

Strategic review of charges 2010-14: stakeholder workshops 2009

Discussion paper 3: Scottish Water's levels of service

Welcome to our third stakeholder workshop of 2009 on the strategic review of Scottish Water's charges for 2010-14. Later this year we will determine caps on: the amount Scottish Water can charge household customers; the 'default tariffs' that suppliers in the newly competitive market must offer business customers; and limits on the wholesale price Scottish Water charges retail suppliers.

This workshop is the third of eight designed to explain the high level issues we will encounter in the final stages of the price setting process. It focuses how we will encourage Scottish Water to continue to improve its levels of service to customers.

This paper provides some context to the issues we will be discussing. We welcome your views and any questions you may have.

Background to Scottish Water's levels of service

As part of the price review, we encourage Scottish Water to improve its operating cost efficiency. Improving operating efficiency is not just about reducing costs, it is also about sustaining, or even bettering levels of service. We have always made it an important principle that Scottish Water should not seek to live within its price caps by compromising on service. We therefore always consider Scottish Water's operating costs in the context of the service it offers customers and vice versa.

We measure Scottish Water's levels of service using an Overall Performance Assessment (OPA). This index, which was originally developed by Ofwat to monitor the companies south of the border, combines 15 individual service measures that customers consider to be most important, such as:

- how quickly supply is restored after an interruption,
- how quickly Scottish Water handles complaints, and
- its performance in improving drinking water quality and environmental compliance.

Historically, Scottish Water's OPA score has lagged behind that of the English and Welsh companies.

Approach at the 2005 price review

At the 2005 price review, we had originally intended to adjust our benchmarking of Scottish Water’s efficiency relative to that of the companies in England and Wales to take account of the poorer level of service. However, Scottish Water did not provide the information needed to do this.

We therefore decided to take another approach, which was to set separate targets for Scottish Water to reduce costs and improve customer service. We set price limits on this basis.

We required Scottish Water to improve its level of service – as measured by the OPA – by some 40% by 2009-10. We set Scottish Water a series of milestones for improvement.

	2004-05 actual	2005-06	2006-07 milestone	2007-08 milestone	2008-09 milestone	2009-10 target
OPA	177	-	195	213	232	250

Since 2005, Scottish Water has readily embraced these targets. It has even made meeting the OPA milestones criteria for awarding staff bonuses. Aligning regulatory targets with staff incentives is clearly working.

In 2007-08 Scottish Water’s OPA score was 248, some 16% ahead of our target, and just 2 points away from our 2009-10 target. Its score is now on a par with the poorer performing companies in England and Wales (in 2006-07). Given the context that Scottish Water has made cumulative savings of some £800 million on its operating costs since 2002, this is excellent news for customers.

How we propose to approach levels of service at this review

Our methodology consultation explained that to measure levels of service we intended to continue using a version of the overall performance assessment (OPA). We also re-affirmed our commitment to the guiding principle that Scottish Water should not seek to live within its price limits by reducing the level of service it provides to customers

We explained that for the 2009 review, we would focus on setting prices alone as opposed to using separate targets for Scottish Water to reduce costs and to improve customer service. This change in approach reflects the good progress that Scottish Water has made in improving its OPA score to date. Moreover, as Scottish Water’s level of service performance improves, further target setting beyond 2010 may become a very complicated task (requiring us to determine the relative merit of a unit of service improvement and a unit of additional cost to achieve that improvement).

We therefore proposed that by the end of the 2010-14 regulatory control period, Scottish Water should ensure that its performance as measured by the OPA is comparable to the three most efficient companies in England and Wales, without us needing to set specific targets for this.

We plan to concentrate on setting the maximum price limit for Scottish Water to deliver a level of service comparable to the level of service delivered by the leading companies in England and Wales in 2007-08.

We also set out proposals to improve the consistency of the OPA as it is currently used by Ofwat. These concern measures for:

- pollution incidents;
- leakage targets; and
- assessed customer service.

In its first draft business plan, Scottish Water detailed significant improvements in customer service by 2013-14 in line with our proposals.