

Appendix 10

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 is 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 is used to monitor revenue from households and aids 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 – our 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 2001-02 – request for authorities to submit proposed scheme of charges for the following year and supporting data.
WIC 8	Dates for submission of information to this Office – clarification on timing and content of our information requirements following on from the Information Project.
WIC 9	Non-domestic debt analysis – request for analysis of non-domestic debt figures to allow us to monitor the financial impact of debt levels and assess the efficiency of the authority's collection systems.
WIC 10	Information Project Action Plan – our feedback to the three authorities on the content of their Action Plans.
WIC 11	Not used.
WIC 12	New Opex and Spend to Save – our criteria for assessing the water authority's case for additional expenditure on new operating expenditure and 'Spend to Save' initiative.
WIC 13	Efficiency analysis – impact of PPP schemes on controllable operating expenditure.
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 us.
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 operating expenditure.
WIC 21	Critical information for Strategic Review of Charges – request for information on WIC 1, inter authority trading, value chain analysis retail and capital investment.
WIC 22	Request for full response to WIC 1 request for full financial year 2000-01 and six months to 30 September 2001. Also request for information about number of meters, meter sizes and any special arrangements. A format was attached for this information.
WIC 23	Notification to Scottish Water of the post-efficiency profile of capital investment for each authority contained in the Review. Monitoring of capital investment programmes for 2002-06 Quality and Standards.
WIC 24	Request for a submission of the authority's strategy for tackling leakage.

WIC 25	Requirement for Scottish Water to provide monthly resource accounting and budgeting tables (RAB tables). These financial performance tables allow us to monitor financial trends and performance against targets.
WIC 26	Request for current status report on work undertaken by the Scottish Water Transition Team and revised Action Plans to be submitted to this Office.
WIC 27	Dates for submission of information to us – clarification on timing and content of our information requirements for the year 2002-03.
WIC 28	Procedure of information returns between this Office and Scottish Water: establishment of formal criteria to be followed for the submission of information requested by us, including sign-off procedures to be followed.
WIC 29	Annual Return submissions (2001-02) – sign off data accuracy – required signatories for signing off Annual Return tables submitted to us.
WIC 30	Accounting separation: following on from the Strategic Review of Charges and the Minister's acceptance of the Commissioner's advice that accounting separation be implemented into certain elements of Scottish Water's business, this letter outlines the Commissioner's initial thoughts on taking this forward; including first thoughts on the elements that constitute core, non-core, retail, and non-retail activities.
WIC 31	Dates for submission of information to us for the year 2003-04 – clarification on timing and content.
WIC 32	Quality and Standards I project list. In order to identify the Quality & Standards I projects that were not completed prior to the creation of Scottish Water, we request information on status of projects. This is important for establishing the baseline for Quality and Standards II.
WIC 33	Annual Return submissions (2002-03) – sign off data accuracy – required signatories for signing off Annual Return tables submitted to us.
WIC 34	Strategic Business Plan submission – detailed income and expenditure projections 2003-04 to 2005-06. This information submission, referred to as 'T tables' is required to support the analysis of the Business Plan submission.
WIC 35	Not used.
WIC 36	Communication and progress monitoring: suggested framework for meetings between this Office and Scottish Water to deal with regulatory issues.
WIC 37	Request from this Office to Scottish Water seeking to establish the extent to which data exists to populate a capital maintenance serviceability model. Request in two parts: 1) provide information on the availability of the data; and 2) provision of the available data.
WIC 38	Publication of Annual Return: following on from numerous requests from customers for the publication of Annual Return data, this letter to Scottish Water outlines our intention to place all Annual Return 2002-03 information in the public domain.
WIC 39	Finalisation of the Quality & Standards II capital investment programme: letter summarises the current definition of the Q&S II capital investment programme and the development of the WIC 18 list – this letter reviews progress and agrees steps forward on both matters.
WIC 40	Strategic Review of Charges 2006: draft timeline for the next Strategic Review of Charges period issued to Scottish Water, outlining key information requirements and dates.
WIC 41	Reconciliation of WIC 18 with Finance Committee submission of 23/02/04: request to Scottish Water to provide a reconciliation of the current (at date of the letter) WIC 18 list (version 2.1) to the table in Alan Alexander's (Chairman, Scottish Water) letter of 23/02/04 to the Finance Committee of the Scottish Parliament headed 'Scottish Water Capital Investment Programme'.
WIC 42	Dates for submission of information to us – clarification on timing and content of our information requirements for the year 2004-05.
WIC 43	Annual Return submissions (2003-04) – sign off data accuracy – required signatories for signing off Annual Return tables submitted to this Office.
WIC 44	Finalisation of the WIC 18 baseline for Quality and Standards II: confirmation provided as to the sequence of events for finalising the WIC 18 process.
WIC 45	Draft accounting separation tables: following on from WIC 30, this letter provides a set of first draft tables for the collection of information on Scottish Water's operating costs. A timeline for submission, refinement and dialogue exchange within the Strategic Review of Charges process is supplied, and formal feedback is invited from Scottish Water.

WIC 46	Request for Scottish Water to produce first draft Strategic Business Plan as part of the Strategic Review of Charges 2006-10 process. Guidance notes, definitions and table templates issued along with letter. Timetable for dealing with issues and clarifications as well as signing off instructions also provided.
WIC 47	A request for a copy of a final version of the current capital programme and a clear statement of the likely delivery of the Quality and Standards II by the end of March 2006 (project by project). This information is essential to our finalisation of our proposed approach to assessing the scope for efficiency in capital expenditure.
WIC 48	Request for response to concerns that the Reporter, appointed by the Commissioner to monitor Scottish Water's performance, has regarding the accuracy of some of the cost estimates for projects in the Quality and Standards III programme.
WIC 49	Concerns have been raised over the alteration of original sewerage schemes by the people of Arran. To allow a full response from WICS to these concerns, this is a request for sight of early investment appraisals or project feasibility studies outlining the original work planned for Arran as funded via Quality and Standards II.
WIC 50	A request for information that will allow us to separate out Public Private Partnership (PPP) costs. Also attached are guidance notes for this information request. During discussions and correspondence regarding the 2002-03 Costs and Performance Report, Scottish Water raised concerns about including the costs of its PPP schemes within the benchmarking analysis of operating expenditure carried out by the Commissioner's office. The Commissioner's office agreed that it would look into Scottish Water's concerns and examine ways to remove PPP costs from this benchmarking.
WIC 51	A request for feedback from Scottish Water on the findings of a reconciliation analysis carried out between the submission for WIC 47 and the quarterly Capital Investment Return for Q2 2004-05.
WIC 52	A request that Scottish Water submits information for every trade effluent customer it has, in order to understand the incidence effects of tariff change. In order to carry out the Strategic Review of Charges 2006-10 and to analyse Scheme of Charges submissions, the Commissioner requires information on the discharge characteristics of trade effluent customers. A list of appropriate definitions was supplied along with the request.
WIC 53	Request for Scottish Water to produce second draft Strategic Business Plan as part of the Strategic Review of Charges 2006-10 process. Guidance notes, definitions and table templates issued along with letter. Timetable for dealing with issues and clarifications as well as signing off instructions also provided.
WIC 54	Request for information relating to Scottish Water's water and waste water treatment works. As part of analysis of Scottish Water's first draft Business Plan submission, a list of each water and waste water treatment works is required, showing: the name of the works, the Scottish Water operational area in which it is located, a location marker (eg grid reference or nearest community), the population or population equivalent served, the design capacity of the works (MI/day or kg(BOD5)/day).
WIC 55	Regulatory Accounting Tables: Following on from WIC 30, this letters distributes the first draft of these tables to collect information Scottish Water's operating costs. A timeline for submission, refinement and dialogue exchange, within the Strategic Review of Charges process is supplied, and formal feedback is invited from Scottish Water.
WIC 56	Request for Scottish Water to submit a draft cost base to allow the Commissioner to carry out effective benchmarking of Scottish Water's cost base against those submitted to Ofwat. Benchmarking exercises to be carried out in line with those conducted by Ofwat. To be consistent with the investment plan costings, Scottish Water will provide a cost base submission on a 2002-03 basis (as stated in the definitions). However, WICS also understands that the costings for limited parts of the investment plan might be revised and be carried out on a 2003-04 basis. If this is the case, then for these revised elements, WICS will expect Scottish Water to identify these in the commentary and provide a full explanation of how any adjustments for the pricing year have been carried out (including any inflation indices and efficiency factors that have been applied).

WIC 57	Request for information about Scottish Water's current tax liabilities and its understanding of potential tax liabilities that may affect customers' bills in the future. This information will be used by WICS to analyse Scottish Water's revenue requirement in the Strategic Review of Charges 2006-10. The need for this information has arisen because Scottish Water has indicated that it now believes it will be liable to pay Corporation Tax in the 2006-10 period.
WIC 58	In order for WICS to allow due scrutiny of Scottish Water's proposed investment at current PPP sites as part of its delivery of Q&S III outputs, as outlined in its first draft Business Plan of October 2004, Scottish Water are requested to submit copies of all contracts related to these projects. WICS wishes to ensure that the proposed investment reflects the contractual obligations of Scottish Water and is not covered under the obligations of the consortium partner to each contract.
WIC 59	WICS writes to Scottish Water advising it of the regulatory capital value (RCV) and rate of return that the Commissioner is minded to use in the draft determination of the Strategic Review of Charges 2006-10, due to be published in June 2005.
WIC 60	Dates for submission of information to the WICS – clarification on timing and content of WICS information requirements for the year 2005-06.
WIC 61	Annual Return Submissions (2004-05) – sign off data accuracy – required signatories for signing off Annual Return Tables submitted to WICS.
WIC 62	Following submission by Scottish Water of its second draft Business Plan, WICS writes to Scottish Water requesting increased information on the investment plan within the second draft Business Plan.

27 April 2000

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

**WIC 1: 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 (ie 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 the 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

WIC 2: INVESTMENT PROGRAMME MONITORING

In my letter of 6 March I advised the expected level of investment in 2000-01 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 2000-03, 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 Environmental 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 the 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**

**WIC 3: 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**

08 Aug 2000

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

**WIC 4: 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		1999-2000		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 1999-2000	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												
	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

Date Produced

Debt	1996-97		1997-98		1998-99		1999-2000		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 1999-2000	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	£	£	£	£	£

21 June 2000

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

WIC 5: 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 a top-line summary of each water authority's 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)
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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**

WIC 6: 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**

**WIC 7: SCHEME OF CHARGES 2001-02
(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: £367.3 million], 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 2000-01 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

10 November 2000

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

WIC 8: 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 **1999-00 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 2001.
- 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**

WIC 9: NON DOMESTIC DEBT ANALYSIS

In the WIC 1 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 WIC 1 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 WIC 1 submission. These column headings are similar to both the WIC 4 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.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

WIC 9: NON-DOMESTIC DEBT REQUEST

Per WIC 1	1996-97	1997-98	1998-99	1999-00	Debt Outstanding 2000-01						
					Up to 30 days (attributable to billing period)	Between 30 and 60 days (attributable to billing period)	Between 60 & 120 days (attributable to billing period)	Between 120 & 180 days (attributable to billing period)	Above 180 days (attributable to billing period)	Bad Debt Provision 31/12/00	Bad Debt Write-offs (attributable to billing period)
Customer Name/ Business sector/ Banding	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 1999-2000	£	£	£	£	£	£	£
Per WIC 1	£	£	£	£	£	£	£	£	£	£	£

28 February 2001

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

WIC 10: 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 £8 million and £10 million. 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

WIC 12: 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

7 May 2001

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

WIC 13: 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 (1999-2000) 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**

WIC 14: SPECIAL AGREEMENTS FOR LARGE CUSTOMERS

I brought to your attention the need for transparency of Large User Tariffs during the 2001-02 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**

WIC 15: 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: £459.8 million, North: £595.3 million, West: £697.8 million], before the addition of a Spend to Save allowance of [East: £65.9 million, North: £43.2 million, West: £95.5 million]. 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**

WIC 16: 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 (£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**

**WIC 17: 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**

WIC 18: 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 infra (%)	Non infra (%)	Wastewater		Other %	Rural/ Non Rural %
			Base (%)	Quality (%)	Growth (%)			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

6 June 2001

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

**WIC 20: 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**

WIC 21: 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 2006-10 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.

19 October 2001

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

WIC 22: CUSTOMER REVENUE INFORMATION AND DATA REQUEST

In order to consider charges schemes for your authority for the next financial year I will require a complete response to my WIC 1 request both for the last financial year and for the six months to the 30th September 2001.

In addition to the information requested in WIC 1, I will also require information on numbers of meters, sizes of metres and any special arrangements. I have attached a format for this information.

For your convenience I attach a copy of my original WIC 1 letter.

If you require any further clarification on the information requirements, please contact XXXX.

Yours sincerely

**ALAN D A SUTHERLAND
Commissioner**

Encs

Example WIC 1/22 return

Customers reference	Cust Name	Prop Desc Section	Location	No of Sites	Meter Count	Meter Sizes	Rateable Value (£)	UW Net RV (£)	Mw Cons Actual (m³)	% of Total Non-domestic Volume	Mw Actual (£)	Mw Std Chrg Actual (£)	Uw Actual (£)	Total Water Bill (£)	% of Total Non-domestic water revenue

Total Annual Charge £	Mw Cons Accrual	Mw Accrual	Mw Std Chrg Accrual	Uw Accrual	Total Water Accrual £	Ms Cons Accrual	Ms Accrual	Swd Accrual	Us Accrual	Total Waste Water Accrual £	Total Accrual £	Special Agre gross discount (£)

% of Total water revenue	Ms Cons Actual m³	% of Total Non-domestic ww Volume	Ms Actual (£)	SWD Ner RV (£)	Swd Actual (£)	Us Net Rv (£)	Us Actual (£)	Total Sewage Bill £	Trade Effluent Volume (m³)	Trade Effluent Load	Trade Effluent Strength	Trade Effluent Total (£)	% of Non-domestic sewage revenue	% of Total sewage revenue

Total Bill Actual & Accrual	Mw Cons Forecast	Mw Forecast	Mw Std Chrg Forecast	Uw Forecast	Total Water Forecast £	Ms Cons Forecast	Ms Forecast	Swd Forecast	Us Forecast	Total Waste Water Forecast £	Total Forecast £	Reduction Due To User High Tariffs

21 November 2001

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

**WIC 23: Monitoring of Capital Investment Programmes for 2002-06
Quality and Standards**

As you will be aware, Ross Finnie has accepted my advice on revenue caps in the Strategic Review of Charges. The revenue caps are developed from a series of inputs, primary among which are the requirements of the Quality and Standards Programme for 2002-06. I would like to draw your attention to the assumed post-efficiency profile of capital investment for each Authority contained in the Review:

		£m				
		2002-03	2003-04	2004-05	2005-06 Total	Review
ESWA	Assets	88.3	93.8	80.7	77.1	339.9
	IRE	24.7	21.3	35.0	40.0	121.0
	Total	113.0	115.1	115.7	117.1	460.9
NOSWA	Assets	123.8	96.1	121.8	93.1	434.8
	IRE	34.5	32.6	47.3	49.3	163.7
	Total	158.3	128.7	169.1	142.4	598.5
WOSWA	Assets	139.2	141.4	157.4	144.6	582.6
	IRE	25.1	26.0	58.4	58.9	168.4
	Total	164.3	167.4	215.8	203.5	751.0
'Scottish Water'	Assets	351.3	331.3	359.9	314.8	1357.3
	IRE	84.3	79.9	140.7	148.2	453.1
	Total	435.6	411.2	500.6	463.0	1,810.4

I recognise that the primary concern of the management of the three authorities or the proposed Scottish Water has to be to live within their respective revenue caps. Equally, however, it is critical that the outputs agreed as a result of the Quality and Standards process are achieved on time and within the revenue cap.

I attach the detailed list of investment projects provided by each of the three authorities in the Quality and Standards process, together with a one page summary reconciliation to the Annual Return tables and to my Review. My expectation is that the expected outputs of these projects will be met within the agreed revenue cap. I will therefore look to monitor the progress towards delivery of the capital projects with reference to this list of projects. Obviously, it would be helpful if detailed changes to the capital investment plan could be detailed to us pro-actively, but the quarterly updates during the period and each new Annual Return should signal any material change to these plans. My Office will look at all variances and discuss these with the Quality regulators.

One of the further recommendations of my Review was that a joint project between my office, SEPA and the proposed Drinking Water Quality Regulator be implemented to ensure that consistent output measures are collected and monitored. Upon completion of this project (which I would expect to include significant input from the water authorities), I would anticipate that the current financial monitoring of the investment programme would switch to focus primarily on the delivery of outputs. I hope that terms of reference for this project will have been drafted by the end of January 2002.

In the interim, I would like to reiterate my definition of an "efficiency". My expectation is that the outputs of the 'Quality and Standards' programme will be delivered more cheaply, either through better programme management, better procurement or the use of innovative solutions.

There are other means by which the capital investment programme could be reduced, which would not be acceptable. These would include:

- Deferment of a project, which has been included in the Quality and Standards investment programme, even if a new derogation has been negotiated (in this instance, no further funding will be allocated in future revenue caps to allow for completion of a deferred scheme).
- The “do nothing” option, where this is taken to cut costs without reference to outputs or business objectives.

I am concerned by some comments from capital investment managers in each of the authorities that deferment of projects is viewed as the key to meeting my efficiency targets. This is not consistent with my frequent definitions of efficiency in the Review and the clear statement that the majority of the target can be met by closing the gap in procurement efficiency with England and Wales.

I look forward to the next submission of the Capital Investment Return. This is due on 1 February 2002. I would be grateful if you could also forward under separate cover any changes to the agreed Quality and Standards list of projects, of which you are currently aware, by this date.

Thank you for your assistance.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

21 December 2001

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

WIC 24: Asset Maintenance – Leakage

Leakage takes a high profile role in the regulatory environment in England and Wales, where Ofwat and the companies work together to reduce leakage to an economically sustainable level. I appreciate that in some areas significant progress is beginning to be made as a result of the agreed Action Plans to collate asset information. However, these plans have not included leakage. There are two reasons why I believe that I will begin to need to understand in some detail leakage from water mains and service reservoirs in Scotland. I now believe the industry in Scotland should be in a position to begin to address the issue of leakage.

The monitoring of capital outputs will require me to be confident that leakage will be reduced considerably. For example, the Katrine/Balmore development will require there to be a significant reduction in leakage if the needs of the city of Glasgow are to be met. Leakage will also impinge upon unit supply costs and the rationale for special agreements with larger customers. It is also likely that the proposed Water Services Bill will establish a licensing regime that will require me to ensure that the incumbent water services provider(s) give(s) fair terms to a new entrant. I will only be able robustly to assess a network access price with a sound understanding of leakage levels, built up over a proper and realistic timescale. In order to begin this process, I would ask that you submit your current leakage strategy, by Friday 22nd February 2002. This strategy should include any current measures (and their cost) to address leakage.

I would anticipate that your leakage strategy should include the following factors:

- **Economic level of leakage** – the strategy should reference and be consistent with the Authority's action plans to install meters, assess night-time demand for industrial users and assess domestic consumption. It is likely that different levels of leakage are right and proper in different areas, but this will need to be empirically justifiable.
- **Metering of source output** – an assessment of leakage levels will require the Authority to establish not only where losses are occurring but also how much water is being produced. It is clear from the WIC Return submissions for this year that considerable effort is required to understand the levels of water production and loss at all stages of the value chain.
- **Competition** – there could be major implications if the Authorities or Scottish Water do not have robust data around leakage issues in general, as it would be difficult for them to have a defensible, fair access price to the network.
- **Technology** – the cost-effectiveness of the technology employed, firstly for the detection of leakage and subsequently for the remedial work, should be assessed.
- **Capital programme** – leakage in the network has clear implications on the sizing of water treatment works and other assets in the capital programme.
- **Cost transparency** – it was a consistent theme in my Review that the industry in Scotland has to identify the costs of activities to increase the levels of efficiency and to ensure broadly cost-reflective pricing. Leakage has an obvious impact on the split between fixed and variable costs in running the network.
- **Water Framework Directive** – the assessment of leakage will have an important input into the River Management Plans in Scotland.

I look forward to receiving your strategy by 22 February 2002. In the meantime, if you have any queries please contact XXXX or XXXX.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

11 January 2002

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

WIC 25: Monthly Submission of Resource Accounting and Budgeting (RAB) Tables

It is certainly encouraging to note the quality of recent appointments to the Board of the proposed Scottish Water. My expectation is that this will lead to a more efficient and more effective level of service to customers. This does not, however, remove the need for robust regulation, as Scottish Water will remain a monopoly across most of the value chain for the foreseeable future.

There are four principal differences that will require a different type and periodicity of monitoring in Scotland in comparison to England and Wales. These are:

- the level of incentives to Executive and non-Executive Directors: while these are much stronger than in the current authority structure, they are neither as attractive nor are the sanctions as serious, when compared to the private sector and the criminal sanctions of the Companies Act.
- the lack of a comparator at a similar stage of development: while good comparators exist to assess the scope for potential improvement, there is no way to analyse through comparative benchmarking whether progress at an organisational level is "reasonable".
- the relatively poor quality of data: the more frequently a data set is produced, which is internally consistent and consistent with previous data submissions, the sooner that data is likely to be fit for purpose. I recognise that no data set is ever perfect, and my interest is only in the most material variances.
- the absence of a system of independent Reporters: the system of Reporters, as you know, has benefited both the regulated companies and the regulator in England and Wales. It is, however, expensive and is required because of an understandable increase in the level of gaming in a private sector context. More regular reporting will lead to greater confidence and trust, without the need for third party audits.

I therefore regard monthly financial monitoring as entirely appropriate, given the anticipated large benefits that should accrue to customers if Spend to Save is used wisely, and, particularly, given the pace of cost reduction required. Indeed, the targets for merger and operating cost efficiency will require underlying base operating costs to be reduced at an average rate of around 2% per month during 2002-03 and 2003-04. It would not be possible to track progress trends adequately on a quarterly or annual basis.

For the past seven months, the water authorities have submitted financial RAB tables to the Executive. These tables have been forwarded to my office to allow me to monitor the financial position of the authorities throughout the year. As you will appreciate, it is critical to the regulatory process that the information received by my office through the RAB tables is of good quality. The information currently received from the monthly RAB returns is in some cases incomplete and of poor quality. This makes it difficult for me to carry out my monitoring role.

As you will understand, there is a need to extend the current RAB tables to report base operating costs, Spend to Save, depreciation and RAB tracking totals. I recognise that you will need flexibility to run the business within the formal revenue caps, but clearly we are entering a period of major change, and I will need to have visibility on key trends and movements in operating costs. I attach copies of the required tables.

I have discussed this issue in detail with XXXX at the Scottish Executive. As a result, I have reduced my original scope and now propose to ask for some elements of these tables only on quarterly as opposed to monthly basis. I can assure you that I am requesting the minimum information required to perform my statutory functions. In view of the likely scrutiny and importance of this information, it would be appropriate that directors sign off each table before submission.

I appreciate that the revised RAB tables may appear more complicated, but I believe that the information required is entirely consistent with business needs, and therefore that it will not impose any real additional burden on water authority staff. My purpose in collecting this information is to monitor trends in base cost reduction and to report

periodically on those trends. I would emphasise that there is no intention to interfere with the management of the business or the workings of the Board. I would therefore not propose to discuss the implications of each month's figures after their presentation. My intentions would be to discuss progress quarterly unless there was a major cause for concern.

In order to give you adequate time to prepare for the additional information requirement, I propose that the first revised tables, covering period 12, 2001-02 and period 1, 2002-03, be submitted by 22 May 2002. Thereafter, I would need the returns within 15 working days of the close of each accounting period, as follows:

Monthly:

L1 : Summary information
L2 : Income and expenditure
L3 : Balance sheet
L4 : Changes in working capital
L5 : Cash flow
L6 : Reconciliation of operating surplus to net cash flow
L7 : Summary analysis of fixed assets
L11 : Income analysis – water
L12 : Income analysis – waste water
L15 (part) : Analysis of operating costs
L16 : Audit trail of revisions to forecasts

Quarterly:

L8 : Analysis of above ground fixed asset cost and depreciation
L9 : Analysis of infrastructure asset cost and depreciation
L10 : Analysis of total assets
L13 : Cost of capital
L15 (part) : Analysis of exceptional items and asset disposals

At start of year:

L14 : Budget forecasts

Clearly, it may become necessary to modify the RAB tables in the future, given the current uncertainties around the status of resource accounting going forward, and the possible impact of any requirements for accounting separation.

Once again I would like to assure you that every effort has been made to keep this information requirement to the minimum consistent with effective regulation. I intend to review the frequency of the return in the light of future progress against efficiency targets, and in improved accuracy of the information provided.

XXXX has suggested that it would be appropriate to meet to discuss these requirements with you and XXXX. I believe XXXX will arrange an appropriate date.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

CC
XXXX
XXXX

15 January 2002

To XXXX, Scottish Water Integration Team

WIC 26: Revised Action Plans:

Thank you for your letter dated 20 December 2001, where you explain the work being undertaken by the Scottish Water Transition Team to progress action plans.

I appreciate that the merger to form Scottish Water has implications for action plans. I agree that it may be more appropriate to take forward some actions on a Scotland-wide basis. However, it is critical that work continues on taking actions forward quickly and that the transition to Scottish Water does not slow this process down.

I am pleased that you recognise in your letter the importance of progressing these action plans on an urgent basis. It is essential for me, as regulator, to be confident that actions are progressing at an expedient rate to ensure that quality data is available to inform decisions on a timely basis. For example, adequate asset returns and risk assessments need to be made by summer 2003 to form the basis of the next Quality and Standards Report.

From your letter, I am encouraged to see that an initiative is underway to revise action plans on the basis of business critical data categories. It is important that this new action plan covers all the main issues detailed in my original letter of the 2 April 2001, including the areas identified as needing 'urgent improvement'. I would also expect that this new action plan would be prepared on a best practice basis. To date, I have not received any revised submission of action plans, excluding updates on short-term actions, which improve the quality of the original submissions which were received in February 2002.

I appreciate your offer to organise a meeting to discuss the work currently being undertaken by the transition team. However, I feel that this meeting would be more beneficial if we were able to discuss the revised action plans in detail. To this end, I would be grateful if you could submit a current status report and revised copy of the action plans to my office by 1 February 2002.

If you have any questions, please do not hesitate to contact XXXX at my office. I look forward to hearing from you soon.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX
XXXX

8 February 2002

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

WIC 27: Dates for submission of information to the WIC

The purpose of this letter is to outline the process to be followed for the submission of the 2001-02 WIC Annual Return, and to highlight the deadlines for WIC letter information requests for the year ahead.

I am sure that you understand the importance of accurate and clear communication to the success of the collation, and monitoring, of regulatory information. It is therefore vital that all the relevant water authority staff are informed of those dates which apply to them. Unfortunately, in the past, some deadlines have been missed and it is important that we ensure proper and timely submissions of all regulatory information. I will regard late or (unexplained) incomplete returns as an indication of a problem and that further regulatory scrutiny is required.

Annual Return

The procedure for the submission of the WIC Annual Return will be much the same as last year, except that I will expect a fourth consolidated submission from Scottish Water. The Annual Return format will be distributed to each authority and Scottish Water in early April, with completed Returns and Commentaries due on 16 June 2002. The template will include the following elements:

- Sets of tables in Excel spreadsheet format, for data capture.
- Detailed, up-dated guidance and definitions to assist completion of the tables.
- Separate guidance to Scottish Water covering those tables where consolidated data is required.
- Copies of change controls identifying changes carried out between 2000-01 and 2001-02 Return.

Please note that the following tables will not be required for submission:

- Tables E3 (PFI), E5 (Large water treatment works) and E9 (Large sewage treatment works) will not be required in the Scottish Water submission.
- Tables G7 and G8.
- Section K: Investment Plan (all tables).
- Section S: Strategic Business Plan will be required for Scottish Water only.

Again, as with last year, I would like to emphasise the importance of the quality, accuracy and completeness of the information, which you will provide in the tables and Commentary documents. These must be completed in line with the guidance, but are your opportunity to draw my attention to any other issues, which you feel that I should take into account.

I would also draw your attention to the importance of providing data in the correct format (e.g. using the appropriate combination of upper and lower case letters for codes in section G, as defined in the Definitions). Last year, many tables could not be uploaded into the database due to incorrect formatting, which we and Cap Gemini had to correct. This exercise was quite expensive and was a direct result of a lack of due care and attention. This year, we intend to ask for resubmissions where data does not follow the prescribed format given in the definitions. The costs of any failed uploads will be separately billed to you. Meetings are planned to take place in February to discuss this issue further, and XXXX will be contacting XXXX shortly to arrange this.

It remains a basic requirement that the tables be signed off to confirm that the information provided is accurate and complete, thus allowing my staff to raise any queries with the relevant individuals. Any unsigned tables will be returned.

Charges Scheme

I will expect your draft Charges Scheme submission on 15 November 2002, together with full WIC 1, WIC 4 and WIC 9 analysis (see below).

WIC Letter Information Requests

CUSTOMER SERVICE AND REVENUE:

- **WIC 1/22** Revenue from Non-Domestic Customers - due on 15 May and 15 November 2002.
- **WIC 4** Domestic Revenue – due on 15 May and 15 November 2002.
- **WIC 9** Non-Domestic Debt Analysis – due on 15 May and 15 November 2002.
- **WIC 5** Customer Service Performance Reports due:
 - Q3 Friday 15 February 2002
 - Q4 Friday 10 May 2002
 - Q1 Friday 9 August 2002
 - Q2 Friday 8 November 2002
 - Q3 Friday 14 February 2003
 - Q4 Friday 9 May 2003
- **WIC 6** Written QPA - Written complaints and telephone complaints where a written response is requested (provisional dates).

WA provide list	Advised of selection	QPA
Q3 28/01/02	4/02/02	20/02/02
Q4 29/04/02	6/05/02	22/05/02
Q1 29/07/02	5/08/02	20/08/02
Q2 28/10/02	4/11/02	20/11/02
Q3 27/01/03	3/02/03	19/02/03
Q4 28/04/03	5/05/03	21/05/03

- Specialised QPA - Written complaints and telephone complaints where a written response is requested (provisional dates), will be carried out on the following dates. I will advise you of the subject of the audit 3 weeks prior to the date in the first column below.

WA provide list	Advised of selection	QPA
Q3 11/02/02	15/02/02	6/03/02
Q4 13/02/02	17/05/02	5/06/02
Q1 12/08/02	19/08/02	4/09/02
Q2 28/10/02	17/11/02	4/12/02
Q3 10/02/03	17/02/03	5/03/03
Q4 22/05/03	19/05/03	4/06/03

- Telephone QPA (assesses ‘current’ position rather than retrospective analysis of other QPA). Any change in the format will be advised in due course.

QPA

Q4	27/03/02
Q1	19/06/02
Q2	18/09/02
Q3	11/12/02
Q4	19/03/03
Q1	18/06/03

CAPITAL INVESTMENT:

- **WIC 23** Monitoring of Capital Investment Programmes for 2002-06 Quality and Standards. Changes and reconciliation to agreed Q & S list of projects and their phasing due on 15 February 2002 (previously 1 February). The agreed Q & S broken down as follows:

Per Q&S Publication August 2001	North	East	West	4 Years
	North	East	West	TOTAL
<i>Water</i>	£m	£m	£m	£m
Distribution infrastructure	180	130	150	460
Treatment assets	170	112	318	600
	350	242	468	1060
<i>Wastewater</i>				
Distribution infrastructure	118	138	184	440
Treatment assets	190	68	252	510
	308	206	436	950
Miscellaneous support assets	134	66	80	280
WA own Spend to Save				0
Additional new development and first time rural sewerage	18	16	16	50
TOTAL	810	530	1000	2340
* includes slippage, site servicing				*

This compares with the table K totals:

	Per Annual Return Tables K			4 Years
	North	East	West	TOTAL
<i>Water</i>	£m	£m	£m	£m
Distribution infrastructure	141	91	155	387
Treatment assets	216	42	319	577
	357	133	474	964
<i>Wastewater</i>				
Distribution infrastructure	72	152	67	291
Treatment assets	241	163	392	796
	313	315	459	1087
Miscellaneous support assets	84	28	24	136
WA own Spend to Save	38	38	27	103
Additional new development and first time rural sewerage	18	16	16	50
TOTAL	810	530	1000	2340

This clearly suggests some very material changes in the programme which need, as a matter of urgency, to be explained. Additionally, the detail of projects within ESWA is not sufficient and needs disaggregation. The attached example from NoSWA would be appropriate.

- **WIC 24** Leakage Strategy – due on 22 February 2002.
- **Capital Investment Appraisal Audits** – due in September/ October 2002.
- **Capital Investment Return (4th quarter)** – due on 10 May and subsequent returns due one month after the quarter end.
- **Named Projects Completed in 2001-02** – due on 10 May 2002.

COSTS AND PERFORMANCE:

I have also requested the following information from Scottish Water:

- **WIC 25** Monthly Submission of Resource Accounting and Budgeting (RAB Tables) – due on 22 May, and then 15 working days after the end of each accounting period thereafter.
- **WIC 26** Revised Action Plans – Completion of top down plans and identification of Scotland-wide initiatives: due 1 May, with an up-date on 1 November 2002.

These requests are essential to effective and transparent regulation. I am still waiting for confirmation from you that these requests will be met in full on the suggested timescales.

I hope you find the above information both informative and useful, and I am looking forward to receiving your submissions in due course.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX

2 April 2002

To Chief Executive of Scottish Water

WIC 28: Procedure for Information Returns between the WIC Office and Scottish Water

I found our recent discussion of the management of information flow between Scottish Water and my Office to be very constructive. I believe that it is important to ensure that the day-to-day information requests are accurate and timely. This will avoid unnecessary tensions on either side. It is also important that there are clear channels of communication so that more strategic or ad hoc issues can be dealt with effectively. At our meeting, I outlined the new organisational structure of my Office and I am pleased to attach an organisational structure with contact telephone numbers. Please feel free to address specific strategic or ad hoc issues to me and/or to the responsible Director. As you know, XXXX and XXXX are currently leading our efforts in the investment and revenue areas.

With regard to day-to-day information requests, I have set up an e-mail address for the receipt of regulatory information from Scottish Water. This address is monitoring@watercommissioner.co.uk. This mirrors the regulation mailbox, which was established by East of Scotland Water. I confirm that this Office will not use any Scottish Water management or regulatory information, which has not been sent via Regulation@Scottishwater.co.uk to the 'monitoring' address. I would also confirm that any further correspondence on the status of any return should only be communicated via this same routing. I would also request that hard copies of all cover letters sent to the 'monitoring' address be forwarded to this Office in the mail.

In order to ensure that the information supplied to this Office is as robust as circumstances allow, I have asked the Monitoring team to accept information only with appropriate sign-off from the responsible Director. In a hard copy this would be clear from a signature, in an electronic format, it should be clear from the routing of the e-mail that the data has passed through the mail box of the responsible Director.

I would also like to take this opportunity to confirm the sign off which I believe to be appropriate for the information requests, which I outlined in my WIC 27 letter. These are as follows:

CURRENT INFORMATION REQUESTS

Annual Return

Requirements: Completed returns and commentaries.
Submission Date: 17 June 2002.
Required Sign-off: Relevant Director and Regulation quality control sign-off.

Draft Charges Scheme

Requirements: Draft Charges Scheme together with full WIC 1, WIC 4 and WIC 9.
Submission Date: 15 November 2002.
Required Sign-off: Relevant Director and Regulation quality control sign-off.

Customer Revenue and Debt

Requirements: Completed returns for WIC 1 (Revenue from Non-domestic Customers), WIC 4 (Domestic Revenue) and WIC 9 (Non-domestic Debt Analysis).
Submission Date: 15 May 2002 and 15 November 2002.
Required Sign-off: Relevant Director and Regulation quality control sign-off.

WIC23: Monitoring of Capital Investment Programme

Requirements: Submissions were due on 15 February 2002. To date, full information has been received from NSW and WSW. Discussions are ongoing to establish a way forward for the submission of this data by ESW.
Required Sign-off: Relevant Director and Regulation quality control sign-off.

WIC 24: Asset Maintenance – Leakage Strategy

Requirements: The original submission date for this return was 22 February 2002 which was missed. The information is still required and the revised deadline is noted below.

Submission Date: 19 April 2002.

Required Sign-off: Relevant Director and Regulation quality control sign-off.

Capital Investment Appraisal Audits

Submission Date: September/ October 2002.

Required Sign-off: Relevant Director and Regulation quality control sign-off.

Capital Investment Return (4th Quarter)

Submission Date: Due 10 May 2002 and subsequent returns due one month after quarter end.

Required Sign-off: Relevant Director and Regulation quality control sign-off.

Named Projects Completed in 2001-02

Submission Date: 10 May 2002.

Required Sign-off: Relevant Director and Regulation quality control sign-off.

WIC 25: Resource Accounting and Budgeting

Requirements: First submission should cover RAB Tables for Period 12, 2001-02 and Period 1, 2002-03. Subsequent submissions should be made for each period.

Submission Date: First return due on 22 May 2002 and then 15 working days after period end for each subsequent submission thereafter.

Required Sign-off: Relevant Director and Regulation quality control sign-off.

WIC 26: Revised Action Plans

Requirements: Completion of top down plans and identification of Scotland-wide initiatives.

Submission Date: 1 May 2002 and 1 November 2002.

Required Sign-off: Relevant Director and Regulation quality control sign-off.

I hope that you find the above information useful. If you have any comments on either the outline of the process for the information flows between our offices or on the submissions due, please do not hesitate to contact me. I look forward to receiving your submissions in due course.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

12 April 2002

To Chief Executive of Scottish Water

WIC 29: Annual Return Submissions

This letter is my formal request for Annual Return information. In WIC 27 I set out a timetable for information requirements, including the Annual Return. As indicated in that letter, today I am issuing the Guidance Notes and table templates for the 2002 WIC Annual Return. The procedure for the submission of the Annual Return will be the same as that outlined in WIC 27. The main points to note are attached (Annex 1).

I trust that the Returns will build on the improvements seen in last year's final Return, both in terms of the completeness and quality of the information supplied. I would however, like to take this opportunity to emphasise the importance of the quality, accuracy and completeness of the information, which you will provide in the tables and Commentary documents. These must be completed in line with the guidance given in the Definitions and in accordance with the prescribed formats. This information does materially affect our ability to benchmark accurately and it is therefore in your interests to submit as complete and accurate a Return as possible. I should also warn you that, as stated in WIC 27, any costs incurred arising from incorrectly formatted data would have to be separately billed.

The Annual Return tables should be signed off by the relevant Director. I require 2 paper copies and an electronic version of each submission of the Return tables to be delivered to the monitoring team at the WIC office by the 17 June 2002.

If your staff have any further questions or queries relating to the Annual Return, they should not hesitate to contact XXXX or XXXX.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

Annex 1

The Return will consist of:

- Sets of Excel tables.
- Definitions.
- Separate guidance to Scottish Water covering those tables where consolidated data is required.
- Copies of the Change controls carried out between 2000-01 and 2001-02 Return.

Tables that will not be required for submission:

ESWA, NOSWA and WOSWA	Scottish Water
G7 and G8	E3, E5 and E9
K1, K2, K3, K4 and K5	G7 and G8
S1, S2, S3, S4, S5, S6 and S7	K1, K2, K3, K4 and K5

Changes to the Annual Return tables.

Change control numbers V5065, V5066, V5067, V5068 and V5069 are material, and comprise:

- Additional columns in Section G to record project expenditure prior to report year.
- Additional column inserted into the output measures block in G5 and G6, to record percentage output.
- New quality codes QW1 and QW2.
- New output code EC8, how it affects Section G.
- New output code EC8, how it affects Section C.

The Annual Returns are to be submitted by 17 June 2002.

4 October 2002

To Chief Executive of Scottish Water

WIC 30: ACCOUNTING SEPARATION

As part of the *Strategic Review of Charges*, I set out my initial thoughts on the necessity of implementing an accounting separation of certain elements of Scottish Water's business. The Minister accepted my recommendation regarding accounting separation and recently I have held meetings with your staff to discuss my initial thoughts on this issue. I am taking this opportunity to inform you that I am minded to consult on the issue of accounting separation in the second half of November 2002.

Non-core business

You will already be aware that my statutory duty has been revised such that I am now bound to promote the interests of core customers. In the *Strategic Review of Charges*, I made clear that I am not against Scottish Water pursuing commercial opportunities, however, I would be concerned if this impinged upon the risks borne by customers of the core business.

The water and sewerage companies in England and Wales are already required to produce separate Regulatory Accounts for the appointed business. I believe that it would be beneficial for both customers and Scottish Water to produce such accounts for the core business in Scotland. In the longer term, this may actually improve the relative performance of Scottish Water in its core activities. I am also keen to ensure that our benchmarking is conducted on a totally like for like basis and such accounting separation would increase the comparability of the reported financial statements.

Retail/non-retail activities

Given the possible development of a framework for competition in Scotland and given the requirements placed on Scottish Water by the Competition Act (1998), I intend to require Scottish Water to separate the retail cost elements of the business from the non-retail elements. I am aware that Scottish Water is working hard to gain a thorough understanding of its costs and I believe that such transparency in the costs of the different elements of the value chain would be beneficial to customers and ultimately to Scottish Water. Scottish Water is likely, if it has not already been asked, to receive requests for a wholesale price. Only a clearly defined separation of retail activities would be likely to withstand the likely independent scrutiny.

Initial thoughts

I attach some initial thoughts on the possible elements that constitute core, non-core, retail and non-retail activities. I would stress that these are preliminary and would welcome your views. These views will inform my drafting of the consultation.

I look forward to hearing from you.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX, Scottish Executive

Accounting Separation – Preliminary Ideas

	Retail	Non-retail
Core	<ul style="list-style-type: none"> • Retail contract management & systems • Customer information systems • Customer account management (key account management) • Customer meter reading • Customer billing • Customer revenue collection • Customer debt collection • Customer debt write-off • GMS appropriate to billing, complaints etc. • Metering • Disconnection notification 	<ul style="list-style-type: none"> • Abstraction, treatment, storage, conveyance & distribution of potable water • Conveyance, treatment & disposal of sewage including public septic tanks • Quality control • Call centre for interruptions, quality problems, flooding • Customer information systems • GMS appropriate to interruptions, flooding, and infrastructure etc. • Supply pipe repair • Supply installation • Physical disconnection • Communication/education of flush/don't flush, reservoir safety
Non-core	<ul style="list-style-type: none"> • Added value services – insurance, bottled water etc. • Private septic tank emptying • Communication/education – customer satisfaction e.g. water conservation, septic tank care • Tailored service consultancy • Grey water • New connections • General engineering consultancy • Laboratory services • Special Agreements 	

17 March 2003

To Chief Executive of Scottish Water

WIC 31: Dates for submission of information to the WIC 2003-04

The purpose of this letter is to outline the process to be followed for the submission of the 2002-03 WIC Annual Return, and to highlight the deadlines for WIC letter information requests for the year ahead. During the year, I will also begin preparing for the next Strategic Charges Review, and will write to you separately regarding the timetable for key stages in that process.

As with last year, I am sure that you understand the importance of accurate and clear communication to the success of the collation, and monitoring, of regulatory information. It is therefore vital that all staff are informed of those dates which apply to them. Last year some deadlines were still missed and it is important that we ensure proper and timely submissions of all regulatory information. I will again regard late or (unexplained) incomplete returns as an indication of a problem and that further regulatory scrutiny is required.

Annual Return

The procedure for the submission of the WIC Annual Return will be much the same as previous years, however this year I will expect only a submission for the merged entity of Scottish Water. The Annual Return format will be distributed in early April, with completed Returns and Commentaries due on 16 June 2003. The template will include the following elements:

- Sets of tables in Excel spreadsheet format, for data capture.
- Detailed, up-dated guidance and definitions to assist completion of the tables.
- Copies of change controls identifying changes carried out between 2001-02 and 2002-03 Return.
- Template for Commentary document.

Please note that Section K: Investment Plan tables will not be issued or required for submission this year.

I would like to reassure you that there will be very few material changes to the layout or content of the Annual Return Tables.

I continue to draw your attention to the importance of providing data in the correct format. I am pleased to report that there was a marked improvement in the format of the data submitted last year thereby allowing a smoother upload process into the database. I am keen that this progress continues and look forward to a similar standard being submitted this year. Where data is not in the prescribed format and fails to upload, we will, as with last year, ask for resubmissions with the costs of any failed uploads being billed separately to you.

It remains a basic requirement that the tables be signed off to confirm that the information provided is accurate and complete, thus allowing my staff to raise any queries with the relevant individuals. Any unsigned tables will be returned.

Again, as with last year, I would like to emphasise the importance of the quality, accuracy and completeness of the information, which you will provide in the tables and Commentary documents. With regards to the supporting Commentary document, I require the content and quality of this to be of a high standard. As I state in our 2001-02 Costs and Performance Report, the information contained in the Commentary "is fundamental to ensuring proper, fair and objective comparisons can be made". I therefore need year on year changes in data to be explained and, where appropriate, justified. I also need to know what material assumptions and adjustments have been made to derive reported numbers. I would expect at least as much relevant detail as that provided by West of Scotland Water Authority in their 2002 Annual Return. To help facilitate this, I have included a standard format for the Commentary document, which should aid completion. This standard template will be sent out to you along with the Annual Return tables.

Charges Scheme (WIC 7)

Following the 2002 submission process, we tentatively agreed to review the process for future submissions. We will aim to agree a process over the next few months.

WIC Letter & Team Information Requests

REVENUE & TARIFFS:

- **WIC 1/9/14/22** Revenue from Non-Domestic Customers/Non-Domestic Debt/Special Agreements for Large Customers – due on 02 May and 07 November 2003.
- **WIC 4** Domestic Revenue – due on 16 May and 14 November 2003.

The above are all requested in Excel spreadsheet format.

COMPETITION & CUSTOMER SERVICES:

- **WIC 5** Customer Service Performance Excel based Reports due:

Qtr	Due Date
Q4	09/05/03
Q1	08/08/03
Q2	07/11/03
Q3	13/02/04
Q4	07/05/04

- **WIC 6** Written Quality Performance Assessments (QPA) – Written complaints and telephone complaints where a written response is requested.

The following are a set of provisional dates and XXXX will be in touch with your staff to discuss the WIC 6 data request further.

Qtr	WA provide Excel list	WA advised of selection	QPA
Q4	28/04/03	05/05/03	23/05/03
Q1	28/07/03	04/08/03	22/08/03
Q2	27/10/03	03/11/03	21/11/03
Q3	26/01/04	02/02/04	20/02/04
Q4	26/04/04	03/05/04	21/05/03

- Specialised QPA – Written complaints and telephone complaints where a written response is requested, will be carried out on the following provisional dates. We will confirm the audit and advise you of the subject of the audit 3 weeks prior to the provisional date in the first column below.

Qtr	WA provide Excel list	WA advised of selection	QPA
Q4	12/05/03	19/05/03	06/06/03
Q1	11/08/03	18/08/03	05/09/03
Q2	27/10/03	17/11/03	05/12/03
Q3	09/02/04	16/02/04	05/03/04
Q4	17/05/04	24/05/04	04/06/04

- Telephone QPA (assesses ‘current’ position rather than retrospective analysis of other QPA). Any change in the format will be advised in due course.

Qtr	Due Date
Q4	28/03/03
Q1	20/06/03
Q2	19/09/03
Q3	12/12/03
Q4	19/03/04
Q1	18/06/04

INVESTMENT & ASSET MANAGEMENT:

- Ongoing joint work to establish Q&S 2 baseline (**WIC 18**), in Excel format.
- Reconciliation of Base-Line to Current SW Capital Investment Plan (**WIC23**), Excel based format with estimated completion by 30 May 2003.
- Updated Leakage Strategy (**WIC 24**) – Word document, requested for 31 December 2003.
- **Capital Investment Appraisal Audits**, in Access database format – due in April 2003 and the Investment Team will contact Scottish Water in the near future to finalise a programme.
- **Capital Investment Return**, Excel and Word based documents – due one month after each quarter end.

COSTS AND PERFORMANCE:

- **WIC 25** Monthly Submission of Resource Accounting and Budgeting (RAB Excel Tables & Word document) – due 20 working days after the end of each accounting period.
- **WIC 26** Revised Action Plans – Completion of top down plans and identification of Scotland-wide initiatives in Word format: due 31 March 2003 (deferred from the original submission date of 30 November 2002).

All of the above requests are essential to effective and transparent regulation and I await confirmation from you that these requests will be met in full on the suggested timescales.

I hope you find the above information both informative and useful, and I am looking forward to receiving your submissions in due course.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc *XXXX, Scottish Executive*

11 February 2003

To Chief Executive of Scottish Water

WIC 32 – Delivery of Quality & Standards 1

As you will know, my office is currently working with your staff to establish the projects that comprise the original Quality and Standards II programme. In completing this work, as you have highlighted, it is important to understand those Q&S I projects that were not completed prior to the creation of Scottish Water. I would therefore be grateful if you could provide me with the following information:

- The projects associated with Q&S 1 which are underway but have not yet completed, showing the spend to date and remaining spend forecast.
- Projects which are identified as required under the Q&S 1 investment programme but have not yet commenced, including forecast spend.

Less urgently, it would also be useful to receive:

- The projects which have been delivered to date under the Q&S 1 programme, including the capital spend on these projects over the Q&S 1 period.

Obviously we are all working to tight timescales and I would be grateful for the above information at the earliest opportunity. I share your view that significant change is required in the management of the delivery of capital projects and I am keen to ensure that your efforts are not unduly delayed.

Yours sincerely

ALAN D A SUTHERLAND
Water Industry Commissioner

11 April 2003

To Chief Executive of Scottish Water

WIC 33: Annual Return 2002-03 Submission

This letter is my formal request for Annual Return information. In WIC 31 I set out a timetable for information requirements, including the Annual Return. As indicated in that letter, today I am issuing the Guidance Notes and table templates for the 2003 WIC Annual Return. The procedure for the submission of the Annual Return will be the same as that outlined in WIC 31.

I would like to take this opportunity to again emphasise the importance of the quality, accuracy and completeness of the information, which you will provide in the tables and Commentary documents. These must be completed in line with the guidance given in the Definitions and fully in accordance with the prescribed formats. Please ensure that no changes are made that have not been agreed with me in writing in advance.

This information does materially affect our ability to benchmark accurately and it is therefore in your interests to submit as complete and accurate a Return as possible. All Commentary documents especially should be as complete, accurate, relevant and authoritative as possible. I also stated in WIC 31 that there would be a template provided this year for the Commentary document; however, it is unlikely that this will be available at this time and as such the format of the Commentary documents should be completed as previous years.

I understand that Scottish Water has requested two copies of the Excel spreadsheet Annual Return tables, one password protected and one not. I am happy to supply this provided that only the password-protected tables are submitted back to WIC. Any tables submitted not in the prescribed protected format will be returned to Scottish Water and resubmissions requested.

I understand that Scottish Water has also requested version numbers to be inserted on the tables and definitions and again I am happy to include this to aid completion.

The Annual Return tables must be signed off by the relevant Director and any unsigned tables will be returned. I require 2 paper copies and an electronic version of each submission of the Return tables to be delivered to the Monitoring team at WIC. I can confirm that a submission date of 20 June 2003 following sign off by the Regulatory Management Group at Scottish Water is acceptable.

If your staff have any further questions or queries relating to the Annual Return, they should not hesitate to contact XXXX or XXXX.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

1 April 2003

To Chief Executive of Scottish Water

WIC 34: Strategic Business Plan Submission – Table T1: Detailed Income and Expenditure Projections 2003-04 to 2005-06

In order to focus our discussion regarding the prospects for Scottish Water for the remainder of the regulatory period, I would be grateful if you could complete the attached Excel table and return it to me by Monday 7 April 2003.

The format of the above request is similar in style to the Annual Return and RAB tables and to aid completion I have also included a set of definitions.

I would like to take this opportunity to emphasise the importance of the quality, accuracy and completeness of the information, which you will provide in the table and Commentary documents. These must be completed in line with the guidance given in the Definitions and in accordance with the prescribed formats. This information does materially affect our ability to benchmark accurately and it is therefore in your interests to submit as complete and accurate a Return as possible.

If you have any query regarding the above then please do not hesitate to contact XXXX on XXXX.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX, Scottish Executive

WIC 35: Not used

28 August 2003

To Chief Executive of Scottish Water

WIC 36: Communication and progress monitoring

The purpose of this letter is to suggest a framework for meetings between this office and Scottish Water to deal with regulatory issues, and to propose arrangements to allow greater clarity and predictability in progress monitoring, particularly on operating expenditure.

Regulatory dialogue

Whilst we and Scottish Water are continuing to deal effectively with regulatory matters, I feel that it would be beneficial to both parties to put in place a more formal framework for dialogue and review. I believe that this would help avoid surprises on either side, and would reassure the Scottish Executive that issues are being addressed and resolved on an ongoing basis.

My suggestions would be as follows:

1. Quarterly meetings between the Chief Executive and the Water Industry Commissioner, to identify issues to be resolved, to ensure open dialogue on these issues, and to signal changes (for example in accounting policy or capital outputs) likely to affect progress monitoring.
2. Meetings approximately every six weeks at a senior working level, generally between directors, to cover in detail and report progress on issues identified under 1.
3. Presentation by the Water Industry Commissioner to the Board of Scottish Water approximately every six months, to review progress towards regulatory targets by Scottish Water.
4. Minutes to be taken and agreed at all meetings under 1. and 2., and copied to the Water Services Unit of the Scottish Executive.

Progress monitoring

I believe that we share a common view that clarity and predictability of Scottish Water's progress towards efficiency targets is vital, especially given the expected sustained pace and scale of progress. In view of this, I wish to propose arrangements that should improve the effectiveness and clarity of progress monitoring. The main elements of my proposal are:

1. Scottish Water would use the RAB Returns to report changes in accounting standards, policy, or practice that affect reported cost allocations, and their impact on reported numbers.
2. We would work with Scottish Water to ensure that the RAB Returns collect all the necessary information to calculate underlying costs on a like for like basis (for example new opex, appropriate core and non-core breakdown, etc).
3. We would work with Scottish Water and the Scottish Executive to ensure that the RAB Return definitions are consistent with or can be reconciled with the Statutory Accounts.
4. We would determine adjustments to reported costs in the current financial year, to bring them into line with accounting standards, policies and practices prevailing in 2000-01, the base year for the Strategic Review of Charges.
5. We would feed back to Scottish Water and the Scottish Executive updates of our regulatory adjustments at regular meetings (as outlined earlier in this letter), so that our assumptions and calculations can be understood and, if necessary, challenged.
6. We would provide the Board of Scottish Water with a six-monthly assessment of progress against regulatory targets, taking account of these calculations.

7. We would ask the Auditor General for Scotland to audit the process behind our regulatory adjustments and their communication to Scottish Water.

8. We would ask a Reporter to give an opinion on the information provided by Scottish Water regarding the allocation of operating expenditure and impact of accounting changes.

9. The adjustments would be noted in Scottish Water's Annual Report and Accounts and in our annual Costs and Performance Report.

My purpose in suggesting these arrangements is to ensure that regulatory comment is fair and that Scottish Water and the Scottish Executive have the means to track the Authority's progress as viewed by the regulator. This should allow Scottish Water to plan improvements in operating efficiency with greater confidence, and provide customers with an objective and accurate view of performance.

I am aware that regulatory adjustments to current year (and ultimately audited) costs may give rise to misgivings on the part of Scottish Water, and therefore I believe it very important to set out the logic for making them. The starting point for analyses of progress by Scottish Water on operating expenditure is the Strategic Review of Charges 2002-06. The targets set out in the Review are based on fair like for like benchmarking of costs with companies in England and Wales, having first verified that accounting treatments were comparable, or where necessary, that cost allocations could be aligned for comparison purposes. In the Annual Return for Scottish Water, I have adopted the Ofwat cost breakdown and definitions. This has ensured a high degree of consistency with England and Wales.

In continuing to compare performance with England and Wales, and in tracking progress by Scottish Water year on year, I need to exclude as far as practicable material influences that are not part of the underlying economic picture but are artificial effects brought about by changes in the way costs are accounted for. The principle of assessing the underlying economics has been a cornerstone of financial analysis for over 60 years. It was introduced by Graham and Dodd, who are regarded by financial analysts as having written the founding and seminal work for their profession¹.

The same principle is vital to effective and fair regulation, where targets are set based on economic principles, and inevitably without the benefit of future knowledge on the regulator's part of changes in accounting treatment, non-recurring costs, etc. The adjustment of reported accounting numbers for consistency with regulatory assumptions is accepted practice. For example, Ofwat makes adjustments to operating expenditure every year and publishes them. It asks Reporters to provide an opinion on companies' requests for adjustments, and these opinions are also published. The published adjustments are not necessarily those requested by the company. At price reviews, there is a fuller analysis to take account of changes in accounting policy over time, and differences between companies' policies.

It is important to note that Ofwat's adjustments are in the context of regulatory accounting issues that are considerably simpler as regards operating expenditure than those in Scotland. For example, core business is ring fenced, there are no PPP schemes, bad debt is low, capitalisation policies are reasonably stable and customers are not funding spend to save initiatives.

In the case of the electricity industry, Ofgem requires all licensed companies to obtain its approval before changing an accounting policy used in the preparation of regulatory accounts. Further, Ofgem adjusts the results of the statutory accounts of licensed companies to the basis used in the price review². This is the approach recommended by Deloitte and Touche in their review of regulatory accounting guidelines for the electricity distribution industry. They stated "The need to reconcile data back to the price control must be a key driver in the relationship between Ofgem's RAGs and the output from distribution businesses"³.

¹ Graham and Dodd's Security Analysis, first published in 1934. The 5th edition, 1988, which contains no revisions of principles (p xi) lays out seven steps for analysts dealing with income statements. The first is (p 156) "1. Deal properly with non-recurring items. The analyst must eliminate nonrecurring items from a single year analysis, but include them in most long term analyses." It discusses examples of non-recurring items and states (p 157) "Another non-recurring item is the cumulative effect of an accounting change or a change in an estimate." In dealing with non-recurring items, it says that analysts should ask (p 159) "What pattern of spreading the gain or loss best describes the economics of the situation? ... The analyst must remember that the pattern of gains or losses that was recorded – all in one period – is the least appropriate one, because it is almost certainly the wrong pattern."

² See for example Ofgem The National Grid Company plc – Regulatory Accounting Guidelines, August 2002, paragraphs 2.8 and 2.9. It lists 12 adjustments, including capitalisation. Similar guidelines exist for distribution companies.

³ Deloitte & Touche Regulatory Accounting Guidelines – Report to Ofgem, March 2001.

The Office of the Rail Regulator specifies that regulatory financial statements “shall be prepared such that, insofar as reasonably practicable, ...the definition of items in primary statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with...the Determination Assumptions for the corresponding period”⁴.

In excluding artificial effects, it would in theory be possible (although not accepted regulatory practice) to take the current year as the baseline for comparison. This would have the advantage of building in current accounting standards and treatments, and of consistency with the latest audited accounts. There are three reasons why this option is not practicable other than over the very short term. First, it would require access to historic account details in order to assess what the impact of say, 2003-04 accounting policy would be on each of 2000-01, 2001-02 and 2002-03 detailed cost allocations. I do not think it likely that Scottish Water would have such information. Second, benchmarking the current year's costs with companies in England and Wales could well require adjustments to their reported costs to align them with Scottish Water. Thirdly, it would inevitably be necessary for me to adjust and restate the targets set out in the Strategic Review of Charges every year, which I believe would lead to confusion for all stakeholders. I am therefore left with the alternative option of determining regulatory adjustments for the latest or current year.

In making adjustments to costs reported in the audited accounts, I am in no way questioning either the veracity of the accounts nor their compliance with standard accounting treatments and with UK GAAP accounting standards. Scottish Water is best placed to determine how it should represent its business. Indeed, it is entirely to be expected that a newly merged entity undergoing fundamental change would need to reappraise its accounting policies.

It is vital that Scottish Water should be able to track and forecast its performance as measured from a regulatory perspective. It is in the interests of customers for the Board and senior management of Scottish Water to monitor not only the progress of the business as viewed through management and statutory accounts, but also the underlying economic picture as viewed by the regulator. This should include forecast costs. In December 2002 I offered to provide the Board of Scottish Water with a six-monthly update on progress against regulatory targets, but the offer was not taken up. I now feel that this offer should be widened, to enable senior managers and the Scottish Executive to have access to the detail behind my adjustments on an ongoing basis.

Currently, the key material areas likely to be subject to review would appear to include the following:

- New accounting standards not in force in 2000-01
- Changes in accounting policy by Scottish Water, relative to 2000-01
- Consolidation effects on costs arising from the merger (mainly inter-authority bulk supply costs)
- Accounting treatment and allocation of Spend to Save
- Accounting for bad debt
- Differentiation of provisions and spend against provisions
- Treatment and allocation to PPP, relative to 2000-01 forecast costs
- Identification and separation of core and non-core activities, costs and revenues
- Capitalisation of employment costs, materials and other costs
- Net new operating expenditure arising from growth, compliance and enhanced levels of service
- Identification and treatment of non-recurring costs

In examining these areas, I would apply the following principles, which were originally discussed with Scottish Water in May 2002 and were published in the Costs and Performance Report in February 2003:

- Do forecast outturns of all components show consistency with the reported year to date figures and trends?
- Can movements in the provision for bad debt be fully explained (since a reduction in the provision could artificially reduce costs)?
- Is new operating expenditure consistent with measures taken to improve service, and additions/enhancements to the authorities' operational assets?
- Are PPP costs correctly allocated, and within the limits agreed in the Strategic Review?
- Is the declared level of own work capitalised consistent with changes in the amount of capital investment?
- Is Spend to Save expenditure within the limits set by the Scottish Executive, and properly justified?
- Are accounting items, exceptionals and non-recurring costs correctly allocated and explained?
- Do any changes in the allocation of core and non-core business costs affect the interpretation of trends in base operating cost?
- Do any other relevant changes in accounting policy affect the interpretation of trends in base operating cost?

⁴ Office of the Rail Regulator, Regulatory Accounting Guidelines, July 2003, para 1.7.

In the event that a reported cost component appears to be inconsistent or anomalous according to these principles, it may be necessary to adjust the calculation of base operating expenditure, unless the item can be justified.

In reporting my conclusions on the pace and scale of efficiency improvements by Scottish Water, I will need to take into account overall performance. There are five critical factors that have an impact on customers' interests:

1. Are levels of service improving in line with expectations?

Efficiency improvements require levels of service to remain stable or improve, while reducing costs.

2. Are investment plan outputs being delivered, sustainably, to time and within budget?

Future progress on efficiency is likely to depend on investment outputs being achieved.

3. Is depreciation being charged at a sustainable level, taking prudent account of asset lives?

Underprovision for depreciation could jeopardise the sustainability of Scottish Water.

4. Are other cost movements (new business, asset disposals, new debt, interest payments) in line with expectations?

A shortfall against expectations could offset financially some of the gains achieved in efficiency.

5. Is Scottish Water on track to narrow the efficiency gap with companies in England and Wales?

The more the gap is narrowed, the better the value for money for customers.

The monitoring of efficiency improvements by Scottish Water will therefore be assessed in the light of these five critical factors. From a regulatory standpoint, conclusions of analyses will recognise that underperformance in one area may well be compensated by overperformance in another.

Way forward

I believe that the proposals contained in this letter build on the ten principles that were endorsed by the Minister for Environment and Rural Development and agreed by Scottish Water and the Water Industry Commissioner. I would welcome your suggestions as to how they might be strengthened. Subject to your agreement, I would propose that our first meeting under these arrangements should take place in early September.

I am copying this letter to the Water Services Unit.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc *XXXX, Scottish Executive*

30 September 2003

To Chief Executive of Scottish Water

WIC 37: Data for Serviceability Model

As part of my preparations for the next Strategic Review, I am seeking to establish the extent to which data currently exists to populate a capital maintenance serviceability model. This will also assist with the work of workpackage 2 (assets) in Quality & Standards III.

I attach a summary of the serviceability indicators currently used by OFWAT. More detail on these items is available, if required, in the OFWAT document Maintaining serviceability to customers: an update on serviceability indicators and measures (30 April 2002). For each of the items listed can you add columns to indicate both the current and historical availability of the data items. We also wish to know whether this data is available on a regional basis.

As you will know, the principle of serviceability modelling is predicated on the availability of long term trend data.

I would ask that you provide information on the availability of this data by 10 October 2003. I would further ask that you provide the available data itself by 10 November 2003.

Please contact me if you require clarification on the information required.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX, *Scottish Executive*

22 October 2003

To Chief Executive of Scottish Water

WIC 38: Publication of Annual Return and Investment Programme Information

I have received a number of requests in recent months for the publication of annual return information. As you will know, OFWAT publish this information for companies in England and Wales and this is now firmly established as a customer and stakeholder expectation.

To date, I have considered the Scottish annual return information to be insufficiently robust to allow publication. However, on reviewing the June 2003 dataset, I am now content that the customer benefits of publication outweigh any risks associated with data quality.

I therefore propose to make this year's annual return data available as of 1st December 2003. This would include all data tables and commentary, including Scottish Water's Overview.

The published information will also include the "Table G" list of investment projects. This is consistent with your recent announcement that Scottish Water can provide Q&S II investment project information to customers and I welcome this increased level of clarity of investment output. It will be important to ensure that the information published is as accurate as possible and consistent with the recent "WIC 18" work. We may therefore need to discuss whether a revised Table G submission is required prior to publication.

I also propose to publish, with suitable caveats, the investment programme as an appendix to the next Investment and Asset Management report which is due early next year.

I would welcome your comments on this proposal.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX, WSU, Scottish Executive

22 October 2003

To Chief Executive of Scottish Water

WIC 39: Finalisation of the Q&S II Capital Investment Programme

With regard to the ongoing work associated with the Q&S II capital investment plan and the development of the WIC 18 list, it would appear helpful at this point to review progress and agree the key steps moving forward.

Progress update

Version 2.0 of WIC 18 was issued on the 23rd of September 2003. The latest version includes the agreed reallocation of IT expenditure.

The red quality projects (£47M) have been reviewed and agreed by the quality regulators. The environmental and drinking water quality “parking lot” projects are being evaluated and prioritised by the appropriate regulator. It is expected that substitution project proposals in these areas will come forward before the end of the year.

The project categories included in the WIC 16 “high priority” funding (£50M) have been agreed with the stakeholders and specific projects are currently being identified, prioritised and costed. It is expected that substitution proposals in this category will be ready by the end of November.

The “north slippage” (£11.5M) programme line has been disaggregated and an initial list is available. Further work is currently underway by Scottish Water to provide additional information for WIC. It is expected that the defined set of project outputs associated with this investment will be available by end November.

The “Spend to Save” programme lines (£103M) have not yet been reallocated to project outputs. Under the agreed “ten principles”, access to borrowing will be restricted if clear project outputs for this funding are not agreed. Scottish Water should now bring forward a set of proposed project outputs associated with this investment for review.

The definition of the capital maintenance elements of the programme has been significantly increased but relatively high “unallocated” expenditure, which is identified by investment category but not project output, remain. Work has to continue to reduce these unallocated elements.

A broad methodology for project substitution has been agreed. The associated mechanisms for approval of substitutions, involving equivalence of cost and project output, are under consideration by Scottish Water and WIC. These mechanisms require to be agreed before the substitution of the “red” quality projects can be completed.

Next steps

I am sure you will agree that it is essential that we maintain progress towards a resolution of the remaining items as quickly as possible. With this in mind, I list below my assessment of the key steps for moving forward.

1. Finalisation of the mechanisms for substitution. To provide consistency of approach and the appropriate degree of engineering knowledge, I intend to use the services of the proposed Reporter to verify the cost equivalence of substitutions, prior to granting my approval. For your information, the criteria the Reporter will be asked to examine will include, but not be restricted to:

- a) The equivalence of risk and serviceability
- b) Whether appropriate engineering solutions are being employed
- c) Does the proposed solution comprise best practice
- d) Whether costs are being properly derived

I expect to appoint a Reporter early in the New Year. For the initial tranche of substitutions associated with the Quality programme I estimate that a period of 8 weeks will be required for the Reporter to carry out the necessary assessment. It should therefore be possible to complete the Quality substitutions by the 31st of March 2004 provided I receive the proposed substitutions before Christmas.

2. A date needs to be established at which the remaining “unallocated” elements of the Capital Maintenance elements of the programme are fixed and any further changes are subject to the substitution mechanism. I will therefore expect, by the 31st of January 2004, a full list of Capital Maintenance project outputs, including any necessary residual unallocated elements which have not been assigned to project outputs. Movements beyond that

time will then be subject to the substitution mechanism, specifically including transfers from the unallocated elements into defined project outputs.

3. The other outstanding items in the definition of the programme are WIC 16, “north slippage” and, particularly, the “spend to save” items. We are in agreement that these need to be resolved as soon as possible if customer interests are to be protected and in line with the recent agreement on the restriction of borrowing for undefined outputs in the “ten point principles”.

With regard to the “Spend to Save” item, in line with the agreed way forward I would ask that you now provide me with a list of project outputs associated with this expenditure for our review. For your information, I see it as essential that this matter is resolved by 31st March 2004, prior to the commencement of the final two years of the Q&S II programme. If a resolution is not reached by that date then the borrowing restriction agreed in the ten point principles will apply.

To maintain momentum with this process we have agreed a series of meetings going forward. To ensure clarity of process and efficient use of staff time, it is essential that we pre-define clear objectives and deliverables for these meetings. I would ask that these meeting dates, objectives, deliverables and milestones are agreed at the next meeting of the WIC 18 stakeholder group planned for early November.

I would welcome your comments on these proposals for moving forward but I am of the view that they represent the minimum acceptable timescales and most efficient process for final resolution of the Q & S II investment programme.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc *XXXX, Scottish Executive*
XXXX, SEPA
XXXX, DWQR

12 December 2003

To Chief Executive of Scottish Water

WIC 40: Strategic Review of Charges 2006

Please find below a draft timeline for the next Strategic Review of Charges commencing in 2006.

We will seek to diarise with you three monthly update meetings where we can advise you on the progress of the Review process. In addition, we would be happy to update the Scottish Water Board on a six monthly basis or more frequently as required.

Draft timeline

ORIGINATOR	DOCUMENT	PURPOSE	DATE
1. Ministers	SRC Timeline	Announcement	Jan/Feb 2004
2. WIC	Annual Return 2004	Data request	April 2004
3. WCCP/WIC	Principles of Charging	Draft consultation	April 2004
4. WCCP/WIC	Principles of Charging	Publication of consultation	May 2004
5. WCCP/WIC	Principles of Charging	Consultation period	May 2004 – Sep 2004
6. SW	Annual Return 2004	Data Submission	June 2004
7. WIC	Methodology	Publication of consultation	July 2004
8. WIC	Methodology	Consultation period	July 2004 – Sep 2004
9. Scottish Executive	Q&S III	Final reports from work packages	July 2004 (beginning)
10. Scottish Executive	Q & S III	Publication of Consultation	July 2004
11. Scottish Executive	Q&S III	Consultation period	July 2004 – Sep 2004
12. SW	SW Strategic Business Plan	1st draft to inform 13 below	Oct 2004
13. Scottish Executive	SW Outputs & WIC's SRC remit	In light of 5, 11 & 12 officials advise Ministers	Oct 2004 – Dec 2004
14. WIC	Methodology	Response to consultation	Dec 2004
15. WIC	SW Strategic Business Plan	Comments	Dec 2004
16. WCCP/WIC	Principles of charging	Consultation feedback	Dec 2004
17. Ministers	SW Outputs & WIC's SRC remit	Ministers set WIC's remit & SW's output	Jan 2005
18. WIC	Opex Efficiency Targets	Publish draft targets	Jan 2005 (beginning)
19. Scottish Executive	Q&S III	Public announcement of outcome	Jan 2005 (mid)
20. WIC	Capex Efficiency Targets	Publish draft targets	Jan 2005 (end)
21. SW	SW Strategic Business Plan	2nd draft to inform SRC	Apr 2005
22. WIC	Annual Return 2005	Data request	Apr 2005
23. SW	Annual Return 2005	Data Submission	June 2005
24. WIC	Charge/Revenue caps	Publish draft caps	June 2005 (end)
25. Ministers	WIC remit	Ministers publish any changes arising from 24	Aug 2005 (mid)
26. WIC	Strategic Review of Charges	WIC finalises SRC in light of 25 (and any SW representations arising from 24)	Aug 2005 – Nov 2005
27. WIC	Charge/Revenue caps	Final caps announced	Nov 2005 (Mid)

I hope that you will find this timeline useful.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

2 March 2004

To Chief Executive of Scottish Water

WIC 41: Reconciliation of WIC 18 with Finance Committee submission of 23/2/04

I refer to XXXX's letter of 23 February 2004 to the Finance Committee of the Scottish Parliament headed "Scottish Water Capital Investment Programme".

Can you please provide me with a reconciliation of the Investment table on Page 2 of this letter to the current version of the WIC 18 list (version 2.1). I would like to clarify that information being provided in the public domain is consistent and that there is clarity on the extent of delivery of Quality and Standards II.

I would ask you to provide this reconciliation by Friday the 12th of March.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc *XXXX, Scottish Executive*
XXXX, Scottish Executive

8 April 2004

To Chief Executive of Scottish Water

WIC 42: Dates for submission of information to WIC 2004-05

The purpose of this letter is to outline the process to be followed for the submission of the 2003-04 WIC Annual Return, and to highlight the deadlines for WIC letter information requests for the year ahead. In the event that the Scottish Executive agrees to proceed with the introduction of regulatory accounting, I will write separately to you on the proposed way forward.

Annual Return

Firstly, I would like to take this opportunity to draw your attention to the fact that all information contained within the submitted Return will be published unless it can be demonstrated that the exclusion of certain information is necessary. I must emphasise that this should not affect the quality and quantity of the Tables, Commentary and Overview provided to WICS. I would therefore expect to see at least the same level of information in these documents as in previous years. Any text that Scottish Water feels should not be public information should be clearly highlighted as private and confidential. We can then discuss whether it is appropriate not to publish this information.

The procedure for the submission of the WIC Annual Return will be similar to that of last year. The format will be distributed by 23 April 2004, with completed Return, Commentary and Overview documents due on 18 June 2004. The template will include the following elements:

- 2 Sets of tables in Excel spreadsheet format, for data capture (1 set protected, 1 set unprotected).
- Detailed, up-dated guidance and definitions to assist completion of the tables.
- Edition Sheet, identifying changes carried out between 2002-03 and 2003-04 Return (detailed Change Controls will be available on request).

In my WIC 40: Strategic Review of Charges 2006 letter of 12 December 2003, a 1st draft of your Strategic Business Plan to inform the Strategic Review of Charges 2006 is due in October 2004 and therefore, Section S: Strategic Business Plan will not be issued or required for submission this year. Additionally, Section K: Investment Plan tables will not be issued or required for submission this year.

A small number of material changes have been made to the layout and content of the Annual Return Tables. These have already been communicated to Scottish Water and a dialogue is continuing. I am prepared to set up a workshop at Ochil House on Monday 26 April 2004 at 2.30pm and will be available to take you through the rationale and implication of these changes.

The query process introduced during the 2002-03 Annual Return process appeared to work well and I plan to build upon this for the coming year. I would note however, in last year's Return there were occasions where there were inconsistencies between the Commentary and the data tables, and also instances where the Commentary itself was internally inconsistent. Issues such as these should be checked and rectified by Scottish Water prior to submission, thereby reducing the time spent on the query process. The introduction of the Reporters Black and Veatch should help to ensure that Scottish Water is employing sound methods in recording, storing, retrieving and reporting the appropriate information to WICS in a form that meets our requirements. Text has therefore been added to each Section's definitions to indicate the focus of the work being carried out by Reporters.

The timescales for the investigation of WICS queries are as follows:

Item	Date Issued to SW	Date Due back from SW
Annual Return Queries	02/07/04	16/07/04
2nd round of Queries (if necessary)	30/07/04	13/08/04

I continue to draw your attention to the importance of providing data in the correct format. I am pleased to report that there was a marked improvement in the format of the data submitted last year thereby allowing a smoother upload process into the database. I am keen that this progress continues and look forward to a similar standard being submitted this year. Where data is not in the prescribed format and fails to upload, we will, as with last year, ask for resubmissions with the costs of any failed uploads being billed separately to you.

It remains a basic requirement that the tables be signed off in line with the guidelines to confirm that the information provided is accurate and complete, thus allowing my staff to raise any queries with the relevant individuals. Any unsigned tables will be returned.

Again, as with last year, I would like to emphasise the importance of the quality, accuracy and completeness of the information that you provide in the tables and Commentary documents. I still require year on year changes in data to be explained and, where appropriate, justified. I also need to know what material assumptions and adjustments have been made to derive reported numbers. In the interests of quality and comparability, it is essential that any changes made to data are declared as and when they are uncovered and not reserved for comment in the following submission of the Annual Return Commentary. Any alterations during the year to data in the Return should be sent to Monitoring with the appropriate signatures and reasons given for the change.

WIC Letter & Team Information Requests

REVENUE & TARIFFS:

- **WIC 1/9/14/22** Revenue from Non-Domestic Customers/Non-Domestic Debt/Special Agreements for Large Customers – due on 14 May and 12 November 2004.
- **WIC 4** Domestic Revenue – due on 14 May and 12 November 2004.
- **Scheme of Charges** Submission – due on 10 September 2004

WIC 22 and WIC 4 should be submitted in Excel spreadsheet format. The Revenue and Tariffs team will provide details of our specific requirements for the Scheme of Charges submission (including Excel Spreadsheets for completion) during the summer of 2004.

COMPETITION & CUSTOMER SERVICES:

- **WIC 5** Customer Service Performance Excel based Reports due:

Qtr	Due Date
Q4	07/05/04
Q1	13/08/04
Q2	12/11/04
Q3	11/02/05
Q4	13/05/05

- **WIC 6** Written Quality Performance Assessments (QPA) – Written complaints and telephone complaints where a written response is requested.

The following are a set of provisional dates and XXXX will be in touch with your staff to discuss WIC 6 data requests further.

	SW provide Excel list of complaints	SW advised of selection	SW provide complaints files	QPA
Q4 2003/04	26/04/04	3/05/04	10/04/04	31/05/04
Q1 2004/05	26/07/04	2/08/04	9/08/04	30/08/04
Q2 2004/05	25/10/04	1/11/04	8/11/04	29/11/04
Q3 2004/05	24/01/05	31/01/05	7/02/05	28/02/05
Q4 2004/05	25/04/05	2/05/05	9/05/05	30/05/05

- **WIC 6** Specialised QPA and Telephone QPA – These audits are being reviewed currently and we will write to Scottish Water in the future to discuss how to take them forward.

INVESTMENT & ASSET MANAGEMENT:

- **Ongoing work on WIC 18 Substitution process for Q & S II.** The initial base-line substitution process should be completed by early April 2004. However we anticipate some minor ongoing work in this area to allow small changes to the established base line. This work will be conducted through the WIC18 stakeholder group.
- **Base-Line Investment programme for Q & S III (equivalent of WIC 18 for Q&S II).** The format and timing of this is currently under discussion in the Q & S III project group. However, early in the 2004-05 financial year, and by end May 2004 at the latest, we will require a formal submission of the full Q & S III programme with project level definition and properly defined outputs. This will form an essential pre-requisite to the capital investment element of the Strategic Review of Charges. In the absence of full definition of the programme, we will base our assumptions of capital investment requirements in the Strategic Review of Charges on standard industry models.
- **Updated Leakage Strategy (WIC 24)** – Word document, requested for 31 December 2004.
- **Capital Investment Appraisal Audits (WIC 19).** As last year, we anticipate this work being carried out in November/December 2004. The Investment Team will contact Scottish Water in the near future to finalise a programme.
- **Capital Investment Return,** Excel and Word based documents – due one month after each quarter end.

COSTS AND PERFORMANCE:

- **WIC 25** Monthly Submission of Resource Accounting and Budgeting (RAB Excel Tables & Word document) – due on a monthly basis with dates being agreed separately with Scottish Water.
- **WIC 30** Accounting Separation – As you are aware, for the 2005 Strategic Review we will require properly separated cost allocations between core and non core costs and between wholesale and retail costs. We are working on tables, definitions and guidance notes for this as a separate exercise from the Annual Return.

All of the above requests are essential to effective and transparent regulation and I wait for confirmation from you that these requests will be met in full on the suggested timescales.

I hope you find the above information both informative and useful, and I am looking forward to receiving your submissions in due course.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX, *Scottish Executive*

23 April 2004

To Chief Executive of Scottish Water

WIC 43: Annual Return 2003-04 Submission

This letter is my formal request for Annual Return information. In WIC 42 I set out a timetable for information requirements and as indicated in that letter, I am issuing today the Guidance notes and Table templates for the 2003-04 WIC Annual Return. The procedure for the submission of the Annual Return will be as outlined in WIC 42. I particularly draw your attention to the query process timetable that was discussed in WIC 42 as I hope that this will ensure a smooth query process takes place this year, building upon the progress made last year.

For the first time the Definitions include text on Guidance for Reporters. The introduction of the Reporters Black and Veatch should help to ensure that Scottish Water is employing sound methods in recording, storing, retrieving and reporting the appropriate information to WICS in a form that meets our requirements. Text has therefore been added to each section's Definitions to indicate the focus of the work being carried out by Reporters.

As the information provided materially affects our ability to benchmark accurately, it is therefore in your interests to submit as complete and accurate a Return as possible. All Commentary documents especially should be as complete, accurate, relevant and authoritative as possible and particular attention should be made to ensure that there are no inconsistencies either between Commentary and Tables or internally with the Commentary document itself.

Where modifications have been made to either Tables or Definitions, the edition number relevant to that document has been updated and Edition summary sheets have been inserted into the definitions.

As last year, I am happy to supply two copies of the Excel spreadsheet Annual Return tables, one password protected and one not, provided that only the password-protected tables are submitted back to WICS. Any tables submitted not in the prescribed protected format will be returned to Scottish Water and resubmissions requested.

The Annual Return tables must be signed off by the relevant Director and any unsigned tables will be returned. I require 2 paper copies and an electronic version of each submission of the Return tables to be delivered to the Monitoring team at WICS. I can confirm that the submission date following sign off by the Regulatory Management Group at Scottish Water is 18 June 2004.

If your staff have any further questions or queries relating to the Annual Return, they should not hesitate to contact XXXX or XXXX.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

12 May 2004

To Chief Executive of Scottish Water

WIC 44: Finalisation of the WIC 18 Base-line for Quality and Standards II

With regard to the work associated with the Q & S II capital investment plan and the finalisation of the WIC 18 list, it would appear helpful at this point to be clear about the sequence of events for finalising this process.

As agreed at the WIC 18 stakeholder meetings, the WIC 18 programme will be finalised by the end of May 2004. At this time, Scottish Water will issue a final version of the programme for agreement by the regulators. Following this agreement, any subsequent changes to the programme will require to go through the agreed substitution process.

This final version of the programme will include:

- Substitution of the “red” quality projects (£47M) as agreed with SEPA and DWQR and validated by the Reporter.
- Identification of the WIC 16 “high priority” projects (£50M).
- The agreed allocation of the “north slippage” expenditure (£11.5M).
- Definition of the projects that comprise the Capital Maintenance element of the programme.
- A resolution of the “additional outputs” (£103M) element of the capital programme. I have met recently with your staff and agreed the components of a solution acceptable to both parties. This now requires agreement from the WIC 18 stakeholder group. Failing this, the resolution will be in accordance with point 2 of the ten principles as outlined in the letter of 31 July 2004 from Ross Finnie MSP.

I would ask for your assistance with ensuring that this important work is given a high priority over the weeks ahead.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc *XXXX, Scottish Executive*
XXXX, SEPA
XXXX, DWQ

27 May 2004

To Chief Executive of Scottish Water

WIC 45: Draft accounting separation tables

My office has recently held meetings with your staff to discuss the issue of the accounting separation within Scottish Water of the core/non-core and retail/wholesale elements of the business.

As explained at those meetings, we have asked Strategic Management Consultants and Deloitte to develop a set of draft regulatory tables to collect information on Scottish Water's operating costs. We are now ready to share the first draft of those tables with you and an electronic copy is being provided, along with the accompanying definitions. The deadline for completing and returning the tables was recently communicated to you as part of the list of key dates in the regulatory calendar. The following dates specifically relate to the draft regulatory tables:

27 May 2004	Deadline for issue of draft tables to Scottish Water
15 June 2004	Q&A on draft tables
18 August 2004	Scottish Water submits completed draft tables to WICS for the year 2003-04
9 September 2004	WICS writes to Scottish Water with views on the draft regulatory tables
16 September 2004	Workshop on completion of the regulatory accounting tables
29 October 2004	Resubmission of regulatory accounting tables as part of the business plan
16 November 2004	WICS issues revised regulatory accounting tables
22 December 2004	Scottish Water resubmits regulatory accounting tables for the year 2003-04
20 January 2005	WICS writes to Scottish Water regarding the regulatory accounting tables
27 January 2005	Workshop on regulatory accounts

Although these dates may be subject to minor changes, my office is committed to the development of robust regulatory accounting tables and guidelines for the Scottish water industry. I believe it is important that Scottish Water engages in the development process and I would encourage you to provide us with feedback. With regard to the draft tables that accompany this letter, the date of 15 June for a Q&A is for indicative purposes only and we would be happy to agree an alternative date that is suitable for all parties. I would also welcome formal written feedback on the draft tables, which you can provide prior to 18 August if you wish.

In the meantime, we will shortly be commencing a tender process to further develop regulatory tables and definitions and Regulatory Accounting Guidelines for the Scottish water industry. My office will arrange regular updates and discussions with your staff.

I look forward to hearing from you.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

cc XXXX, Water Service Unit

25 June 2004

To Chief Executive of Scottish Water

WIC 46: Strategic Review of Charges – first draft Business Plan submission

This letter is my formal request for Scottish Water's first draft Business Plan. I am issuing today the Guidance notes, definitions and Table templates for the first draft Business Plan. I am also issuing a copy of the draft Financial Model. The completed Plan is to be submitted by 29th October 2004. As you are already aware, it is very important that the agreed timeline is complied with.

The format for the first draft Business Plan draws on Ofwat's approach wherever appropriate. However, we have taken account of the Scottish context in framing both the information requirement and, in many cases, the definitions to be used. In particular, Scottish Water reports a detailed Asset Inventory and Cost Base analysis as part of the Annual Return. Accordingly, these two components are excluded from the first draft Business Plan reporting requirements, in order to avoid unnecessary duplication of effort.

In framing the format for the first draft, we have sought to identify the specific regulatory information that will inform the early stages of the Strategic Review of Charges. However, the draft Plan should also include all those elements that Scottish Water feels will inform debate, for the benefit of all stakeholders. In particular, Scottish Water should have due regard to the high level guidance issued by Ministers.

To assist a smooth process for the completion of the draft Plan, we have timetabled a process for dealing with issues arising and clarifications. This is as follows:

1. Scottish Water to inform us of any concerns and questions regarding the Guidance
- by 5th July 2004.
2. Joint workshop with Scottish Water to resolve issues and clarify questions
- 9th July 2004
3. Joint workshop with Scottish Water on draft Financial Model
- 14th July 2004
4. Scottish Water to raise final issues on Guidance
Scottish Water to raise queries and concerns on draft Financial Model
- by 16th July 2004
5. Guidance issued to Reporters
- 21st July 2004
6. WICS issues final clarifications and responses to issues raised
- 28th July 2004

The Business Plan tables must be signed off by the relevant Director and any unsigned tables will be returned. Please note that the template tables are security protected. I require 2 paper copies and an electronic version of each submission of the tables to be delivered to the Monitoring team at WICS.

If your staff have any immediate questions or queries relating to the draft Business Plan, they should not hesitate to contact XXXX XXXX or XXXX XXXX.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

cc XXXX XXXX, Scottish Executive

11 October 2004

To Chief Executive of Scottish Water

WIC 47: Strategic Review of Charges 2006-10 – delivery of Q & S II

My office has written to Scottish Water on three previous occasions to request that we receive a final version of the current capital programme and a clear statement of the likely delivery of the Quality and Standards II by the end of March 2006 (project by project). As you will understand this information is essential to our finalisation of our proposed approach to assessing the scope for efficiency in capital expenditure.

I have already had to delay the publication of this part of the methodology and am obviously keen to complete this work as soon as possible. I recognise that you are no doubt busy completing your first draft business plan, but I must emphasise that we are all working to tight deadlines and it is important that I am able to allow stakeholders some opportunity to comment on my proposals before I can finalise guidance for your second draft business plan. This is likely particularly to impact the specification of the baseline investment programme that we will require.

I would be grateful for a complete response no later than 29 October.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

13 October 2004

To Chief Executive of Scottish Water

WIC 48: Cost Estimates for the Quality & Standards III Quality Programme

I am currently awaiting the Reporter's report on the Quality & Standards III cost estimating systems. However, I have had a meeting with the Reporter where he gave me an initial overview of his findings. My understanding is that his main concern is the accuracy of some of the cost estimates for projects in the quality programme. I believe that these estimates have been prepared by Scottish Water Solutions. The Reporter understands that you are aware of his concerns and that you are currently working with Scottish Water Solutions to investigate, and where necessary, address these concerns.

I am sure that you will agree that it is imperative that these cost estimates are soundly based and that they are available in good time to inform Ministerial Guidance and the second draft business plan. Accordingly, can you please:

1. Inform me as a matter of urgency whether you agree that the Reporter has cause for concern. If you do not believe that he has cause for concern please give me reasons why he is incorrect.
2. If you do concur that his findings are justified please send me an action plan detailing how you intend to address these concerns. The action plan should cover in some detail the methodology you plan to use to re-estimate the costs together with a set of milestones and appropriate dates showing when individual activities will be completed.

Given the urgency of the work I would like you specifically to address the following points in any methodology that you put forward:

1. Whether you plan to review all costs or only target those that you currently believe are wrong. If the latter, how will you decide which are wrong?
2. How you will assess the most material costs so that they may be targeted first.
3. Whether you intend to benchmark the revised costs against other estimating systems or industry norms. If you do not intend to undertake such an exercise how do you propose to give me comfort that the revised costs are correct?

I propose to ask the Reporter to review progress against these milestones.

I would be grateful for a full response to this letter by 27 October 2004.

Yours truly

ALAN D A SUTHERLAND
Commissioner

cc XXXX XXXX, Scottish Executive

15 October 2004

To Chief Executive of Scottish Water

WIC 49: Proposed Schemes on Arran

You may be aware that my office has been in dialogue with both Scottish Water and SEPA regarding a complaint from the people of Arran relating to proposed schemes on the island.

Concerns have been raised over the alteration of original schemes and to allow my office to respond fully to these I require sight of early Investment Appraisals or Project Feasibility Studies outlining the original work planned for Arran as funded via Quality and Standards II.

I would be grateful to receive this information no later than Wednesday 27th of October.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

Cc *XXXX XXXX, Chairman Isle of Arran Community Council*
XXXX XXXX, Community councillor for Blackwaterfoot and Shiskine

11 November 2004

To Chief Executive of Scottish Water

WIC 50: Public Private Partnership schemes

During discussions and correspondence regarding the 2002-03 Costs and Performance Report, Scottish Water raised concerns about including the costs of its Public Private Partnership (PPP) schemes within our benchmarking analysis of operating expenditure. We agreed that we would look into Scottish Water's concerns and examine ways of removing PPP costs from this benchmarking.

I am attaching a request for information that will allow us to separate out PPP costs. I would be grateful if you could ensure that all the requested information (if relevant) is included for each PPP scheme. I recognise that it may be difficult to define some of the requested costs, but I would appreciate Scottish Water's best estimates. I also attach guidance notes for this information request.

I would be grateful if Scottish Water could complete this information request by Friday 10 December 2004. You may find it helpful to explain the information that you provide with a detailed commentary.

If you have any queries regarding this request, please contact XXXX XXXX.

Yours sincerely

Alan D A Sutherland
Water Industry Commissioner for Scotland

Guidance for completing the Public Private Partnership information requirement

The spreadsheet should be completed with 2003-04 data.

The name of each PPP scheme has been entered into the spreadsheet as per table E3 of the 2004 June Return. Scottish Water should ensure that it completes each cell for each scheme. Where a row is not applicable to a scheme, please enter N.

Only two rows within the spreadsheet contain calculated fields; the rest are input cells.

Where the units for data entry are given as “1/0”, this indicates a yes / no choice. For example, under the heading ‘Sewage treatment’ Scottish Water should state whether a PPP scheme relates only to a large sewage treatment works, or whether it also includes small sewage treatment works. If a scheme contains both a large works and small works, then the appropriate entry in both rows would be 1.

We have allowed for up to three small sewage treatment works within each PPP scheme. If it is the case that a scheme has more than three small works, please insert the necessary rows within the spreadsheet. This is the only instance where the spreadsheet itself should be altered.

Turning to the issue of costs, we have asked Scottish Water to estimate the annual direct operating cost relating to each element of the PPP scheme. We appreciate that it could be difficult to provide accurate costs, but Scottish Water should employ suitable assumptions to arrive at sensible estimates. In such cases, Scottish Water should provide a commentary explaining its assumptions.

The exert, shown below, shows the level of detail on the spreadsheet supplied to Scottish Water which was required to be completed for the following PPP Schemes:

Fort William, Inverness, Hutton, Nigg, Persley, Peterhead, Fraserburgh, Lossiemouth, Buckie, Banff/MacDuff, Seafield, Newbridge, East Calder, Blackburn, Whitburn, Levenmouth, Dalmuir, Daldowie, Meadowhead, Stevenston, and, Inverclyde.

SCOTTISH WATER PPP INFORMATION

	Units	Annual Return reference
Project name	-	E3.0
Project status	-	E3.6
<i>Scottish Water area:</i>		
North West	1/0	-
North East	1/0	-
South East	1/0	-
South West	1/0	-

	Units	Annual Return reference
Scope of works		
Sewerage	1/0	E3.7
Sewage treatment	1/0	E3.8
Sludge treatment	1/0	E3.9
Terminal pumping station	1/0	E3.10
Other (please state)	1/0	E3.11
Sewage treatment		
Large works	1/0	-
Small works included in PPP scheme	1/0	-
<u>Large sewage treatment works:</u>		
Primary	1/0	E9.19
Secondary activated sludge	1/0	E9.20
Secondary biological	1/0	E9.21
Tertiary A1	1/0	E9.22
Tertiary A2	1/0	E9.23
Tertiary B1	1/0	E9.24
Tertiary B2	1/0	E9.25
Annual average resident connected population	000	E9.1
Annual average non-resident connected population	000	E9.2
Trade effluent load received by works	kg/COD/day	E9.3
Tanker load received by works	kg/COD/day	E9.4
Population equivalent of total load received	000	E9.5
Total load received	kg/BOD/day	E8.18
<u>Small sewage treatment works:</u>		
Number of small works included in scheme	nr	-
<i>Small sewage treatment works (1):</i>		
Primary	1/0	E9.19
Secondary activated sludge	1/0	E9.20
Secondary biological	1/0	E9.21
Tertiary A1	1/0	E9.22
Tertiary A2	1/0	E9.23
Tertiary B1	1/0	E9.24
Tertiary B2	1/0	E9.25
Total load received	kg/BOD/day	E8.18

	Units	Annual Return reference
<i>Small sewage treatment works (2):</i>		
Primary	1/0	E9.19
Secondary activated sludge	1/0	E9.20
Secondary biological	1/0	E9.21
Tertiary A1	1/0	E9.22
Tertiary A2	1/0	E9.23
Tertiary B1	1/0	E9.24
Tertiary B2	1/0	E9.25
Total load received	kg/BOD/day	E8.18
<i>Small sewage treatment works (3):</i>		
Primary	1/0	E9.19
Secondary activated sludge	1/0	E9.20
Secondary biological	1/0	E9.21
Tertiary A1	1/0	E9.22
Tertiary A2	1/0	E9.23
Tertiary B1	1/0	E9.24
Tertiary B2	1/0	E9.25
Total load received	kg/BOD/day	E8.18
Sewerage		
Total length of sewer	km	E7.8
Length of critical sewer	km	E7.13
Number of pumping stations	nr	E7.15
Capacity of pumping stations (m3/d)	m3/day	E7.16
Capacity of pumping stations (kw)	kw	E7.16a
Number of combined pumping stations	nr	E7.18
Capacity of combined pumping stations (m3/d)	m3/day	E7.19
Number of stormwater pumping stations	nr	E7.20
Capacity of stormwater pumping stations (m3/d)	m3/day	E7.21
Number of combined sewer overflows	nr	E7.22
Number of combined sewer overflows (screened)	nr	E7.23
Sludge		
<i>Disposal route:</i>		
Farmland Untreated	1/0	-
Farmland Conventional	1/0	-
Farmland Advanced	1/0	-
Landfill	1/0	-
Incineration	1/0	-
Composted	1/0	-
Land Reclamation	1/0	-
Other	1/0	-

	Units	Annual Return reference
<i>Thousand tonnes dry solids:</i>		
Farmland Untreated	ttds	E10.2
Farmland Conventional	ttds	E10.2
Farmland Advanced	ttds	E10.2
Landfill	ttds	E10.2
Incineration	ttds	E10.2
Composted	ttds	E10.2
Land Reclamation	ttds	E10.2
Other	ttds	E10.2
Contract information		
Contract period	years	E3.41
Contract end date	dd/mm/yyyy	-
Annual charge	£m	E3.38
Public sector capital equivalent value	£m	E3.39
Estimated annual direct total operating cost	£m	E3.40
Estimated annual direct sewage treatment cost (large works)	£m	-
Estimated annual direct sewage treatment cost (small works 1)	£m	-
Estimated annual direct sewage treatment cost (small works 2)	£m	-
Estimated annual direct sewage treatment cost (small works 3)	£m	-
Estimated annual direct sewerage cost	£m	-
Estimated annual direct sludge cost	£m	-
Associated Scottish Water operating costs		
Estimated total Scottish Water costs associated with PPP	£m	-
<i>Estimated total Scottish Water costs associated with:</i>		
Sewage treatment	£m	-
Sewerage	£m	-
Sludge	£m	-

19 November 2004

To Chief Executive of Scottish Water

WIC 51: Potential for a Quality and Standards II overhang

I have received your latest version of the WIC18 project list that defines Quality and Standards II and the September quarterly investment return. I have carried out a reconciliation exercise on the two returns. I am writing to you now to seek your urgent comments on the results that have emerged from the reconciliation.

Put simply, my analysis has identified a significant number of projects in the investment return for which there are no matching projects in the WIC18. The Annex to this letter summarises the position that I have identified. This raises in my mind the real possibility that the WIC 47 return underestimates the projected overhang of Quality and Standards II.

You will appreciate that if this analysis is correct there would be major implications both for the successful delivery of Quality and Standards II and for the deliverability of the investment programme that the Executive will set for Scottish Water. In these circumstances, I would be grateful for your comments on what the analysis means for the information provided in WIC 47 and in your first draft business plan.

I am sending a copy of this letter to XXXX XXXX.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

Estimate of Quality & Standards II undelivered portion

	QIR Analysis (£M)	
		£m
Q&S II spend to date (as of 30 September 2004)		693
Non Q+SII spend		268
Total spending on investment		961
Check of Non Q+SII:		
Notified new outputs spend (as of 30 September 2004)		0
Agreed Q&S I carry-over into Q&S II period (post eff)		47
Total		47
Revised Q+SII spend		740
Non Q+SII spend		221
Total spending		961
Estimated efficient spend for remainder of 2004-05 (Q+SII and notified outputs)		344
Declared investment spend for first half		216
Total estimated investment spending		560
Estimated efficient spend for 2005-06 (Q+SII and notified new outputs)		590
TOTAL EXPECTED Q+SII SPEND (INCLUDING NEW OUTPUTS)		1,674
Estimated inefficiency on completed projects		10
TOTAL EXPECTED Q+SII OUTPUTS DELIVERED (INCLUDING NEW OUTPUTS)	A	1,664
Base Q&S II programme		1,810
Notified new outputs (WIC 47)		110
Capital inflation above SRC assumptions		120
TOTAL REQUIRED INVESTMENT	B	2,040
UNDELIVERED PORTION	B-A	376

24th November 2004

To Chief Executive of Scottish Water

WIC 52: Trade Effluent customer information

In order to carry out the Strategic Review of Charges 2006-10 and to analyse Scheme of Charges submissions I will require information on the discharge characteristics of Trade Effluent customers. In order to understand the incidence effects of tariff changes, I request that Scottish Water submits information for every Trade Effluent customer.

The information requested is similar to the WIC 1, 9, 14 and 22 requests. The information on Trade Effluent should also be submitted for the end of Period 6 and the end of Period 12 alongside the 'WIC 22' submission.

The attached spreadsheet (electronic version only) shows the information that I require for each customer. I believe that this should allow me to calculate the effects of tariff changes; I welcome any comments Scottish Water has on the suggested format.

The first semi-annual submission should be for Period 12, 2004-05. However, in order to ensure that information is in a suitable format, I request that a preliminary submission is made. Please record the date the information is extracted from the billing system on the submission. I request the preliminary submission is made before January 31st 2005.

If you have any questions or comments then please do not hesitate to contact me.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

	Heading	Units	Definition
A1	Date of beginning of billing period	-	For customers that joined the billing system after 01.04.04
A2	Date of end of billing period	-	For leavers only, date that customer left billing system
Customer Information			
B1	Group Reference Number	-	
B2	Number of sites	-	For customers that are part of a group
B3	Customer Reference Number	-	
B4	Property Reference Number	-	
B5	Customer name	-	
B6	WIC sector	-	
B7	WIC sub-sector	-	
B8	SIC Code	-	
B9	Gross Rateable Value	£	
B10	Number of accrual days (2004-2005)	-	
B11	Harmonisation cap	1 / 0	State 1 if effluent customer receives harmonisation cap
B12	Treatment cap	1 / 0	State 1 if effluent customer receives treatment cap
Consent conditions			
C1	Primary	1 / 0	State 1 if effluent customer discharges receives primary treatment
C2	Secondary	1 / 0	State 1 if effluent customer discharges receives secondary treatment
C3	Tertiary	1 / 0	State 1 if effluent customer discharges receives tertiary treatment
C4	Non-standard charges	1 / 0	State 1 if customer pays non-standard charges. I.e. an agreement not to pay charges at the published rate
C5	Start date of agreement	-	Date that customer's effluent agreement commenced
C6	Termination date of agreement	-	Date that customer's effluent agreement is due to be terminated
2003-04 Accruals			
D1	Operating charge opening accrual	£	
D2	Operating charge number of accrual days	days	
D3	Operating charge actual revenue associated with opening accrual	£	
D4	Annual availability charge opening accrual	£	
D5	Annual availability charge number of accrual days	days	
D6	Annual availability charge actual revenue associated with opening accrual	£	

	Heading	Units	Definition
2004-05 Trade Effluent services			
E1	Operating - Fixed strength (solids)	mg/l	
E2	Operating - Fixed Strength (sCOD)	mg/l	
E3	Operating - Actual volume discharged - actual	m3	
E4	Operating - Actual volume discharged - accrual	m3	
E5	Operating - Actual volume discharged - forecast	m3	
E6	Availability - Consented Daily Volume	m3	
E9	Availability - Settled Biochemical Oxygen Demand load - actual	Kg/day	
E10	Availability - Settled Biochemical Oxygen Demand load - accrual	Kg/day	
E11	Availability - Settled Biochemical Oxygen Demand load - forecast	Kg/day	
E12	Availability - Total Suspended Solids load - actual	Kg/day	
E13	Availability - Total Suspended Solids load - accrual	Kg/day	
E14	Availability - Total Suspended Solids load - forecast	Kg/day	
Debt			
F1	Total Debt	£	
F2	0 - 30 Day Debt	£	
F3	31 - 60 Day Debt	£	
F4	61 - 90 Day Debt	£	
F5	91 - 120 Day Debt	£	
F6	121 - 150 Day Debt	£	
F7	151 -180 Day Debt	£	
F8	181 - 210 Day Debt	£	
F9	211 - 240 Day Debt	£	
F10	241 - 270 Day Debt	£	
F11	271 - 300 Day Debt	£	
F12	301 - 330 Day Debt	£	
F13	331 - 360 Day Debt	£	
F14	Debt from 2003-2004	£	
F15	Debt from 2002-2003	£	
F16	Debt from 2001-2002	£	
F17	Debt from 2000-2001	£	
F18	Debt from 1999-2000	£	
F19	Debt from 1998-1999	£	
F20	Debt from 1997-1998	£	
F21	Debt from 1996-1997	£	

8 December 2004

To Chief Executive of Scottish Water

WIC 53: Strategic Review of Charges – second draft Business Plan submission

This letter is my formal request for Scottish Water's second draft Business Plan. I am issuing today the Guidance notes, definitions and Table templates for the Plan. The completed Plan is to be submitted no later than 20th April 2005. As you are already aware, it is very important that the agreed timeline is complied with.

The format for the second draft Business Plan is in large part the same as the first. However, we have taken into account developments arising from the first draft Business Plan, our consultation on methodology and the work on accounting separation recently undertaken by Ernst & Young LLP. Accordingly, we have extended the information requirement, mainly in the following areas:

- Identification of retail costs
- Definition of Quality and Standards II overhang
- More detailed tariff information
- Output performance improvements

The second draft Business Plan will contain information that, together with Scottish Water's Annual Return, is essential to our Strategic Review of Charges. It should therefore include all those elements that Scottish Water feels will inform debate, for the benefit of stakeholders. In particular, Scottish Water should take full account of the guidance expected from Ministers in January 2005. Supporting information, where relevant, should be referenced in the Plan and submitted with the Plan.

To assist a smooth process for the completion of the second draft Plan, we have timetabled a process for dealing with issues arising and clarifications. This is as follows:

7. Second joint workshop with Scottish Water on Financial Model
- 13th December 2004
8. Scottish Water to inform us of any concerns and questions regarding the Guidance
- by 14th December 2004.
9. Joint workshop with Scottish Water to resolve issues and clarify questions
Guidance issued to Reporter
- 17th December 2004
10. Scottish Water to raise final issues on Guidance
- by 23rd December 2004
11. WICS issues final clarifications and responses on issues raised to Scottish Water and to the Reporter
- 10th January 2005

The Business Plan tables must be signed off by the relevant Director and any unsigned tables will be returned. Please note that the template tables are security protected. I require 10 paper copies and an electronic version of each submission of the tables to be delivered to the Monitoring team at WICS.

If your staff have any immediate questions or queries relating to the second draft Business Plan, they should not hesitate to contact XXXX XXXX or XXXX XXXX.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

cc XXXX XXXX, Scottish Executive

14 December 2004

To Chief Executive of Scottish Water

WIC 54: Request for information relating to Water and Waste-Water treatment plants

I am writing to request information relating to Scottish Water's water and wastewater treatment works. As part of my analysis of your draft Business Plan submission, we require a list of each water and wastewater treatment works showing:

- The name of the works
- The Scottish Water operational area in which it is located
- A location marker (e.g. grid reference or nearest community)
- The population or population equivalent served
- The design capacity of the works (Ml/day or kg(BOD5)/day)

I would be grateful if this information could be provided in electronic form (an excel spreadsheet) by Friday 17 December.

If your staff have any queries regarding the format of this data requirement, please contact XXXX XXXX on 01786 430200.

Yours sincerely

Alan D A Sutherland
Water Industry Commissioner for Scotland

13 December 2004

To Chief Executive of Scottish Water

WIC 55: Strategic Review of Charges: regulatory accounts

As you know, we engaged Ernst & Young LLP last August to develop regulatory accounts and to separate the reporting of core and non-core, and retail and wholesale accounts. We are now in a position to begin implementation. I am today issuing Regulatory Accounting Rules, definitions and template tables. I am also issuing Ernst & Young's detailed report. Electronic versions of all these documents are attached. We will be placing them on our website.

I am very grateful for the cooperation and input that Scottish Water has provided for this project. This has allowed us to debate and resolve many issues and concerns, and has enabled Ernst & Young to base the accounting definitions, wherever possible, on Scottish Water's own Activity Based Management system. I hope that this will make implementation more straightforward.

In our original timeline for the Strategic Review of Charges, we envisaged an earlier start to the project, and were due to issue regulatory accounting tables on 16 November 2004, for completion by 22 December 2004. I therefore ask Scottish Water to complete the attached tables (a resubmission for 2003-04) by 17 January 2005. The tables are as follows:

- M1 and M2: Analysis of operating costs (developed from draft versions issued last May)
- M1A and M2A: Analysis of turnover
- M1B and M2B: Analysis of fixed assets
- N: Transfer pricing tables

I appreciate that the timescale is short, but it will allow us to respond by 20 January, and to hold a workshop on 27 January, as in the original timeline. Please would you let me know if this causes any difficulties.

Following the workshop, by the end of March 2005 we will issue guidance for the completion of tables for 2004-05. These will be due for submission on 17 June 2005.

We intend to seek the involvement of Scottish Water's auditors for the 2004-05 regulatory accounts, and will take this forward with you in due course.

If your staff have any immediate questions or queries relating to the attached documents, please contact XXXX XXXX or XXXX XXXX.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

cc XXXX XXXX, *Scottish Executive*

20 December 2004

To Chief Executive of Scottish Water

WIC 56: Ofwat Cost Base for benchmarking Scottish Water's investment plan

Ofwat has recently agreed to provide me access to its capital Cost Base. This will allow me to benchmark Scottish Water's planned investment programme for 2006-10 in a robust way. My staff will be working closely with Ofwat to ensure that the benchmarking analysis exactly follows Ofwat's procedures. I have also agreed with Ofwat to get expert independent technical review of the information in Scottish Water's Cost Base to ensure full comparability with England and Wales and to provide an independent audit trail of the analysis. I anticipate that this work will start in late January 2005. This will be in addition to the Reporter's audit.

The Cost Base is important to my analysis of capital investment efficiency. It is essential that Scottish Water's investment programme and its Cost Base are fully consistent with one another. I will be asking the Reporter to examine both these submissions and to bring to Scottish Water's attention any inconsistencies that may arise, before submissions are finalised. It would be prudent therefore to allow Scottish Water two rounds of Cost Base submissions, so that both of us can be sure that the Strategic Review of Charges draws on robust information. I therefore propose:

- A draft Cost Base, to be submitted by 4th February
- The Reporter's opinion on this submission, by 11th February
- An independent review of its comparability with England and Wales, by 25th February
- A final Cost Base, taking into account the Reporter's recommendations and those of the independent reviewer, to be submitted by 8th April 2005
- The Reporter's opinion and independent review of the final submission, by 20th April 2005 and 29th April, respectively

On a technical point, I note that Scottish Water has used 2002-03 as the base year for estimating the costs of the investment programme (specifically 2002 Q3). I therefore plan to use the 2002-03 Cost Base for benchmarking. This has distinct advantages, as it corresponds to the companies' Cost Base submissions to Ofwat. It also means that I will not require Scottish Water to re-cost its programme using a 2003-04 Cost Base. I believe that retaining the 2002-03 basis for Scottish Water's investment plan cost estimates will simplify the business planning process and avoid potential confusion. I trust that you would concur.

On this occasion, I have decided to use Ofwat's own guidance and definitions. This is to ensure full consistency with England and Wales. It is important that Scottish Water follows this guidance, and that there is full Reporter scrutiny. Nevertheless, Scottish Water will be able to draw on and refine its previous Cost Base submissions for 2002-03 and 2003-04.

The attached documents (electronic form) contain Ofwat's current Cost Base specifications. I will require a full commentary to accompany the submission.

In view of the above, I will not require a Cost Base submission with the 2005 Annual Return.

If your staff wish to discuss any aspect of this request, please contact XXXX XXXX.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

*cc XXXX XXXX, Water Service Unit
XXXX XXXX, Black & Veatch*

3rd February 2005

To Chief Executive of Scottish Water

WIC 57: Corporation Tax

I request information about Scottish Water's current tax liabilities and its understanding of potential tax liabilities that may affect customers' bills in the future. This information will be used by my Office to analyse Scottish Water's revenue requirement in the Strategic Review of Charges 2006-10. The need for this information has arisen because Scottish Water has indicated that it now believes it will be liable to pay corporation tax in the 2006-10 period.

The three former water authorities had previously advised me that they did not expect to pay corporation tax until beyond 2010. I had therefore prepared my methodology for the Strategic Review on the assumption that Scottish Water would not incur corporate tax liabilities in the 2006-10 period. However, in its first draft business plan, Scottish Water has indicated that it now expects to develop corporate tax liabilities over the 2006-10 period. It is clearly in the customer interest that I fund this tax liability, but only to the extent that it is incurred through efficient operation.

My Office is currently updating our published financial model to ensure that we are able to make such an assessment. I am also being assisted with specialist advice from Ernst & Young LLP. From this process it is clear that further information will be required, particularly where specific assumptions and policies by Scottish Water can affect calculated corporation tax. Some of this information is general in nature and relates to policy, whilst in other areas I seek more specific information, I have grouped these requests into the following categories:

- Entirety Agreement;
- Allocation of capital expenditure to capital allowance pools;
- Treatment of infrastructure renewals;
- Treatment of Research and Development;
- Core and non-core functions;
- Deferred tax;
- Effects of history on projected tax charge;
- Effects of Scottish Water Solutions on tax charge; and
- Differences between the circumstance of Scottish Water for tax purposes and those of water and sewerage companies in England and Wales.

I include tables in the appendix that should also be submitted.

Entirety Agreement

I understand that many water companies have Entirety Agreements with the Inland Revenue, whereby certain types of assets are treated as an entirety for tax purposes. Please confirm whether or not Scottish Water has an Entirety Agreement. If Scottish Water has an Entirety Agreement, please provide a summary of the expected tax effects of the Agreement for the 2006-10 period and provide either:

- A copy of the Entirety Agreement, including any amendments; or
- Full details of the agreement, including the following:
 - The terms of the agreement and how this influences future accounting periods;
 - The assets included in the entirety agreement;
 - If dealt with within the Agreement, the rules for apportioning expenditure between revenue and capital expenditure;

How capital expenditure is allocated between capital allowance pools; and
Treatment of maintenance expenditure.

Please also explain whether Scottish Water will be seeking to renew or amend this agreement within the 2006-10 period and any reasons for this.

Allocation of capital expenditure to capital allowance pools

I understand an Entirety Agreement may not cover certain types of capital expenditure or the apportionment of capital expenditure for the purposes of the Capital Allowances Act 2001. Where this is the case, please provide the details of any separate agreement or understanding, written or otherwise, that may exist with the Inland Revenue and explain the methodology that Scottish Water applies for apportioning this expenditure between capital allowance pools. Please also confirm that this is in accordance with Inland Revenue policy in this area.

Please also advise whether, in your view, the profile of expected capital expenditure over the period 2006-10 is such that there will be significant variations in the percentage of capital expenditure allocated to the different capital allowances pools in each year, or whether the percentage allocated to each pool should be roughly the same in each year.

Tax treatment of infrastructure renewals

From 1st April 2005, the water industry will be required to comply with Tax Bulletin 53. Please explain how this change will affect how Scottish Water treats its tax calculation and the effects on the projected levels of tax paid.

In particular, how will Scottish Water treat the infrastructure renewals expenditure that could have been classified as revenue expenditure before 1st April 2005? For example, what assumptions will be made for the life of the renewals expenditure and the period of time over which tax relief will be available? Please confirm whether these assumptions have been agreed with the Inland Revenue. Please also confirm whether this is purely a timing issue, and if not, provide details of the expected levels of disallowable expenditure.

Treatment of Research and Development

Please explain how Scottish Water classifies and treats Research and Development expenditure. Please also explain the use that Scottish Water has made of the 150% allowance for Research and Development in the 2002-06 period and expected use of it in the 2006-10 period.

Core and non-core functions

Please explain, in 2002-06, the assumptions Scottish Water has used (or intends to use) to allocate its capital allowances and tax losses between its core and non-core activities.

Deferred taxation

Please provide a schedule explaining how Scottish Water has calculated its deferred tax liability, including an explanation of how the depreciation charge in any one year can be allocated as between qualifying and non-qualifying assets. We assume from the statutory accounts that deferred taxation is not discounted. Please confirm that this is the case. Please also provide an indication of the period of time over which the deferred tax liability is projected to reverse, and the extent to which tax losses are ring fenced in any way.

Effects of history on projected tax charge

Please explain the tax position that Scottish Water inherited from the former water authorities in 2002, having regard to:

- The existence of agreements with the Inland Revenue and the contents of these agreements (including Entirety Agreements);
- Any variations in policy by each of the three Water Authorities in terms of treatment of investment for tax purposes;
- The trading losses brought forward by each of the three authorities and the extent to which these trading losses were agreed with the Inland Revenue;
- The capital allowances inherited from the authorities. This should be divided into each of the capital allowance pools;
- The deferred tax position inherited from the water authorities and any adjustments made to this deferred tax position;
- The extent to which Scottish Water has utilised or intends to utilise trading losses and capital allowances in the 2002-06 period. This should be divided into each of the capital allowance pools;
- The extent to which Scottish Water has accumulated (or projects accumulation of) trading losses and capital allowances (divided into capital allowance pools) over the 2002-06 period. Please also consider the effect that a slower delivery of Quality and Standards II outputs will have on the tax losses and capital allowances accumulated;
- The status of tax returns and areas of uncertainty that may exist in areas still under negotiation with the Inland Revenue.

Effects of Scottish Water Solutions on tax charge

How does the existence of Scottish Water Solutions affect the tax payable by Scottish Water? For example:

- Will Scottish Water Solutions conduct research and development on behalf of Scottish Water, and if so what will the impact on Scottish Water's tax position be? and
- Where Scottish Water Solutions invests on behalf of Scottish Water could this reduce the capital allowances that Scottish Water could claim?

Please quantify any known tax effects in relation to Scottish Water Solutions.

Differences between the circumstance of Scottish Water for tax purposes and those of water and sewerage companies in England and Wales.

As there is no precedent of tax being paid by any water authority in Scotland, I believe that it is reasonable to compare the projected tax liabilities for Scottish Water to those for companies in England and Wales. I understand that each of the companies will have a different tax charge based on its own unique circumstances. However, it may be expected that Scottish Water should be "within the pack" for some comparisons. My office intends to make comparisons between, for example, tax with turnover and long-life capital pools with investment.

Please explain whether Scottish Water agrees with this principle and whether Scottish Water believes there are any unique circumstances that my office should take into account in comparative analysis of this nature. In addition, please provide details of any review work or benchmarking carried out by Scottish Water to ensure that the projected tax charge is efficient.

I ask that Scottish Water submits a response to this request by 18th March 2005. This is to allow my office time to analyse the information before the second draft business plan is submitted. In addition, Scottish Water may wish to use the content of this letter as a guide for the expected level of detail surrounding the tax calculation in the second draft business plan.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

Appendix: Tables of information for submission

Table 1: Opening position 2002-06

(£ million – outturn prices)	2002-03 (actual)	2003-04 (actual)	2004-05 (projected)	2005-06 (projected)
Opening pool of capital allowances – asset life < 25 years				
Opening pool of capital allowances – asset life >= 25 years				
Residual IBA's				
General provisions – opening balance				
Losses brought forward				

Table 2: Investment and capital allowances developed 2002-06

(£ million – outturn prices)	2002-03 (actual)	2003-04 (actual)	2004-05 (projected)	2005-06 (projected)
Total capital investment (excluding grants and contributions not taxable on receipt) (A)				
Infrastructure assets qualifying for 100% first year allowances (B)				
Non-infrastructure assets qualifying for 100% first year allowances (C)				
Infrastructure assets included in the general (25%) pool (D)				
Non-infrastructure assets included in the general (25%) pool (E)				
Infrastructure Assets qualifying for long life (6%) pool (F)				
Non-infrastructure Assets qualifying for long life (6%) pool (G)				
Infrastructure assets qualifying for Industrial Buildings Allowance (H)				
Non-infrastructure assets qualifying for Industrial buildings allowance (I)				
Infrastructure assets purchased under finance leasing (J)				
Non-infrastructure assets purchased under finance leasing (K)				
Capitalised revenue expenditure (Infrastructure assets) deducted in year of spend (L)				
Capitalised revenue expenditure (non-infrastructure assets) deducted in year of spend (M)				
Capitalised revenue expenditure depreciated - non – infrastructure (N)				
Capitalised revenue expenditure depreciated – infrastructure (O)				
Capitalised revenue expenditure not depreciated (P)				
Other assets not qualifying for capital allowances or revenue deductions (Q)				
Grants and contributions taxable on receipt (R)				

Note: (A) should equal the sum of (B) to (R)

Table 3: Effects of Tax Bulletin 53

Use this table to show the effects that Tax Bulletin 53 is projected to have on Scottish Water's tax liability. Scenario A should show the Scottish Water 2002-06 actual, scenario B should be a recalculation of the tax liability as if TB53 had applied to Scottish Water from 1st April 2002.

(£ million – outturn prices)	2002-03 (actual)	2003-04 (actual)	2004-05 (projected)	2005-06 (projected)
<i>Scenario A: 2002-06 Actual</i>				
Capitalised revenue expenditure claimed				
Depreciation of capitalised revenue expenditure				
Trading losses brought forward				
Total corporate tax paid				
<i>Scenario B: 2002-06 effect of introduction of TB 53</i>				
Capitalised revenue expenditure claimed				
Depreciation of capitalised revenue expenditure				
Trading losses brought forward				
Total corporate tax paid				

Table 4: Extent of entirety agreement

(£ million – outturn prices)	2002-03 (actual)	2003-04 (actual)	2004-05 (projected)	2005-06 (projected)
Capital investment (infrastructure) covered by entirety agreement				
Capital investment (non-infrastructure) covered by entirety agreement				
Capital investment (infrastructure) not covered by entirety agreement				
Capital investment (non-infrastructure) not covered by entirety agreement				

Table 5: Research and Development Revenue expenditure

(£ million – outturn prices)	2002-03 (actual)	2003-04 (actual)	2004-05 (projected)	2005-06 (projected)
Research and Development allowance claimed				

3rd February 2005

To Chief Executive of Scottish Water

WIC 58: Public Private Partnership contracts

Scottish Water's 1st draft investment plan refers to its proposed investment at current PPP sites, as part of the delivery of Quality and Standards III outputs. In order to allow due scrutiny of the need for this investment and the scale of costs proposed, I require copies of the contracts. I will want to ensure that the proposed investment reflects the contractual obligations of Scottish Water and is not covered under the obligations of the consortium partner to each contract. Please could you supply full copies of all the current PPP contracts by 18th February.

In the event that I am not able to confirm that the obligation to carry out each proposed investment project at PPP sites lies with Scottish Water, I will not include funding for it in the Strategic Review of Charges. However I will in each such case assume and expect that Scottish Water will comply with all relevant legislation affecting the operation of the PPP site concerned.

Yours sincerely

ALAN D A SUTHERLAND
Commissioner

Date: 3rd March 2005

To Chief Executive of Scottish Water

WIC 59 Strategic Review of Charges 2006-10: Regulatory Capital Value and allowed Rate of Return

This letter is to advise you of the Regulatory Capital Value (RCV) and rate of return that I am minded to use in the Draft Determination. In coming to these conclusions I have taken full account of the guidance issued by the Scottish Ministers on 9 February 2005.

RCV

I intend to set Scottish Water's initial RCV at between £3.3 billion and £3.8 billion. My analysis to date would suggest a figure toward the higher end of this range. This is the RCV that would apply on 31st March 2006 in outturn prices if Quality and Standards II were delivered in full and in line with the efficiency targets set in the Strategic Review of Charges 2006-10. I will then subtract the assessed Quality and Standards II overhang from this initial value.

I have used a comparator approach with the water and sewerage companies in England and Wales to arrive at these figures. This is consistent with the proposals set out in Volume 3 of the Methodology Consultation.

The use of the RCV method of price setting does not require me to assume a particular level of borrowing. I am minded to use the financial ratios used by Ofwat in its 2004 price determinations to assess the financial strength of Scottish Water. I will also continue to monitor the debt payback ratios that underpinned the Strategic Review of Charges 2002-06.

Rate of Return

I intend to set a rate of return on Scottish Water's RCV of 0.72% real post-tax. This allowed rate of return on the RCV should be sufficient to ensure that Scottish Water can meet the objectives set by Ministers and is able gradually to improve its financial strength. The allowed rate of return for Scottish Water's retail subsidiary company will reflect our assessment of the market cost of capital. In order to ensure that Scottish Water is not disadvantaged by divergence between CPI and RPI, I have decided to set Scottish Water's wholesale and retail price caps relative to RPI. The cost of capital is presented here in real (RPI adjusted) terms.

I have adopted the hybrid approach set out in Volume 3 of the Methodology Consultation. I have combined the observed current real cost of debt with an estimate of an appropriate rate of return on customer retained earnings. I have assumed a pre-tax allowed rate of return on customer retained earnings equal to the post-tax allowed rate of return for debt.

Under this approach there should be no incentive for Scottish Water to seek to change its ratio of debt to RCV. If the return on the customer retained earnings is greater than the return on debt, Scottish Water would have an incentive to repay debt. In contrast, if the return on the customer retained earnings is lower than the return on debt, Scottish Water would have an incentive to take on more debt.

I also intend to allow in full the net costs of embedded debt (the actual cost of servicing debt on Scottish Water's balance sheet at 31 March 2004 less the cost of servicing this debt if it had all carried a coupon of 4.6% nominal pre-tax). My calculation of the allowed cash rate of return on the RCV will therefore include:

Embedded debt:	The net cost of debt at 31 March 2004 over and above a 4.6% nominal pre-tax coupon (for each year of the regulatory control period, but reflecting any maturities of higher coupon debt and, if relevant, any transfers of debt to Scottish Water's retail subsidiary)
New debt:	2.1% real pre-tax (0.72% real post tax) multiplied by the leveraged portion of the RCV for each year
Customer retained earnings:	0.72% nominal post tax multiplied by the RCV for the un-leveraged portion of the RCV for each year

I would request that Scottish Water uses the allowed rate of return that I have set in this letter in its second draft business plan. Scottish Water may choose any value for its initial RCV from the range that I have indicated. This request does not preclude Scottish Water from making further representations on its initial RCV and the allowed rate of return in its second draft business plan. I have, however, taken account of the comments of all stakeholders in response to my methodology consultation in reaching these conclusions.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

cc XXXX XXXX
XXXX XXXX

Date: 22 April 2005

To Chief Executive of Scottish Water

WIC 60: Dates for submission of information to WIC 2005-06

The purpose of this letter is to outline the process to be followed for the submission of the 2004-05 WIC Annual Return, and to highlight the deadlines for WIC letter information requests for the year ahead.

Annual Return

The procedure for the submission of the WIC Annual Return will be similar to that of last year. The format will be distributed by 22 April 2005, with completed Return, Commentary and Overview documents due on 17 June 2005. The template will include the following elements:

- 2 Sets of tables in Excel spreadsheet format, for data capture (1 set protected, 1 set unprotected); and
- Detailed, up-dated guidance and definitions to assist completion of the tables, also including. Edition Sheet, identifying changes carried out between 2003-04 and 2004-05 Returns (detailed Change Controls will be available on request).

Upon submission of the completed Return, I plan to carry out a similar query process to that of previous years. The timescales for the investigation of WICS queries are as follows:

Item	Date Issued to SW	Date Due back from SW
Annual Return Queries	01/07/04	15/07/04
2nd round of Queries (if necessary)	29/07/04	12/08/04

WIC Letter & Team Information Requests

REVENUE & TARIFFS:

- WIC 1/9/14/22 Revenue from Non-Domestic Customers/Non-Domestic Debt/Special Agreements for Large Customers - due on 13 May and 11 November 2005.
- WIC 4 Domestic Revenue - due on 13 May and 11 November 2005.
- Scheme of Charges Submission – due on 9 September 2005

WIC 22 and WIC 4 should be submitted in Excel spreadsheet format. The Revenue and Tariffs team will provide details of our specific requirements for the Scheme of Charges submission (including Excel Spreadsheets for completion) during the summer of 2005.

COMPETITION & CUSTOMER SERVICES:

- WIC 5 Customer Service Performance Excel based Reports due:

Qtr	Due Date
Q4	13/05/05
Q1	12/08/05
Q2	11/11/05
Q3	10/02/06
Q4	12/05/06

- WIC 6 Written Quality Performance Assessments (QPA) - Written complaints and telephone complaints where a written response is requested.

We will recommence collecting WIC 6 data this year. We will come back separately to about collecting WIC 6 data for 2004-05:

	SW provide Excel list of complaints	SW advised of selection	SW provide complaints files	QPA
Q4 2003/04	23/05/05	30/05/05	6/06/05	27/06/05
Q1 2004/05	25/07/05	1/08/05	8/08/05	29/08/05
Q2 2004/05	24/10/05	31/10/05	7/11/05	28/11/05
Q3 2004/05	23/01/06	30/01/06	6/02/06	27/02/06
Q4 2004/05	24/04/06	1/05/06	8/05/06	21/05/06

- WIC 6 Specialised QPA and Telephone QPA – These audits will remain under review and we will write to Scottish Water in the future to discuss how to take them forward.

INVESTMENT & ASSET MANAGEMENT:

- Q & S II Baseline Investment programme (WIC 18). The Final version (Version 3.4) of the WIC 18 list is expected by the end of May 2005.
- Base-Line Investment programme 2006-10 (Q & S IIIa). Following the finalisation of the Strategic Review of Charges 2006-10, Scottish Water should submit the finalised base-line investment programme for the period. This may take the form of a "Table K" submission although the format has not yet been determined.
- Updated Leakage Strategy (WIC 24) – Word document, requested for 31 December 2005.
- Capital Investment Appraisal Audits (WIC 19) . We anticipate this work being carried out in November/ December 2005. The Investment Team will contact Scottish Water in the near future to finalise a programme.
- Capital Investment Return , Excel and Word based documents - due one month after each quarter end.

COSTS AND PERFORMANCE:

- WIC 25 Monthly Submission of Resource Accounting and Budgeting (RAB Excel Tables & Word document) – for the report year 2005-06, due on a monthly basis on the following dates:
 - 27 May 2005
 - 28 June 2005
 - 28 July 2005
 - 26 July 2005
 - 26 August 2005
 - 28 September 2005
 - 28 October 2005
 - 28 November 2005
 - 30 December 2005
 - 27 January 2006

- 27 February 2006
- 27 March 2006
- 28 April 2006
- WIC 55 Regulatory Accounts and Transfer Pricing tables 2004-05 – These are due on 17 June 2005 (As per WIC 55 Letter of 13 December 2004).

All of the above requests are essential to effective and transparent regulation and I wait for confirmation from you that these requests will be met in full on the suggested timescales.

I hope you find the above information both informative and useful, and I am looking forward to receiving your submissions in due course.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

cc xxxx xxxx, Scottish Executive

Date: 22 April 2005

To Chief Executive of Scottish Water

WIC 61: Annual Return 2004-05 Submission

This letter is my formal request for Annual Return information. In WIC 60 I set out a timetable for information requirements and as indicated in that letter, I am issuing today the Guidance notes and Table templates for the 2004-05 WIC Annual Return. The procedure for the submission of the Annual Return will be as outlined in WIC 60. I particularly draw your attention to the query process timetable that was outlined in WIC 60 as I hope that this will ensure a smooth query process takes place this year, building upon the progress that has been made in the last two years.

There are several parts of the Annual Return that shall not be issued or require completion this year. These are:

- Section H, Asset Inventory and System Performance, Tables H11-H16: I have considered the findings of the Reporter from the audit of the 2003-04 Annual Return in relation to the frequency of reporting and have subsequently decided that Tables H11-H16 do not require to be completed this year. I will require only Tables H1-H6;
- Section J, Cost Base: As you know, WIC 56 was issued in order to ensure that Scottish Water's Cost Base and Investment Programme were consistent with one another. Due to my intention to use the 2002-03 Cost Base for benchmarking purposes in the Strategic Review of Charges 2006-10 and that I do not require Scottish Water to re-cost its investment programme using a 2003-04 Cost Base, Section J has not been issued this year;
- Section K, Investment Plan: This section will not be issued or required for submission at this point in time as the Baseline investment programme has not been finalised for the period 2006-10. I will be in contact with you in due course to advise of any separate reporting that may be required as a consequence; and
- Section S, Strategic Business Plan: This section shall not be issued this year as the Business Plan submissions as part of the Strategic Review of Charges 2006-10 process will provide this information.

A small number of material changes have been made to the layout and content of the Annual Return Tables and these have already been communicated to and discussed with Scottish Water. In particular, there are new tables and sections. These are:

- Table E3a: PPP Cost Analysis;
- Table F11: Financial Model – Taxation Analysis;
- Table H1a: MEAV Summary; and
- Section P: Tariff Basket Information (11 tables);

Where modifications have been made to either Tables or Definitions, the edition number relevant to that document has been updated and the relevant Edition summary sheets updated from their introduction last year in the definitions.

As last year, I am happy to supply two copies of the Excel spreadsheet Annual Return tables, one password protected and one not, provided that only the password-protected tables are submitted back to WICS. Any tables submitted not in the prescribed protected format will be returned to Scottish Water and resubmissions requested.

I feel that the introduction last year of the Reporter from Black and Veatch has helped to ensure that Scottish Water is employing sound methods in recording, storing, retrieving and reporting the appropriate information to WICS in a form that meets our requirements. Scottish Water is therefore asked to pay close attention to the Reporter's comments from his report on the Annual Return 2003-04, and that all is done to address any concerns raised. Scottish Water should also act upon any recommendations that the Reporter has made, either through the report itself or other forms of correspondence made since then.

Again, as with last year, I would like to remind you that the information you provide materially affects our ability to benchmark accurately. It is therefore in your interests to submit as qualitative, complete and accurate a Return as possible. All Commentary documents especially should be as complete, accurate, relevant and authoritative as possible and particular attention should be made to ensure that there are no inconsistencies either between Commentary and Tables or internally with the Commentary document itself. Scottish Water is reminded that it should adhere to the definitions and advise of any issues in the accompanying Commentary documents, rather than reporting the information differently. I still require year on year changes in data to be explained and, where appropriate, justified. I also need to know what material assumptions and adjustments have been made to derive reported numbers. I will also take this opportunity to remind you that I aspire the Confidence Grades allocated to the data reported to be as high as possible.

In the interests of quality and comparability, it is essential that any changes made to data are declared as and when they are uncovered and not reserved for comment in the following submission of the Annual Return Commentary. Any alterations during the year to data in the Return should be sent to Monitoring with the appropriate signatures and reasons given for the change.

I would like to take this opportunity to draw your attention to the fact that all information contained within the submitted Return will be published *unless* it can be demonstrated that the exclusion of certain information is necessary. I must emphasise that this should not affect the quality and quantity of the Tables, Commentary and Overview provided to WICS. I would therefore expect to see at least the same level of information in these documents as in previous years. This year, I would like any text that Scottish Water feels should not be made public under the Freedom of Information (Scotland) Act 2002 to be clearly highlighted and we can then discuss whether it is appropriate or not to publish this information.

Finally, Scottish Water is reminded that it remains a basic requirement that both electronic and paper copies of the tables be fully signed off in line with the guidelines to confirm that the information provided is accurate and complete, thus allowing my staff to raise any queries with the relevant individuals. The Annual Return tables must be signed off by the relevant Director - any unsigned tables will be returned. I require 2 paper copies and an electronic version of each submission of the Return tables to be delivered to the Monitoring team at WICS. I can confirm that the submission date following sign off by the Regulatory Management Group at Scottish Water is 17 June 2005, and that the query process dates are as follows:

Item	Date Issued to SW	Date Due back from SW
Annual Return Queries	01/07/04	15/07/04
2nd round of Queries (if necessary)	29/07/04	12/08/04

If your staff have any further questions or queries relating to the Annual Return, they should not hesitate to contact xxxx xxxx or xxxx xxxx.

Yours sincerely,

ALAN D A SUTHERLAND
Commissioner

Date: 22 April 2005

To Chief Executive of Scottish Water

WIC 62: Request for increased information on Scottish Water's 2nd draft business plan investment programme.

I refer to your business plan submission of 20 April 2005.

As set out in our investment plan guidance document of December 2005, we require a project level definition of the investment programme. The programme should contain discrete projects with clearly stated drivers, investment categories and outputs.

Table C of your submission does not comply with these requirements. There are a number of programme lines where an insufficient level of project breakdown has been provided. As examples, the following lines do not provide sufficient information for our analysis of the programme or for stakeholders to monitor programme delivery:

31756	Water Resources - WFD controls on abstraction and impoundment - Rolling Programme	Water	Quality
30385	Internal Flooding – SWW	WasteWater	Enhanced
30924	STW - SVCW SCOTLAND WIDE	WasteWater	Base
30555	Odour management – SWW	WasteWater	Enhanced
30395	IPPC Schemes	WasteWater	Quality
30897	SPS - SVCW SCOTLAND WIDE	WasteWater	Base
30753	Scottish Water Bylaws	Water	Quality

As you will be aware, the lack of definition of the investment programme in Quality and Standards II has created significant issues for all stakeholders. We have therefore made it clear in our Methodology documents and the business plan guidance that we will require, to the full extent possible, project level definition of the investment programme.

We also note that the current definition of the £2.3billion Quality and Standards II programme comprises over 3,500 project lines. By contrast, the Table C definition of your £3.2billion Quality and Standards IIIa investment programme contains only 1800 project lines. This suggests that the level of project definition in your submission is significantly lower than has been achieved with Quality and Standards II.

Can you please resubmit Table C with, to the full extent possible, a project level definition of your investment proposals. Given the challenging timescales for the review process, I will require this resubmission by Wednesday the 27th of April 2005 at the latest.

Yours sincerely

Alan D A Sutherland
Water Industry Commissioner for Scotland

*copied to: x xxxx, Scottish Executive
x xxxx, Scottish Executive
x xxxx, SEPA
x xxxx, SEPA
x xxxx, DWQR*

