the regulatory targets set at the 2002-06 review.

Our final determination, once accepted by Scottish Water, forms a regulatory contract. It sets out the maximum amount Scottish Water can charge its customers, and the levels of service, water quality and environmental standards it must provide in return.

At the last review, we took some important steps to incentivise Scottish Water to meet the requirements of the regulatory contract. We are seeking to build on this approach at the next review, and would like stakeholders to help us develop our thinking further. We expect the following issues to be central to the debate.

Governance and incentives

We will examine how incentive mechanisms can be further developed to encourage Scottish Water to meet the requirements of the regulatory contract. This includes enforcing the hard budgetary constraints and minimum levels of performance set out in the regulatory contract. It also includes examining ways in which the interests of Scottish Water as an organisation can be more closely aligned with the interests of customers and the environment.

Calculation of price limits

To set price limits, we undertake complex and detailed analysis. We will need to make decisions about issues such as the appropriate cost of capital; the role of financial ratios; the number and type of current and future customers; the costs that will be properly incurred by Scottish Water in running its business; and how ministerial objectives are delivered for the lowest overall reasonable cost.

Customer service

Customers must be sure of the quality and value for money of the service. Scottish Water has made good progress in some aspects of service, such as drinking water quality and the speed with which it responds to written complaints, and has plans in place to make other improvements. At the next review, we will examine how we can incentivise Scottish Water to continue to make such improvements.

Investment and quality

Outputs to improve drinking water quality, provide cleaner beaches and rivers and bring better service are decided by Scottish Ministers through a process called 'Quality and Standards'. Ministers have already indicated their principal priorities for investment in quality for the period 2010-14. These priorities will be set out in the Ministers' guidance to Scottish Water. We will

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scrutinise Scottish Water's investment proposals to deliver the required outputs in order to make sure that they are appropriately scoped and costed and represent value for money for customers.

Supply and demand/water resources

The Water Framework Directive introduces important changes to the way the water environment must be managed across the European Community. It sets a framework which should provide substantial benefits for the long-term sustainable management of water.

We will be examining Scottish Water's proposals for investment to meet the Ministers' requirements under this new Directive, as well as its proposals for meeting growth in demand from existing and new customers, in the light of decreasing water resources.

We will also continue to require a reduction in leakage, and will set targets for Scottish Water to achieve its economic level of leakage by 2014 at the review.

Capital maintenance

The water industry in Scotland is an asset-intensive business. The existing assets are worth some £29 billion, and capital investment allowed for in the final determination (2006-10) to maintain or replace these assets is around £200 million a year. Scottish Water must demonstrate that it is able to target this investment effectively, based on a clear understanding of how best to manage existing assets and make new investment.

Discussions at the next review will centre on Scottish Water's information, its understanding of how its assets are performing, and the extent to which its investment proposals demonstrate good practice.

Operating cost and capital expenditure efficiency

Scottish Water is continuing to improve both its operating cost and its capital expenditure efficiency. However, if we consider the value for money that customers in Scotland are receiving relative to that which is experienced by customers south of the border, there is still scope for further improvement. At the next review, we will assess how much more Scottish Water can achieve by looking at the levels of performance achieved in England and Wales. When we do so, we will take into account the specific circumstances of Scottish Water.

We would like to hear from stakeholders if they think there are other key issues that should be considered as part of the review.

Chapter 4: A staged approach to the review process

The price review process aims to deliver best value to customers by setting out what the industry should achieve for customers over a specific time period, and then reaching decisions about how this can be done at the lowest overall reasonable cost. To be successful, the process requires effective consultation and a collaborative approach among a number of different stakeholders in the industry.

A short explanation of the key components of the process, and when they will take place for the 2010-14 review, is set out below.

The review process itself is formally commenced in a commissioning letter from the Minister.

Ministers determine objectives for the industry

Ministers consult with stakeholders including the DWQR, SEPA and Waterwatch Scotland, before determining investment objectives for Scottish Water. Ministers also consult on, and determine, the principles of charging that underpin the determination.

Key dates for the price review	Date
Scottish Executive publishes consultation on the principles of charging	1 November 2007
Scottish Executive publishes decisions on the principles of charging	1 April 2008
Ministers issue guidance on the principles of charging and objectives	30 September 2008
Ministers issue Directions for 2010-14	23 September 2009

Scottish Water submits two draft business plans

We ask Scottish Water to submit two draft business plans setting out the level of operating and capital costs that it expects to incur in order to deliver Ministers' objectives. These business plans are an important element of the review process, and are used to supplement the existing regulatory returns supplied to us by Scottish Water.

Each business plan is an opportunity for Scottish Water to advise us of its strategy for the future, both in terms of the investment it plans to make and the prices it wishes to charge.

We use the second draft business plan to inform our draft and final determinations of price limits. We issue guidance to Scottish Water on the content and format of the plans in order to ensure that we receive the information necessary for us to set price limits.

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Key dates for the price review	Date
We issue guidance to Scottish Water on its first draft business plan	20 December 2007
Scottish Water submits its first draft business plan	30 May 2008
We respond to Scottish Water's first draft business plan	31 July 2008
We issue guidance to Scottish Water on its second draft business plan	15 October 2008
Scottish Water submits its second draft business plan	13 March 2009

Water Industry Commission determines price caps

It is our statutory role to determine price limits that reflect the lowest overall reasonable cost of delivering Ministers' objectives for the industry. We do so by analysing Scottish Water's business plans (and other regulatory submissions) and making comparisons of the proposed costs with those that would be incurred by an efficient service provider.

We have a statutory duty to consult on our draft determination, and have regard to any representations made, before making our final decisions.

We also consult on our approach to determining price limits.

Key dates for the price review	Date
Publish Volume 1 of our consultation on the methodology for the price review which will cover how Scottish Water is financed	10 May 2007
Publish Volume 2 of our consultation on the methodology for the price review which will cover customer revenue and levels of service	31 May 2007
Publish Volume 3 of our consultation on the methodology for the price review which will cover Scottish Water's operating costs	28 June 2007
Publish Volume 4 of our consultation on the methodology for the price review which will cover Scottish Water's capital expenditure	26 July 2007
Publication of draft determination of price limits	30 June 2009
Publication of final determination of price limits for 2010-14	30 November 2009

Stakeholders and MSPs express their views

At each step of the price review process, it is important that stakeholders express their views to us and, in doing so, help shape the outcome of the review. Stakeholder information days are a key opportunity for stakeholders to do just that, as well as to seek clarification from us about any aspect of our work.

Issue to be considered	Date of stakeholder information day
The methodology	
Methodology Volume 1: Financing Scottish Water	12 April 2007
Methodology Volume 2: Customer revenue and levels of service	10 May 2007
Methodology Volume 3: Operating costs	31 May 2007
Methodology Volume 4: Capital expenditure	28 June 2007
A follow-up on methodology Volume 1	26 July 2007
A follow-up on methodology Volume 2	16 August 2007
A follow-up on methodology Volume 3	30 August 2007
A follow-up on methodology Volume 4	20 September 2007
Preparing the draft determination	
Governance and incentives	15 January 2009
Calculation of price limits	5 February 2009
Customer service	26 February 2009
Investment and quality	12 March 2009
Supply and demand/water resources	9 April 2009
Capital maintenance	30 April 2009
Operating cost efficiency	21 May 2009
Capital expenditure efficiency	11 June 2009
Price limits	
Publication of draft determination of price limits	30 June 2009
Publication of final determination of price limits	30 November 2009

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We also provide updates specifically focussed on the interests of MSPs.

Key dates for the price review	Date
MSP update	27 June 2007
MSP update	17 October 2007
MSP update	2 April 2008
MSP update	10 December 2008
MSP update	30 June 2009
MSP update	30 November 2009

We offer the opportunity for all interested parties to issue formal responses to our consultations in writing.

Key dates for the price review	Date
Close of consultation period on all four volumes of the methodology	19 October 2007
Close of period for representations on the draft determination for 2010-14	23 September 2009

In addition, stakeholders can comment on the principles of charging that underpin the review by responding to the Scottish Executive's consultation.

Key dates for the price review	Date
Close of Scottish Executive consultation on the principles of charging	1 February 2008

Glossary of terms

Capital expenditure – the amount that Scottish Water invests to buy or improve its long-term water and sewerage assets, such as pipes, plant or equipment.

Capital maintenance – planned work carried out by Scottish Water to replace and repair water and sewerage assets in order to provide continuing services to customers.

Cost of capital – the cost of invested capital.

Determination of price limits – see price review.

Directions – a requirement to do something, or refrain from doing something, issued by a Scottish Minister under the authority delegated to him/her by an Act of Parliament.

Draft business plans – Scottish Water’s statement of its strategy for the future. It should present its forecast of revenue and costs. Scottish Water submits two business plans setting out the level of costs it expects to incur to deliver the objectives set for it by Ministers. We use the second draft business plan to inform our draft and final determinations of price limits.

Drinking Water Quality Regulator (DWQR) – provides an independent check that Scottish Water is complying with the drinking water quality regulations. These regulations reflect European Union and other statutory standards.

Economic level of leakage – the level of leakage at which further leakage control activity would cost more than alternative means to bridge the gap between supply and demand.

Efficiency – achieving the same or better outputs for lower expenditure.

Financial ratios – used by the Commission to measure Scottish Water’s financial sustainability.

Methodology – the overall term for the approach that we will use in setting the price limits. We will consult on our methodology through four consultation volumes.

Operating costs – Scottish Water’s day-to-day running costs.

Price review (or determination, or Strategic Review of Charges) – the process by which, every four years, the Commission sets limits on the prices that Scottish Water can charge customers for water and sewerage services. The limits reflect assumptions about how much Scottish Water needs to spend to meet its capital expenditure programmes and to finance its business.

Principles of charging – the Ministers’ statement about the principles they want the Commission to apply in determining price limits and considering Scottish Water’s charges.

GLOSSARY OF TERMS

Quality and Standards – the process by which Scottish Ministers decide on Scottish Water’s outputs to bring better service, improve drinking water quality and provide cleaner beaches and rivers. Ministers consult with stakeholders including the DWQR, SEPA and Waterwatch Scotland, before determining investment objectives for Scottish Water.

Quality regulators – a collective term for the Drinking Water Quality Regulator and the Scottish Environment Protection Agency.

Regulatory contract – sets out the maximum amount Scottish Water can charge its customers, and the levels of service, water quality and environmental standards it must provide in return.

Scottish Environment Protection Agency (SEPA) – Scotland’s environmental regulator and adviser. As well as controlling pollution, SEPA works with others to protect and improve the environment.

Strategic Review of Charges – see price review.

Water Industry Commission – the economic and customer service regulator of the public sector water industry in Scotland.

Waterwatch Scotland – represents customers of Scottish Water, investigates complaints and influences policy.

20.12.06



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