

23 March 2007

Katherine Russell
Director of Customer Service and Corporate Affairs
Water Industry Commission for Scotland
Ochil House
Springkerse Business Park
Stirling
FK7 7XE

SCOTTISH WATER

Castle House
6 Castle Drive
Carnegie Campus
Dunfermline
KY11 8GG

Customer Helpline
T: 0845 601 8855
F: 01383 848323
W: www.scottishwater.co.uk
E: customer.service@scottishwater.co.uk

Dear Katherine,

Thank you for opportunity to respond to the first consultation paper, "*Our approach to the 2010-14 price review: A consultation*" from the Water Industry Commission for Scotland ("the Commission").¹

We are pleased with the overall approach the Commission are proposing for the next price review. We have a few high-level comments on the Commission's overall proposed approach to the Strategic Review of Charges 2010-14 (SRC10) with regard to the proposed timetable and process and these are set out below. We have also attached our detailed response to the Commission's specific questions listed in the consultation paper.

Timetable

The proposed timetable is similar to the timetable adopted at the previous strategic review, as well as the timetable proposed for the water periodic review in England and Wales, and we are broadly content with the timetable. However, we have a specific concern about the timescales for confirming the investment plan requirements.

One of the significant challenges of the last review process for Scottish Water was to meet the demands of the Quality and Service III (Q&SIII) work programme, as well as the Strategic Review of Charges. While the Q&SIII process established the outputs for the period until 2014, and the Scottish Executive has stated that it will not repeat this extensive consultative process for the current strategic review, there will be a need to revisit important aspects of this programme as agreed at the Outputs Monitoring Group (OMG).

¹ The Water Industry Commission for Scotland (December 2006) "*Our approach to the 2010-14 price review: A consultation*", p. 12

The consultation paper states that the investment programme will be determined in consultation between the different parties (Scottish Executive, the quality regulators, Scottish Water) working closely with the Commission throughout the review process.² The collaborative process will not be completed until 23rd September 2009, which is very late in the process (when the Minister issues Directions for 2010-14), with other inputs in November 2007, and April and September 2008.³

As part of the preparation for the review process, we have started work on the Investment Plan that will deliver the remaining requirements of the Ministers objectives for 20010-14. We have written to SEPA and DWQR to initiate the investment planning process for Q&SIIIb and have discussed a proposed timeline with the OMG.

Better Regulation

We welcome the Commission's commitment to adhering to the five principles of better regulation. At the last strategic review the Commission published lengthy documents with respect to the methodology, and the draft and final price determinations, but in a number of important areas we were unable to fully replicate and therefore respond effectively to the Commission's conclusions. Therefore, we would welcome greater disclosure by the Commission of supporting documents and models, particularly with regard to operating and capital maintenance econometric modelling, as well as the cost base used as a measure of our procurement efficiency. In the interests of moving to a smoother process in this price review it may be useful to think about joint development of models, e.g. the financial model, and we would be interested in the Commission's view on this. For reasons of commercial confidence, disclosures of supporting material, such as the cost base, might need to be limited to Scottish Water.

In addition to the above, we would welcome early disclosure of the financial model that the Commission will use to set prices.

If you have any queries on our response please do not hesitate to let me know,

Yours sincerely

Belinda Oldfield
General Manager Regulation
Scottish Water

² The Water Industry Commission for Scotland (December 2006) op cit. p. 12

³ The Water Industry Commission for Scotland (December 2006) op cit. p. 19

Annex – Responses to the Commission’s Specific Questions

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

The consultation process will be based on a series of publications inviting responses from interested parties, including four methodology papers, guidance to Scottish Water on our first business plan, as well as draft and final determinations of prices. In addition to this series of publications, the Commission proposes to hold stakeholder information days, and meetings for MSPs.

We are satisfied with the proposed methods for communication, although we have particular comment on the proposed timing of the stakeholder days as set out below.

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

The Commission has proposed to hold stakeholder information days at an earlier stage relative to the programme adopted for previous Strategic Review (2006-10), including four stakeholder information days prior to the publication of each of the four methodology documents. There will also be four subsequent follow-up information days.

Prior to the publication of the methodology document, the Commission proposes to publish a short paper outlining the key issues that will be discussed.

We welcome this proposal, and request that the short papers are shared at least one week in advance of each meeting.

We note that the first of these stakeholder information days is planned for 12 April 2007 and will plan to attend. We also note that several of the information days on key components of the business plan take place around or close to the date of submission of the second draft business plan (13 March 2009). These relate to particularly relevant areas of plan⁴ and it would be beneficial if these were to be scheduled earlier in the process to assist us in the development of our plan.

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

No Comment.

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

We expect that the Strategic Review will relate to the wholesale business only, i.e. excluding SWBS. We would welcome clarification from the Commission in their methodology documents on any aspects of the review which may require aggregated company information e.g. benchmarking and customer base forecast as we believe it is essential for Scottish Water to be able to inform the price review effectively.

⁴ 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