

Section 9: Appendix F: Regulatory 'WIC Letters'

Reference	Issue
WIC 1	Commercially Sensitive Customer Revenue Information and Data Request – requests details of non-domestic customer numbers, bills, volumes etc split into various bandings. This information will be used to establish a base for expected non-household revenue streams, and to monitor any material movements from this base.
WIC 2	Investment Programme Monitoring – advises the requirements for the monitoring of delivery of investment via the Planned Investment Return and the Investment Quarterly Return.
WIC 3	Review of Infrastructure Renewal & Maintenance – request for estimates of asset condition and replacement costs to assist with Quality and Standards process.
WIC 4	Household Revenue Information and Data Request – request for details of domestic customer numbers, billing and collection levels, details of any relief of charges and analysis of secondary income. This information will be used to monitor revenue from households and will aid understanding of the issues of affordability and collectability.
WIC 5	Customer Service Performance Reports - expected requirements for the monitoring of the provision of customer service in general and Guaranteed Minimum Standards in particular, by way of three specified reports.
WIC 6	Quality Performance Assessments – WIC intention to introduce Quality Performance Assessments of written complaints received by the water authorities as an independent monitor of the service actually received by customers.
WIC 7	Scheme of Charges 2001/2002 – request for authorities to submit proposed scheme of charges for the following year and supporting data.
WIC 8	Dates for submission of information to the WIC – clarification on timing and content of WIC information requirements following on from the Information Project.
WIC 9	Non-Domestic Debt Analysis – request for analysis of non domestic debt figures to allow WIC to monitor the financial impact of debt levels and assess the efficiency of the authority's collection systems.
WIC 10	Information Project Action Plan – WIC feedback to Authorities on the content of their Action Plans.
WIC 11	Not used.
WIC 12	New Opex and Spend to Save – WIC's criteria for assessing Water authority's case for additional expenditure on new opex and 'Spend to Save' initiative.
WIC 13	Efficiency Analysis – Impact of PPP Schemes on controllable Opex
WIC 14	Special Agreements For Large Customers – request for information to monitor the special agreements created throughout the year and the financial impact they will have on future charging schemes.
WIC 15	Capital Investment and Efficiencies – summary of investment profiling after efficiencies that will be incorporated in the 2005/06 Strategic Review.
WIC 16	Development Constraints & Rural Sewage Connections – request for costs and outputs of high priority investment plans.
WIC 17	Annual Return Submissions – Sign Off Data Accuracy – required signatories for signing off Annual Return Tables submitted to WIC.
WIC 18	Q&S Final Output – project level information to be included in Quality and Standards.
WIC 19	Investment Appraisal Project – discussion of involvement of Water Authorities in next phase of project and introduction of audit procedures to examine investment appraisal processes.
WIC 20	Request for Data Relating to Depots, Labs & Office Buildings – request for information to assess any possible impact of changes due to the inception of Scottish Water and any impact on Opex.
WIC 21	Critical Information for Strategic Review of Charges – request for information on WIC1, Inter Authority trading, value chain analysis – retail and capital investment.

27 April 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC1: COMMERCIALLY SENSITIVE CUSTOMER REVENUE INFORMATION AND DATA REQUEST

1. Commercially Sensitive Information

In carrying out our functions as regulators we may request information from your organisation which is commercially sensitive, particularly in light of the Competition Act 1998. Any information marked 'Commercial in Confidence' will be restricted in its distribution within this office and will not be disclosed to any third parties without your express permission. The information will be securely filed in the office.

2. Customer Data Request

I would be grateful if you would provide the information detailed below relating to non-household customers. The data should relate to actual figures for the year 1999/2000 and budgeted figures for the year 2000/01. We would like to receive more detail for larger users and our request is detailed below.

a. For customers with water volumes >100,000m³

- Customer name
- Volume of water
- Water bill
- Rateable value
- Sewerage bill
- Trade effluent bill
- Number of customer sites
- Site locations
- Customer business sector

I am aware that information on the above was supplied previously but using 1998/99 data and part 1999/2000 data.

b. For customers with water volumes < 100,000m³

- Total number of non-household customers by customer business sector
- Total volume of water by customer business sector
- Total water bill by customer business sector
- Total rateable value by customer business sector
- Total sewerage bill by customer business sector
- Total trade effluent bill by customer business sector
- Number of customer sites by customer business sector

This information for customers with water volumes < 100,000m³ should be split using the following bandings:

- 50,000-100,000m³
- 25,000-50,000m³
- 10,000-25,000m³
- 1,000-10,000m³
- <1,000m³

c. For customers who have unmeasured water volumes >£250,000 rateable value

- Customer name
- Water bill
- Rateable value
- Sewerage bill
- Trade effluent bill
- Number of customer sites
- Site locations
- Customer business sector

d. For customers who have unmeasured water volumes <£250,000 rateable value

- Total number of non-household customers by customer business sector
- Total water bill by customer business sector
- Total rateable value by customer business sector
- Total sewerage bill by customer business sector
- Total trade effluent bill by customer business sector
- Number of customer sites by customer business sector

This information for customers with rateable values <£250,000 should be split using the following bandings:

- £100,000-£250,000
- £50,000-£100,000
- £25,000-£50,000
- £10,000-£25,000
- <£10,000

I intend to use this information to establish a base for expected non-household revenue streams, and to monitor any material movements from this base.

I would require actual information on a quarterly basis together with an analysis of any material variations against budget and previous quarter. Materiality is set at a movement of 10% or greater on individual 'large user' balances (i.e. consumption >100,000m³ or rateable value >£250,000). Materiality for small and medium users is also 10%, calculated on the total balances within the defined bandings.

If the customer information is available across different systems you should try where possible to match specific customer information in your analysis without losing visibility of the detail required above.

I understand that it may be difficult to collate with current system limitations. However I feel it is essential for the monitoring of non-household customer base. I would be willing to provide limited resource to assist in the preparation of this information should it be required. Please contact XXXX or XXXX if you need further clarification on the information requirements.

You should aim to provide a first cut of this information by Friday 19 May 2000.

Please find attached appendices detailing our required layout and business sector split. For your information find enclosed the large user analysis completed by my finance team using the information provided by your team.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

2 May 2000

To Chief Executive of: East of Scotland Water Authority
 North of Scotland Water Authority
 West of Scotland Water Authority

WIC2: INVESTMENT PROGRAMME MONITORING

In my letter of 6 March I advised the expected level of investment in 2000/2001 by XXXX of Scotland Water Authority. This letter advises my requirements for the monitoring of delivery of this investment, by means of two returns, the Water Industry Commissioner's Planned Investment Return and the Investment Quarterly Return. This latter return, as outlined below, is designed not to revisit each investment project each quarter but rather to highlight material changes.

Ongoing independent monitoring of investment progress – both as regards value for money and achieved quality outputs – will be critical as public scrutiny of the industry increases. The attached returns are likely to be integral both to the Quality and Standards and asset management initiatives. To that end, quality drivers have been added to the attached Planned Investment Return.

Investment and the Price Cap

In the Strategic Review of Charges 2000-01 and 2001-02 I agreed with your requirement for a total investment spend by XXXX of Scotland Authority in 2000-01 of [East: £180 million, North: £156 million, West: £198 million]. This was divided into three categories: Backlog, Infrastructure Replacement and Other Investment as outlined below:

	East	North	West
> Backlog	£53million	£27million	£60million
> Infrastructure Replacement	£30million	£40million	£42million
> Other Investment	<u>£97million</u>	<u>£89million</u>	<u>£96million</u>
> Total Investment	£180million	£156million	£198million

In the event, the Price Cap set by Ministers was slightly lower than would have been needed to fund this level of investment. The revised price cap allows for investment of:

	East	North	West
> Backlog	£20.5million	£40million	£14million
> Infrastructure Replacement	£30million	-	£42million
> Other Investment	<u>£97million</u>	<u>£88million</u>	<u>£96million</u>
> Total Investment	£147.50million	£128million	£152million

As a result of the Ministerial decision on the price cap, I now expect a total investment spend of [East: £147.5 million, North: £128 million, West: £152 million] in 2000-01 by the XXXX of Scotland Water Authority. I propose to monitor investment spending during the year and reconcile spending to this expectation.

The WIC Planned Investment Return

The purpose of the WIC Planned Investment Return (PIR) is to inform me of your investment proposals, at project level, arising from the price cap. This return will also highlight the output drivers for the project required by the quality regulators.

This return is materially the same as the format which was used to collect information for the Strategic Charges Review. The project categories have however been changed from the three noted above to:

- Infrastructure maintenance
- Non Infrastructure(above ground asset) maintenance
- Infrastructure improvement arising from the Quality and Standards review
- Non infrastructure improvement arising from the Quality and Standards review
- Other capital investment - for enhanced levels of service and to improve the supply/demand balance.

It is understood that allocation of projects to these five new categories may change the apparent mix of the investment. It is however critical that this process is closely linked with the Quality and Standards process and that there is a demonstrable way to show that the Quality and Standards programme is delivered and that customers are getting the benefit of the investment promised as a result of the higher charges.

A copy of the PIR return is attached, part completed with investment information provided to me during the strategic charges review. The related reporting requirements and definitions information is also attached. You should update the return and confirm your agreement to the project categorisation shown. The categorisation relates the key issues in Quality and Standards to the Ofwat definitions for expenditure by purpose. As we have discussed, the use of Ofwat definitions is central to ensuring comparability and benchmarking of performance and hence the process of successful economic regulation. The categorisation may be revisited in the course of the development of definitions for the common asset management process endorsed by the Minister in her response to the Strategic Charges Review.

The programme information provided in the return must be able to be fully reconciled with the Investment Programme 2000-2003, as approved by the authority Board. The total of investment for 2000-01 reported in the return is expected to be [East: £147.5 million, North: £128 million, West: £152 million], as discussed above. New or amended project information to that shown on the enclosed return copy should be highlighted as stated in the notes on reporting requirements.

The Planned Investment Return will be shared with the quality regulators, the Scottish Environment Protection Agency and the Water Quality team in the Scottish Executive, in order to ensure that it picks up all their best expectations of necessary investment in the period covered by this return.

The WIC Investment Quarterly Return

The purpose of WIC Investment Quarterly Return (IQR) is to monitor progress, at project level on a quarterly basis the investment programme reported in the PIR return. Sample copies, together with the related guidance, are attached. This will provide – for the first time – operational certainty for the water authority and for customers as to where charges levied will be spent.

You will notice that this return is very straightforward and need only be completed for projects where actual or forecast expenditure has materially changed. It is, therefore, a mechanism by which the planned investment return can be updated at minimum cost (in time and money) to the authority, whilst ensuring that all regulators know the latest status of all agreed projects.

The IQR Return will inform progress towards delivery of the expected investment level. Further, the project level information gathered will in due course inform my views on the cost effectiveness of the authority's investment expenditure.

I would take this opportunity of emphasising that the quarterly return is not expected to be onerous. The aim is to identify and highlight (both for the economic and quality regulators) material changes from the planned investment programme. Changes per

se may be a cause for concern (project delays or cost overruns) but can equally be good news (efficiencies or earlier delivery of the desired outcome). The aim of the return is not to revisit each project during each quarter, but rather to focus only on the material changes from the expected plan.

The frequency and content of this return will be reviewed after three to four quarters. This review will ensure that I am collecting the information, which I require, in a manner which minimises the workload for the water authority. I will, of course, be open to suggestions which allow my goals to be met in terms of monitoring and project effectiveness assessment, but could reduce the workload for the water authority.

Programme of Returns

Completed returns are required no later than the dates shown below:

PIR return	Friday 9 June 2000
WIQ Return Quarter 1	Friday 11 August 2000
WIQ Return Quarter 2	Friday 10 November 2000
WIQ Return Quarter 3	Friday 19 January 2001
WIQ Return Quarter 4	Friday 20 April 2001.

Consultation on the Returns

The format and content of the returns have been developed in consultation with your officials. For the IQR Return the consultation established that all the data points required are, or shortly will be, collected within the authorities management information systems on a monthly basis and can be readily consolidated into quarterly returns.

In setting the dates for the returns I have responded to views put forward by authorities on the time required to provide accurate returns.

XXXX will provide directly to XXXX electronic copies of PIR and IQR Returns and guidance notes in the course of this week. XXXX will also provide any further information required.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

22 May 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC3: Review of Infrastructure Renewal and Maintenance

The Scottish Executive has forwarded to all of us a timetable for the Quality and Standards Process. It is clearly in the interests of all of the authorities and in the interests of customers that investment be planned and costed in as rigorous a fashion as possible. You will note from the timetable that my Office has to review maintenance and infrastructure renewal options on a preliminary basis as an input to Phase One of the Quality and Standards process. We certainly appreciate that each of the water authorities is continuing to develop their understanding of the condition and performance of their above and below ground assets. However, we would appreciate receiving your current best estimates of asset condition and replacement cost as soon as practical. These cost estimates should not include any allowance for an incremental performance improvement.

I attach a matrix, which I would be grateful if you could complete. I also attach a copy of the Ofwat definitions of condition, to which I would be grateful if you could adhere as far as possible. If there is any doubt (other than that resulting from the level of statistical sampling which has been completed) in how an asset has been categorised, please reference this in a footnote. The expected life of each category of asset should also be entered. If an asset is costing more than 1/expected asset life, even if its performance is rated higher than 5, then that asset should be rated as a category 5 asset. In all such circumstances, please indicate by means of a further footnote, what the actual current performance of the asset is; and the estimated annual spend on maintenance.

I recognise that the data, which you provide at this time will be provisional. Not only are the authorities all working to improve their understanding of their assets, but the asset management initiative will define in detail the definitions and procedures, which each of the authorities and this Office will use in order to ensure comparability. The information, which you will provide, will, however, be an important input to the costs of maintaining the existing infrastructure and dealing with past under-investment.

I will require this information by 30 May 2000. If I can provide any further information, please do not hesitate to contact me.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

Encs

08 Aug 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC4: HOUSEHOLD CUSTOMER REVENUE INFORMATION AND DATA REQUEST

I wrote to Finance Directors on 14 July 2000 requesting data on the number of households, billing and collection levels on a council tax banding and local authority area basis. I understand from the Finance Directors that such data needs to be collected from the local authorities, which will require negotiations with and computer programming by the local authorities to ensure delivery.

Given that this is the situation, I would take the opportunity to go further in my request and obtain data that will be useful in not only monitoring revenue from households but also understanding the issues of affordability and collectability backed up by data.

The information on households, along with the analysis of secondary income included in my request of 14 July, will complete the revenue picture of the authorities. As you know, I have already received customer and revenue data on non-households and discussions are on-going with your staff on how the data submitted can be improved. The Strategic Review of Charges recommended the revenue level required for the two-year period to March 2002. The data I have requested will allow us both to monitor revenue on an on-going basis and to ensure that those levels endorsed by the Minister are achieved.

Attached is a schedule summarising the data request and I would be pleased if this is completed for the year ending 31 March 2000 for each local authority area. The data provided should be reconciled to the figures that are included in your final accounts for 1999/2000. You will note that Rating Disabled Properties have to be reported on at their adjusted Council Tax Band. There is a further schedule relating to households that are metered, albeit there are few, and I would expect that this return would be able to be completed from data already held within your own database. I require both the returns to be made on a quarterly basis.

Please advise me as soon as possible of when you will be in a position to provide data for the year to 31 March 2000 and for the current year.

Please contact me if you need further clarification on the above information requirement.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

WIC 4 : HOUSEHOLD DATA REQUEST

Council

Date Produced

Water & Wastewater Reduction	Council Tax Benefit	Total Households Connected				Households receiving Water and Wastewater charge				Households receiving Water charge only				Households receiving Wastewater charge only				
		No reduction	Single person 25% reduction	50% reduction	No charge	No reduction	Single person 25% reduction	50% reduction	No charge	No reduction	Single person 25% reduction	50% reduction	No charge	No reduction	Single person 25% reduction	50% reduction	No charge	
		Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr	Nr
Band A	No Benefit																	
	Partial Benefit																	
	Full Benefit																	
Band B	No Benefit																	
	Partial Benefit																	
	Full Benefit																	
Band C	No Benefit																	
	Partial Benefit																	
	Full Benefit																	
Band D	No Benefit																	
	Partial Benefit																	
	Full Benefit																	
Band E	No Benefit																	
	Partial Benefit																	
	Full Benefit																	
Band F	No Benefit																	
	Partial Benefit																	
	Full Benefit																	
Band G	No Benefit																	
	Partial Benefit																	
	Full Benefit																	
Band H	No Benefit																	
	Partial Benefit																	
	Full Benefit																	

WIC 4 : HOUSEHOLD DATA REQUEST

Council

Date Produced

Debt	1996/97		1997/98		1998/99		1999/00		Debt Outstanding 2000/01				
	Outstanding debt at 31/3/00 attributable to 1996/97	Properties in Debt	Outstanding debt at 31/3/00 attributable to 1997/98	Properties in Debt	Outstanding debt at 31/3/00 attributable to 1998/99	Properties in Debt	Outstanding debt at 31/3/00 attributable to 1999/00	Properties in Debt	Up to 30 days (attributable to billing year)	Between 30 and 60 days (attributable to billing year)	Between 60 & 120 days (attributable to billing year)	Between 120 & 180 days (attributable to billing year)	Above 180 days (attributable to billing year)
Council Tax Benefit	£	Nr	£	Nr	£	Nr	£	Nr	£	£	£	£	£
Band A No Benefit													
Band A Partial Benefit													
Band A Full Benefit													
Band B No Benefit													
Band B Partial Benefit													
Band B Full Benefit													
Band C No Benefit													
Band C Partial Benefit													
Band C Full Benefit													
Band D No Benefit													
Band D Partial Benefit													
Band D Full Benefit													
Band E No Benefit													
Band E Partial Benefit													
Band E Full Benefit													
Band F No Benefit													
Band F Partial Benefit													
Band F Full Benefit													
Band G No Benefit													
Band G Partial Benefit													
Band G Full Benefit													
Band H No Benefit													
Band H Partial Benefit													
Band H Full Benefit													

WIC 4 : HOUSEHOLD DATA REQUEST

Date Produced

Debt	1996/97		1997/98		1998/99		1999/00		Debt Outstanding 2000/01					
	£	Nr	£	Nr	£	Nr	£	Nr	£	£	£	£	£	
Number of Customers	Outstanding debt at 31/3/00 attributable to 1996/97		Outstanding debt at 31/3/00 attributable to 1997/98		Outstanding debt at 31/3/00 attributable to 1998/99		Outstanding debt at 31/3/00 attributable to 1999/00		Properties in Debt					
	Properties in Debt		Properties in Debt		Properties in Debt		Properties in Debt		Up to 30 days (attributable to billing year)					
										Between 30 and 60 days (attributable to billing year)				
										Between 60 & 120 days (attributable to billing year)				
										Between 120 & 180 days (attributable to billing year)				
										Above 180 days (attributable to billing year)				

21 June 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC5: CUSTOMER SERVICE PERFORMANCE REPORTING

This letter is to advise of my expected requirements for the monitoring of the provision of customer service in general and Guaranteed Minimum Standards in particular, by way of three reports discussed below. It will, of course, not be possible to define final monitoring requirements until the results of the current consultation exercise are available.

Ongoing independent measurement and monitoring of customer service provision is crucial in ensuring that customers receive a consistent and quality service, providing value for money. Customer service provision is equally critical in customer perception of the industry and so accountability must be demonstrable.

Performance Reporting

Any reporting mechanism developed must gather fair, useful and relevant information. The purpose is to ensure that service is delivered to an acceptable and improving standard and to inform other areas of activity within this Office and, if required, initiatives launched by the Scottish Executive.

To facilitate this process a reporting format has been developed where the water authorities are required simply to complete a pro forma which will allow consistent measures and charts to be generated.

Glossary of Definitions

A glossary of definitions to be used when completing these reports has been developed from the Ofwat definitions used in their June Return and information provided by all three Scottish water authorities. A copy of this glossary is attached for your information. All responses given should be based on these definitions. Should further clarification be required please contact this office.

Guaranteed Minimum Standards Performance Report

This report will be required quarterly. This report is intended to be top-line summary of each water authorities' performance against the Guaranteed Minimum Standards likely to be introduced following the current consultation process and Ministerial approval. Information provided should relate to these specific standards. Any water authority operating tighter or additional standards will have the opportunity to report on these elsewhere. Results will be considered in terms of the scale of improvements required and achieved.

Customer Service Performance Report

This report will also be required quarterly. The customer service performance report is a more detailed report intended to cover the major areas of customer service. This report will be used to monitor trends and highlight whether particular water authorities or their divisions are doing very well or badly in specific areas. This report monitors historical performance over five quarters to show trends,

and comparisons with previous quarters and the same quarter in the previous year to account for seasonal influences. Again this allows scrutiny of improvement rather than absolute performance. Categories covered in this report are listed at Appendix 1 and are not materially different to those in the previously collected quarterly performance reports.

The format of this report also provides an opportunity for water authority comment in order that attention can be drawn to any particular influences on the performance achieved and any fluctuations observed.

The end of this report includes a section where the water authority should report information on incidents which were either notifiable or of particular interest. The last section provides an opportunity for the water authority to share the results of any surveys carried out and customer satisfaction established in the quarter eg postcard or callback surveys.

WIC Returns Performance Report

This report will be required annually. This is a more specialised report utilising the Ofwat 'June Return' framework. It may be that a number of the criteria will not apply in Scotland at this time however a nil response can also provide useful information. It may also allow a degree of preparation to be made for possible future measurement.

Further Requests

This office may request further information to clarify and expand on the results from these reports.

Further analysis of trends over time and comparisons will be carried out using the information provided and it is therefore essential that the information provided is both complete and accurate.

Completion of these reports is not expected to be overly onerous given that much of the information is already collected, although I realise that issues such as time banding may require system development.

The frequency and content of these reports will be reviewed after three to four quarters to ensure that the required information is being collected in the most useful way. Input from the water authorities on these matters will also be welcomed to facilitate greater efficiency and effectiveness on both sides.

Reporting periods

In the time until 1 September 2000 I would be grateful if you could do as much as possible to gather the information as required by these new formats. However, I acknowledge the system development required and will accept Quarter 1 2000 and full three month Quarter 2 2000 reports in the previously utilised format.

Guaranteed Minimum Standards and Customer Service Performance Reports

Quarter 1 = April 1 – June 30	Report by Friday 11 August 2000
Quarter 2 = July 1 – August 31	Report by Friday 13 October 2000 (two month report)
Quarter 2 = September 1 – September 30	Report by Friday 10 November 2000 (one month report)
Quarter 3 = October 1 – December 31	Report by Friday 16 February 2001
Quarter 4 = January 1 – March 31	Report by Friday 11 May 2001
Quarter 1 = April 1 – June 30	Report by Friday 10 August 2001

WIC Returns Performance Report

September 1 – March 31 Report by Friday 11 May 2001
(seven month report)

Consultation

It is clear that in order to make appropriate system amendments the reporting requirements for customer service must be set as soon as possible. In view of this time pressure it is proposed that around two weeks would be sufficient for the water authorities to comment on the proposed reporting requirements and indicate any potential difficulties with implementation. I would therefore expect any views, comments or suggestions to be submitted by Friday 30 June 2000. Whilst it is not expected that the format will be changed significantly following this process, there may be issues of which I should be aware. I will, of course, advise of any amendments which occur.

XXXX will provide paper and on-disk copies of these reporting formats to XXXX in the next few days. XXXX will also be able to address any other questions in this regard.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

Appendix 1

Categories included in the Customer Service Performance Report

- Contacts
- Enquiry and Complaint handling
- Telephone handling
- Supply interruptions
- Septic tank emptying
- Sewer flooding
- Appointment keeping
- Ex-gratia payments
- Water authority Guaranteed Standards scheme
- Surveys
- Incidents

22 August 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC6: QUALITY PERFORMANCE ASSESSMENTS

This letter is to advise of my intention to introduce Quality Performance Assessments of written complaints received by the water authorities, a development of previous audit arrangements. Ongoing independent measurement and monitoring of customer service provision is crucial in ensuring that customers receive a consistent and quality service, providing value for money.

It is intended to introduce Quality Performance Assessments as an independent monitor of the service actually received by customers. At this stage these Assessments will be of written complaints and telephone complaints where a written response has been requested.

Any measurement and monitoring system must be fair and transparent. The veracity of the information gathered and conclusions drawn must be as far as possible unquestionable. With this in mind a pro forma and a set of definitions has been developed to ensure objectivity in assessment. This system will be more rigorous, and I believe more defensible, than the previous, more subjective measurements.

As I have stated, at this stage the Quality Performance Assessments will only cover written complaints and telephone complaints where a written response is requested. However, it is clear that with the majority of contacts being by telephone a mechanism must be introduced to ensure quality service is provided in this medium also. I am therefore keen that we work together to develop such a system, perhaps by way of independent monitoring by an outside agency of call handling. I am considering the issue of 'spot-check' Assessments and will come back to you on this when the methodology is more developed.

I am keen that these Quality Performance Assessments get underway as soon as possible and would propose the first round take place towards the end of September. I envisage that Assessments will take place quarterly, in line with Customer Service Performance Reporting. Having considered the number of complaints I am proposing that 40 cases be considered during each quarterly assessment.

This process will be reviewed after three to four quarters to ensure that the system is as useful as it can be. Input from the water authorities on these matters will also be welcomed to facilitate greater efficiency and effectiveness on both sides.

I would appreciate your views, comments or suggestions as soon as practicable as you will note from the attached timetable that we would be asking for complaint information on 11 September 2000. We would expect a list of all written complaints and telephone complaints where a written response was requested relating to the quarter, 1 April 2000 to 30 June 2000, on that date from which our random selection would be made.

I attach a pro forma, criteria definitions and draft timetable for your information. XXXX will forward copies of these formats to XXXX in the next few days. XXXX will also be able to address any questions you may have in this regard.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

6 October 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC7: SCHEME OF CHARGES 2001/2002

(1.0 – Request for submission of charging scheme, timetable and guidance)

I am writing to request your Scheme of Charges for next year. I see the Scheme of Charges as an integral part of the regulatory process and I have therefore requested the appropriate supporting data, drawing on previous requests contained in my letters WIC 1, WIC 4 and the Regulatory Annual Return. The appendices and the guidance notes attached detail the format of the supporting data to be submitted.

In order to assist with the preparation of the charges' scheme, I have identified the following key policy issues, which I believe ought to be addressed:

- income Levels and Compliance with the Ministers' decision in January 2000
- consistency of charging methodology
- re-balancing of household and non-household charges
- affordability

Income Levels and Compliance with the Ministers' decision in January 2000

In complying with Ministers' decision, I would expect to see a nominal charges cap of 12%. This was intended to generate an income level of [East: £280.6 million, North: £231.8 million, West: £367.3million], as envisaged in the Strategic Review of Charges. If there is any movement from this figure then a full reconciliation of what has changed, and why, should be provided on an item by item basis. If revenue levels for 1999/2000 and 2000/2001 will fall short of the level of income required by the Strategic Review, I would ask that you seek the view of the Scottish Executive, before submitting your Scheme of Charges.

I would expect any difference from the expected 12%, for any customer category, to be quantified and explained with supporting data. Any variance from the income agreed at the Strategic Review should be quantified and explained in the format of the tables attached.

Consistency of charging methodology

I have received a number of representations, which suggest that there would be great benefit to all stakeholders from consistency of charging methodology. I plan to consult on consistency of charging methodology in the next year and if, as expected, there were a requirement for water authorities to employ a consistent approach, Scotland wide, then I would welcome your views on how this could be achieved. As an interim step I would like to see full details of any consultation you may have carried out on this matter. Your views on consistency on the following areas would be appreciated:

- charging for surface water drainage
- charging for network and customer service
- treatment of highway drainage
- use, or otherwise, of the year 2000 rateable values

- return to sewer policy
- agreement on the customer categories where charges are to apply, for example, charges for empty properties, halls of residence.
- relief of charges
- building water charges

Re-balancing of household and non-household charges

I suggest that no further re-balancing be made until there is robust data on household and non-household revenue and costs. This would be collected on a consistent basis through the Asset Management and Information Project and the submission of proper data through the WIC 1 and WIC 4 requests.

Affordability

Although the Scottish Executive will be consulting on the affordability of charges, I believe that authorities could do more, outwith the requirement for legislation, to improve the affordability and collection of charges levied on vulnerable households. I would be pleased to receive ideas as to how water charges can be made more affordable.

The following implementation issues need to be addressed, and I have given more detail below.

Metering and levels of metered charges

I would encourage all authorities to include the option for customers to have a water meter installed free of charge. Charging customers for the option of a measured supply in Scotland cannot be sustained when customers in England and Wales have a statutory right to opt for such a supply, free of charge. I would also encourage authorities to be more explicit about their metering policy. The cost of installing a meter may be covered by a change of tariff for the first few cubic metres.

Relief of charges

I am aware that you have consulted on the issue of relief of charges to churches, nursing and care homes etc. I look forward to receiving an analysis and the conclusions from that consultation before the end of October. I plan to obtain opinion on the matter through the use of the domestic consumer panel, which has been established to ascertain the views of households.

Level of income and impact of competitive deals

I am keen to restrict the influence of special agreements that are outwith the charging scheme in order to limit to an agreed level the impact that such agreements will have on the remaining customer base. I suggest that the aggregate cost of special agreements should not exceed 2.5% of authority turnover for 1999/2000. Any increase in special agreements beyond this should be advised to me with a full business case.

Rateable Values as a basis for non-household Unmeasured Charges

I would like to see also a consistent approach across Scotland on the use of rateable values for calculating bills, including whether or not to use the year 2000 valuations. Where up to date values are used, please provide the necessary evidence and supporting calculations on the revised charge base. It may be that rateable value is going to become a decreasingly relevant means of charging and I would welcome your views.

Rebates for non-connection for surface water

Customers should not be charged for services that they do not receive. I therefore suggest that customers be offered a lower charge, or rebate, where the surface area of their property does not drain to the public sewer. I welcome your proposals (again preferably common across Scotland) on this issue.

Timetable

I would ask that you provide the proposed Scheme of Charges and the supporting documentation and commentary to me no later than Friday 15 December 2000. I would hope to reach agreement quickly thereafter. I would be happy, however, to discuss your proposals and the charging issues in more detail, before 15 December 2000.

I am copying this letter, plus the tables, appendices and guidance by e-mail to XXXX. Please contact me if you wish to discuss any of the points above.

Yours sincerely

ALAN D A SUTHERLAND

Commissioner

10th November 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC8: DATES FOR SUBMISSION OF INFORMATION TO THE WIC

Subsequent to the recent meetings between yourselves and this office regarding the information project, I would like to clarify the timing and content of further information requirements of this office following on from the project. Please ensure that all the relevant staff are informed of dates that affect them. Accurate communication is important for the success of the data gathering exercise. We have had some experience of people being unaware of important deadlines despite having communicated them to you. I hope that the following information will be helpful:

- 10/11/00 - QIR
- 15/12/00 – Submission of information required for approval of the **schemes of charges**, including tables A1-4, E1&2, F1-10 from the return.
- 31/01/01 – Submission of an updated version of the **99-00 annual return** in the new format including any improvements, and an initial submission of any new information. Focus should be directed towards the new information in tables H-K and the key benchmarking parameters:
 - Population – all definitions
 - Properties – connected and billed
 - Sewage treatment loads
 - Volumes put into supply
- 31/01/01 – **Action plans** to overcome the gaps in what the authority is able to submit, including best estimates of any required resources and milestone dates.
- February 01 – We will review the information provided in **tables H, J, and K** with a view to identify any important revisions to be done in March or April 01.
- 01/04/00 – Submission of **table S**, the strategic plan.
- 01/07/01 – **Full return for 00-01**.

Provided that table K is fully completed by 01/07/00 this will replace the PIR.

Issuing of new versions of the return

As you are aware we will periodically be reissuing updated versions of the tables. It is assumed that the regulatory contact will have ownership and control of all copies of the tables throughout the authority and will recall these in order to issue new versions. It is extremely important that confusion cannot arise, and that consistency of the timing and content of revisions is maintained.

When a new version is issued, copies of our change control sheets will also be made available. These will contain lists of added or deleted lines or columns and other changes.

I trust that this system will ensure the effective communication of revisions.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

20 December 2000

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC9: NON DOMESTIC DEBT ANALYSIS

In the WIC1 request, I sought detailed revenue information on non-domestic customers. I stressed that the understanding of customers, and what income they generate for the business, is a core operation of the water authority.

I would now like to take this request a stage further by seeking an analysis of non-domestic customer levels of debt. I consider that this is an essential ingredient in developing your understanding of customers. In addition, given the material levels of non-domestic bad debt in recent years, this analysis would enable this office to monitor the financial impact of the debt levels and assess the efficiency of the authority's collection systems. The data requested will allow us both to monitor revenue on an on-going basis and to ensure that those levels endorsed by the Minister are achieved.

I envisage that this information will be submitted as additional columns to the WIC1 request on a quarterly basis. Therefore, the debt levels across water, wastewater and trade effluent should be completed for individual customers where revenue is <£100,000 and by business sector for medium sized and small customers. The first submission should relate to the balances as at 31 March 2000 and 31 December 2000 and is required by 2 March 2001.

I have attached the column headings to be appended to the WIC1 submission. These column headings are similar to both the WIC4 return, which requires summary total information for households, and the non-domestic debt summary required for the annual Charges Review. Two additional columns have been added for Bad Debt Provision and Bad Debt Write-offs.

I appreciate that you will encounter difficulties in completing this information and in particular analysing that part of the debtor balance which relates to previous years, however I trust you will apply best endeavours.

If you have any queries regarding this request please do not hesitate to contact me.

ALAN D A SUTHERLAND
Commissioner

28 February 2001

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC10: INFORMATION PROJECT ACTION PLAN

Thank you for the recent submission of your proposed action plan, which I received on XX February, with further information on XX February 2001. I have undertaken an initial review of the action plan and am extremely disappointed with the quality of the actions included, despite the additional time given to complete this exercise. Moreover, Cap Gemini conducted an independent review of the action plan and reached similar conclusions re the inadequacy of the details provided.

The main weaknesses identified in the action plan are as follows:

- Lack of attention to strategic information shortcomings
- Failure to address high level information gaps
- Asset management requirements inconsistently addressed
- Milestones, cost and resource requirements have not been adequately defined
- Timescales to provide information are unrealistic
- No firm determination of overall goals and objectives

Specific examples of inadequate actions include:

- One plan failed to mention the development of a risk-based measure for monitoring WTW's and STW's asset performance, identified as a gap in Phase 2 Report
- Of the 52 plans submitted only 23 contained any milestone dates
- Two of the authorities' action plans re asset information go as far as developing 'methodologies' for reporting changes to asset stock. None of the plans appears to address the issue of actually maintaining up-to-date asset data

The review of the authorities' existing data systems undertaken by Cap Gemini identified common information gaps across all three authorities and recommend a common approach to their solution. The findings of the NEW Project underline the need to address any information gaps in a collaborative fashion. This would suggest that a Scotland-wide approach to addressing these information requirements would be appropriate. In addition, the possibility of a single authority reinforces the need to tackle problems once and for all on a consistent basis and appears to make this task considerably more urgent than in the timetable proposed in the action plan.

The issue of knowledge of the asset base for essential services is very much to the fore in the public's eye. It is therefore essential to secure a sound and consistent information base for asset management. For this reason, I would suggest that a stand-alone project to facilitate and support asset information gathering be initiated. I envisage a Scotland-wide project operated by external experts with the following outputs:

- Defining a framework for detailed asset information which is fully consistent with the information project data framework and with effective day-to-day asset management
- I.T. Systems to support the information database
- Collecting all the required data to fully populate the database

The cost of this project could be between £8million and £10million. However, your organisation will benefit in terms of the quality of the information compiled by expert consultants and also in terms of resources freed up to concentrate on other areas of the action plan.

I would like to discuss this proposal and ways of taking it forward at the Steering Group Meeting this Friday. If you have any questions, please do not hesitate to contact me or XXXX at the number below.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

WIC 11 was not issued

7 March 2001

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC12: NEW OPEX AND SPEND TO SAVE

At the meeting on 16 February, the three Chief Executives asked me to set out the criteria on which I would assess each authority's case for additional expenditure on new opex and 'Spend to Save' initiatives.

New opex

The efficiency target for base opex is calculated from benchmarking on companies' opex, as reported in 1998-99. Companies' benchmarked opex includes the full costs of operating new plant, or providing additional staff, to meet the reported level of service for that year. For the sewerage service, where levels of service are improving rapidly, the benchmarking takes account of the extra costs of specific treatment processes.

Given the nature of the benchmarking, it would, therefore, be inappropriate to allow your Authority new opex, unless the reported levels of service in England and Wales were surpassed, or significant additional sewage treatment processes were required.

From our discussions on the 16th February, it would appear that the only area likely to qualify for additional opex will be for sewage treatment and sludge disposal, in the period up to 2005-06. Commitments on drinking water compliance and Guaranteed Minimum Standards would appear unlikely to qualify, unless a step change were needed, over and above the reported levels of compliance and service standards in England and Wales in 1998-99.

The criteria I intend to adopt in assessing new opex are, therefore, as follows:

- Does the expenditure result in a level of service that exceeds the reported norms for England and Wales, or enable significant additional sewage treatment?
- Is the authority required to provide this additional level of service, and for what reason?
- Has the authority carried out a proper assessment of the proposed new opex spend, rather than rely on contractors' / manufacturers' estimates or on an arbitrary percent of the capex cost?
- Has the authority demonstrated management challenge and control over the proposed costs?
- Has the authority compared alternative options on a whole life cost basis, within a project appraisal?
- Have full net present value calculations been provided?
- Do the alternative options include different mixes of opex and capex?
- Where appropriate, have single authority solutions been investigated?
- Has the authority quantified potential savings to base opex arising from upgrading works or systems, and offset the new opex accordingly?

Proposals for new opex would need to have satisfactory responses to each of these questions to be acceptable.

Once accepted, the assessed amount of new opex would be subject to an efficiency target.

Spend to save

Spend to save covers those projects whose principal purpose is to reduce total whole life cost, as expressed by net present value. I expect each authority to determine and set out the appropriate financial criteria on which to judge the merits of individual projects, especially where they are competing for a limited budget resource. That said, I intend to judge proposals on the following criteria:

- Has the authority carried out a proper assessment of the proposed costs and benefits, rather than rely on contractors' / manufacturers' estimates or on arbitrary estimates?
- Has the authority demonstrated management challenge and control over the proposed costs?
- Has the authority compared alternative options on a whole life cost basis, within a project appraisal?
- Have full net present value calculations been provided?
- Do the alternative options include different mixes of opex and capex?
- Have payback periods been calculated, with sensitivity analyses to take risk into account?
- Where appropriate, have single authority solutions been considered?
- Has the source of funds to carry out the project been identified?
- Have additional 'knock-on' benefits (eg reduced risk of non-compliance) been quantified?

Proposals would need to have satisfactory responses to each of these questions to be acceptable. Those that are approved will need to identify appropriate outputs, deliverables and milestones, and I shall wish to monitor progress closely to ensure value for money.

Clearly, it is important to deal with both new opex and spend to save within the Quality and Standards process. I therefore expect to see these issues addressed in your Strategic Business Plan. I would also expect you to prepare detailed justifications for proposed expenditure in these categories by early May, so that I can review them before incorporation in the final Quality and Standards document.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

07 May 2001

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC13: EFFICIENCY ANALYSIS – IMPACT OF PPP SCHEMES

At the Strategic Review, I will need to identify future PPP costs, so that they can be properly allowed for in prices. However, it will undoubtedly be the case that, in the future, some PPP schemes will impact upon 1998/99 controllable OPEX. This could be the case, for example, where primary sewage treatment facilities existing in 1998/99 are replaced and extended through a PPP scheme. In addition, were assets transferred from the Authority to a PPP, then this could reduce the asset base on which maintenance by the Authority is required.

Given these possibilities, I need to understand the potential impact of PPP schemes in reducing controllable OPEX and CAPEX over the period to 2005-06. I envisage that the outcome of this exercise would be an efficiency target to be netted out of the expected spend on PPP. There may also be an impact on the capital efficiency targets, where it can be shown that the Authority's internal costs will be reduced through PPP schemes.

In the interests of customers, I also need to be confident that variable or volume related costs included in PPP contractual arrangements would, where appropriate, be optimised by the Authority to the extent that such costs can be controlled.

Please find enclosed three tables which will give me the information I require to gain a full understanding of the current and future PPP impact. Please complete this information by Thursday 31 May 2001.

Table A:

This table requires details of the number of the sewer network or other assets made redundant or transferred to the contractor as a consequence of PPP. This will give me an understanding of the number of assets and hence the associated costs of running and maintaining these assets no longer required due to PPP.

Table B:

This table requires details of how much OPEX relates to operating facilities that will be replaced by PPP schemes. I also need to know in what year each scheme becomes fully operational.

Table C:

This table requires details of the ranges of volumetric/ load parameters which the water authority's PPP charges will be based on. I also require details of the volumes/ loads that the water authority currently generates within the area to be covered by PPP schemes. I have assumed that charges are influenced by the level of volume/ loads used by the authority. If this is not the case, please indicate the basis of charging within the PPP schemes.

It is not currently my intention to include the PPP efficiency targets within the revenue caps proposed in my advice to Scottish Ministers. I believe that the operating cost and capital efficiency targets are appropriately and sufficiently demanding. This position assumes a capital efficiency target is set within the 30-40% range that has been indicated to you.

If you require any further clarification to this request, please do not hesitate to contact either XXXX or XXXX.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

Table A:

Total length of sewers and other assets to be made redundant or transferred to PPP schemes

PPP scheme Km/Nr	Large Diameter (>600mm)	Medium Diameter (>150<600mm)	Small Diameter (≤150mm)	Other
NSW				
Highland				
Tay				
Aberdeen				
Moray				
WSW				
Daldowie/ Shieldhall				
Dalmuir				
Meadowhead, Stevenson and				
Inverclyde				
ESW				
Almond Valley, Seafield and				
Esk Valley				
Levenmouth				

Table B:

OPEX (1999–00) relating to activities which are now or will be incorporated in PPP schemes

PPP scheme £'000	CSOs	Sewerage Network	Pumping Station	Treatment Plant	Other	Fully Operational Date
NSW						
Highland						
Tay						
Aberdeen						
Moray						
WSW						
Daldowie/ Shieldhall						
Dalmuir						
Meadowhead, Stevenson and Inverclyde						
ESW						
Almond Valley, Seafield and Esk Valley						
Levenmouth						

Table C:
Volumetric/ Load parameters for PPP schemes

PPP scheme	Parameters range per contract	Current volume/load (1999–00)
NSW		
Highland		
Tay		
Aberdeen		
Moray		
WSW		
Daldowie/ Shieldhall		
Dalmuir		
Meadowhead, Stevenson and Inverclyde		
ESW		
Almond Valley, Seafield and Esk Valley		
Levenmouth		

18 May 2001

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC14: SPECIAL AGREEMENTS FOR LARGE CUSTOMERS

I brought to your attention the need for transparency of Large User Tariffs During the 2001/2002 Scheme of Charges consultation. The special agreements available for large users should, in my opinion, be published in your scheme of charges. It is important in terms of non-discrimination that all customer groups should have tariffs, which are available to all customers, communicated to them.

Further to this I would like to bring in measures, which will monitor the special agreements that are being created throughout the year and the financial impact they will have on future charging schemes.

Attached is a pro-forma table, which I require to be completed for the financial impact of the agreements, and a questionnaire to explain the other details of the special agreements entered into.

Please advise me as soon as possible of when you will be in a position to provide data for this request.

Please contact me if you need further clarification on the above information requirement.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

WIC 14: SPECIAL AGREEMENTS FOR LARGE CUSTOMERS QUESTIONNAIRE

Customer _____

Business Sector _____

Sites covered _____

Period covered by deal from inception to close _____

Agreement procedure instigated at the request of _____

What other alternatives were available to both parties (Please attach financial impact of other alternatives on separate attachment)

Conditions of Deal

Preferential Rates: - Please give any differences from standard scheme of charges

Free Use Conditions: - Please give details of any free volumes given

Please give any other details of differences from the standard scheme of charges and conditions. These should be included as attachments to this questionnaire.

Please note that wherever there is not enough space for full disclosure that an attachment must be given with the full details requested.

18 May 2001

To Chief Executive of: East of Scotland Water Authority
 North of Scotland Water Authority
 West of Scotland Water Authority

WIC15: CAPITAL INVESTMENT & EFFICIENCIES

Following today's meetings with the Water Authorities I now summarise below the investment profiling after efficiencies, which I propose to incorporate in my Strategic Charges Review for the four years to 2005/06. The Capex amount available is [East: £459.8m, North: £595.3, West: £697.8], before the addition of a Spend to Save allowance of [East: £65.9m, North: £43.2, West:95.5]. The same efficiency percentages of 34% by 2005/06 apply to each Authority, representing 26.6% across the currently profiled programme. The context and computation of these are set out in the Executive Summary of the Capital Efficiencies 2002-06 presentation, an electronic copy of which is appended. The figures are rounded and include inflation.

East	2002-03	2003-04	2004-05	2005-06	Total
Allowable Capital	98.4	101.8	112.4	110.6	423.2
Allowable Capital Opex	8.8	8.9	9.6	9.4	36.7
	107.0	110.7	121.0	120.0	459.9

North	2002-03	2003-04	2004-05	2005-06	Total
Allowable Capital	132.8	140.5	143.7	131.2	548.2
Allowable Capital Opex	11.5	12.2	12.3	11.1	47.1
	144.3	152.7	156.0	142.3	595.3

West	2002-03	2003-04	2004-05	2005-06	Total
Allowable Capital	159.2	162.9	165.6	154.8	642.5
Allowable Capital Opex	13.8	14.2	14.2	13.1	55.3
	174.0	177.1	179.8	167.9	697.8

As you may know from today's meeting at Woodlands House attended by the Authorities and XXXX for the Integration Team there was a broad consensus on the methodology adopted and the minimum efficiencies required. You will note that Spend to Save amounts are provisionally indicated, being subject to further national consideration, and that these include IT. Regarding the introduction of a 'High Priority' allowance of £5m pa for each Authority for first-time connections I require a detailed justification from the Authority that £20m in four years can be invested for customer benefit, and achieved in the timescales envisaged.

I shall be obliged to receive your agreement by Monday 28 May to the net profiling before efficiencies, and the phasing of these efficiencies. If in order to plan and achieve the delivery of maximum efficiency compatible with meeting optimum outputs you consider that the annualised profiling should change please advise me at the same time.

XXXX and XXXX are available to assist your management team on any aspect arising from today's presentation.

Yours sincerely

ALAN D A SUTHERLAND
 Commissioner

Attachment: Electronic copy of 18 May Presentation

28 May 2001

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC16: DEVELOPMENT CONSTRAINTS AND RURAL SEWERAGE CONNECTIONS

As you will be aware, the Minister has indicated that he would like to be able to consider whether the central option in the Quality and Standards Paper should be marginally enhanced to cover high priority issues, particularly programmes to ease development constraints, and some extension of rural sewerage connections. In addition, the Authorities should put forward any other high priorities falling outwith these two categories.

I have attached a framework table for setting out the costs and outputs from these high priority issues, and I would request that you complete this and return to me by Friday 29 June 2001. This should allow sufficient time for you to liaise with SEPA in order to complete the column on the environmental impact of the proposed scheme. This analysis will enable a consistent assessment across the Authorities.

Please do not hesitate to contact XXXX or XXXX if you have any queries on this request.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

Attachment: High Priorities Table for completion

TABLE 1: DEVELOPMENT CONSTRAINTS AND FIRST TIME SEWERAGE

No	Scheme/ Project Description	Category (A) Insert priority level	Category (B) Insert priority level	Category (C) Insert priority level	Cost Currently Included in Central Option (£000)	Cost Not Currently Included (£000)	Total Cost Per Capita Connected (£000)	Environmental Impact (narrative from SEPA)
1	E.g. Calderglen Community extension	–	Medium	–	0	1,000	50	e.g. Significant – current discharges causing contamination risk downstream
2								
etc								

Notes:**Scheme/Project Description:**

A simple narrative of the proposed scheme is required here.

Category is defined as:

- (A) Programme to ease development constraint
- (B) Rural sewerage connections
- (C) Other high priority issue

Priority level should be assessed according to these guidelines:

High - significant interest and pressure from local council, local authority or community groups

Medium - moderate interest and pressure from above bodies/groups

Low - low interest and pressure from above bodies/groups

Cost currently included in central option:

The Authority should highlight here any spend relating to these categories which has already been included in its submission.

Cost not currently included:

The Authority should include the additional costs in this column.

Total cost per capita connected:

This will facilitate an assessment of the merits of the scheme.

Environmental Impact:

The Authority should liaise with SEPA in order to complete this column.

29 May 2001

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC17: ANNUAL RETURN SUBMISSIONS – SIGN OFF FOR DATA ACCURACY

Good quality and reliable information is critical to the regulatory process and management of the authority. One of the signs of good quality information is that its accuracy is attested to by an authoritative source. You will remember that the annual return requires directors to sign off the data provided in each individual table. This ensures that directors remain accountable for the data submitted to my office.

In order to maintain the integrity of the return, I intend to discuss the data only with the author of the tables and those responsible for quality control. If you have any queries relating to this, please do not hesitate to contact me.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

30 May 2001

To Chief Executive of: East of Scotland Water Authority
 North of Scotland Water Authority
 West of Scotland Water Authority

WIC18: QUALITY AND STANDARDS FINAL OUTPUT

In order that I can formally sign-off on the Quality and Standards base line numbers as required by the Scottish Executive, I request that you complete the attached table.

You will note that the information required is at a project level. The detail required however is not in any way as onerous as the completion of Table K (Investment Plan), and should simply be a small sub-set of the data required for the completion of Table K.

Please note that whilst the 2002-06 expenditure total should equal [East: £514m, North: £719m, West: £984m], the figure stated in your Strategic Business Plan, I appreciate that the splits between infrastructure and non-infrastructure, and rural/non rural may in many cases be estimates only. I also realise that the definition of rural or non-rural is subjective, and ask that you apply a common sense approach. As part of the Quality and Standards process, we simply wish to give the Scottish Executive a rough indication of the amount of money to be spent on rural areas.

Please prioritise this piece of work over both the completion of Section K for the annual returns and over the work you are doing to agree the bottom line post efficiency numbers. If necessary, the Section K deadline can be extended a little to accommodate this request. I would ask that you submit the table to me on Friday 1 June 2001.

The completion of the tables will enable the Scottish Executive to roll forward the summary numbers reported in their Consultation Paper on Quality and Standards, and will provide me with the necessary assurance as to the make-up of these numbers.

Yours sincerely

ALAN D A SUTHERLAND
 Commissioner

Quality and Standards Sign Off Table

Reference	Project Title	2002-06 Expenditure £000	Investment Purpose			Water		Wastewater		Other %	Rural/ Non Rural %
			Base (%)	Quality (%)	Growth (%)	Infra (%)	Non infra (%)	Infra (%)	Non infra (%)		
(As per Table K)											
TOTAL											

1 June 2001

To Chief Executive of: East of Scotland Water Authority
North of Scotland Water Authority
West of Scotland Water Authority

WIC 19: INVESTMENT APPRAISAL PROJECT

I am writing to discuss your involvement in the next phase of the 'Investment Appraisal Project' that is currently being undertaken by Yorkshire Electricity and WS Atkins. This project has now progressed through its first stage.

The first stage of the project has been to document an investment appraisal process consistent with best practice, and to develop pre and post investment appraisal audit procedures. It is my intention to use these audits to judge the effectiveness of investment decision-making in each of the Authorities. The documentation and audit procedures are now complete and currently being independently validated by a leading academic and firm of financiers.

I have enclosed a copy of the investment appraisal documentation, as it is currently being validated, for your reference.

In line with the scope of the project I will shortly be ready to introduce the audit procedures and the investment appraisal process upon which they are based to each Authority.

This introduction will take the form of an audit carried out by Yorkshire Electricity and WS Atkins on each Authority to examine the investment appraisal processes currently used to construct capital investment plans. Each audit will take three days to carry out at your offices and will examine the spectrum of large and small capital projects. Yorkshire Electricity would like to run the three audits concurrently across the Authorities between the dates of the 3rd – 5th July 2001.

Yorkshire Electricity would like to choose their sample from the investment appraisals signed off in the last six months. Ahead of the audits we would ask that you submit to them a list of these appraisals, with the project values, by Wednesday 20th June. Prior to the audit, Yorkshire Electricity will inform you of the selection of schemes they have chosen to audit. Throughout the three-day audit, the audit team will need access to all documentation appertaining to the chosen schemes and to your key personnel who are involved in the investment decision-making processes.

It is then planned that we will follow up the completion of the audits with a two-day workshop with each Authority run by Yorkshire Electricity. The purpose of these workshops is: to describe in detail the investment appraisal process and the audit procedures going forward; to feedback the results of the audits carried out; and to work with the Water Authority teams to understand any major gaps and issues that exist between current processes and those of the recognised best practice approach. It is anticipated that these workshops will take place at a time convenient to your teams starting week commencing the 16th July.

The estimated total cost to each Authority of this work is £35,000 excluding VAT. The benefits to each Authority could be substantial. The contribution from my office will be around £50,000, as we agreed at the outset of the project. Yorkshire Electricity will directly invoice the Authority in due course.

I trust these arrangements meet with your satisfaction. I advise that Yorkshire Electricity will contact you shortly to follow-up on these plans.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

06 June 2001

To Chief Executive of: East of Scotland Water Authority
 North of Scotland Water Authority
 West of Scotland Water Authority

WIC20: REQUEST FOR DATA RELATING TO DEPOTS, LABORATORIES AND OFFICE BUILDINGS

In light of the proposed set up of Scottish Water, I would like to understand the current structure of depots, laboratories and office buildings within the authority. It is important for me to assess any possible impact of changes in this structure due to the inception of Scottish Water. I would expect that there may be some consolidation of these buildings under Scottish Water and would like to assess the OPEX impact of this for consideration as part of the Strategic Review.

I am interested in obtaining details of the number of depots, laboratories and office buildings each water authority owns or rents and the purpose of these buildings. In the context of this request, depots, laboratories and office buildings also include any parts of operational buildings used by employees for non-operational purposes. The type of data I would like to understand includes:

- Location
- Number of employees who consider the building to be their main place of employment
- The main work activity which takes at the buildings
- For depots, the number of customers served
- Market value of the building, or annual rental, as appropriate
- Average OPEX incurred as a result of operating the building

In order to simplify the information, it may be appropriate to group depots by activity. In this instance, please indicate the number of depots grouped together. I would be grateful if you could submit this data in the format detailed in Appendix 1 by Friday 29th June 2001. If you have any questions relating to this information request, please do not hesitate to contact XXXX at my office.

Yours sincerely,

ALAN D A SUTHERLAND
 Commissioner

	Owned by water authority					Rented by water authority				
	Location	Nr employees	Activity	Market value	Avg. OPEX	Location	Nr employees	Activity	Annual Rent	Avg. OPEX
Depot 1										
Depot 2										
Laboratory 1										
Laboratory 2										
Office Building 1										
Office Building 2										

29 June 2001

To Chief Executive of: East of Scotland Water Authority
 North of Scotland Water Authority
 West of Scotland Water Authority

WIC21: CRITICAL INFORMATION FOR STRATEGIC REVIEW

As you will appreciate, time is beginning to press in the preparation of the Strategic Review. I would like to take this opportunity to thank you for your teams' efforts to date in the completion of the June Return and other WIC data requests. However, in order to carry out the comprehensive data analysis required for the forthcoming strategic review of charges, I still urgently require the following critical information to be received by my office no later than Friday 13th July 2001. Please understand that this date does not include any allowance for slippage on our part and we really must receive the data requested on or before that date.

WIC 1

I would like to reiterate that the WIC 1 request must be completed to the exact specifications set out by this office. I must stress that every heading is essential to the analysis of the information provided and as such omissions would limit the value of the analysis undertaken.

Understanding the supply/retail business will require me to look at the balance between fixed and variable elements of customer charges. I will therefore require the following additional information:

Customers >£100,000

- Numbers of meters and their sizes used by each customer.

For example:

Customer A	# of Meters	Meter Size
	3	25mm
	1	40mm

Customers <£100,000

- Number of meters and their sizes by revenue bandings within business sectors.

For example:

Business Sector	Revenue banding	# of meters	Meter size
Petrochemicals	>£50k<£100k	20	25mm
		15	40mm
		5	80mm

Inter authority trading

Please provide details of all income and expenditure arising from inter authority trading, broken down in to bulk water revenues/costs and all other revenues/costs. This is to enable me to produce consolidated financials for Scotland.

Value chain analysis - retail

I need to understand the relative costs of the retail component of your business. This is particularly important in the context of potential entry of competitors. We have to be able to make a reasoned assessment of potential revenue loss from competition. This requires detailed information on the costs of billing, customer call centres, meter reading and debt recovery, etc. If there are any other costs, which you believe it appropriate to allocate to the retail business, please detail these and the rationale for their allocation to that business. I attach spreadsheet templates for completion.

Capital investment

A section of the forthcoming Review will be dedicated to the outlook for the 2006-2010 Strategic Review period. I understand that there are a number of uncertainties around capital investment requirements during this period. However, please submit your current estimates for each year between 2006-2010, split between water/sewerage and infrastructure/non-infrastructure. It would be helpful if you could also highlight and quantify the main sensitivities around this data. For the avoidance of doubt, can this information please be supplied in year 2000 prices and at today's level of procurement and asset management efficiency.

Finally, can I emphasise the importance to the Strategic Review of Charges that this office receives complete responses to all WIC letters. This particularly refers to WIC 20, which governs the potential for asset disposals/rationalisation, and to my letter on new business. Accordingly, please ensure that all outstanding information requests have been dealt with in full by the above date. It is essential that these submissions be received within the given timescale, to ensure that the Strategic Review can effectively reflect the true circumstances of the Water Authority. The information must be complete and accurate in order that the guidance provided to the Minister is based on a full up-to-date appraisal of the Water Authorities' position.

I appreciate that there is a short turn-round on this information, but would be most grateful for your continued assistance.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

PS. A more detailed definition of each parameter requested will be forwarded to you on Monday.