

**Minute of the twenty-sixth meeting of the Water Industry Commission  
for Scotland  
Held on 1 and 2 May 2007 in Stirling**

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Present:

Sir Ian Byatt (Chairman)  
Professor David Simpson (Deputy Chairman)  
Dr Michael Brooker  
Mr Charles Coulthard  
Professor John Banyard  
Mr Alan Sutherland (Chief Executive)

In attendance:

Mrs Katherine Russell (Director of Corporate Affairs and  
Secretary to the Commission)  
Miss Harriet Towler (Corporate Affairs Manager)  
Mr Ian Tait (Director of Investment and Asset  
Management) for item 5  
Dr John Simpson (Director of Analysis) for item 9  
Mr Cesar Raffo (Analyst) for item 7  
Mr Richard Khaldi (Analyst) for item 8  
Mr Cameron McKean (Analyst) for item 7  
Mr Geoffrey Smith (ING Bank) for item 7  
Mr John Lisle (LECG) for item 7  
Mr Gordon Downie (Shepherd and Wedderburn) for  
item 7

**Chairman's opening remarks**

The Chairman welcomed everyone to the meeting and thanked them for attending.

**1. Apologies for absence**

None.

**2. Minute of previous meeting and review of action points**

The Commission agreed that the minute, subject to minor amendment, was an accurate account of proceedings.

The Commission were updated on action points from the previous meeting and noted it was a satisfactory position.

### **3. Update on current issues**

Professor Simpson updated the Commission on work being undertaken by a working group partly sponsored by the Commission.

Dr Brooker updated the Commission on recent developments by Ofwat.

Mr Coulthard, Chairman of the office's Audit Committee reported that he had been invited to join a working group by the Chairman of Ofgem's Audit Committee.

The Secretary to the Commission reported on a number of initiatives being undertaken to communicate the introduction of competition to interested parties.

The Chief Executive reported that interviews with staff by an independent consultancy as part of a pay and grading review of the office had now been completed and the results were being compiled.

The Chief Executive also reported that the office would shortly receive Scottish Water's Overall Performance Assessment score for 2006-07. This score would be subjected to audit by the Reporter before being used by Scottish Water as part of its performance appraisal system.

The Chairman updated the Commission on recent events at the Seafield treatment works. He also updated the Commission on the excerpts from the manifesto pledges of the five main political parties in Scotland which were relevant to water (CP54-07).

The Chairman reported that he would shortly attend a conference hosted by the Centre for Regulated Industries on 23 May. He had also recently held a useful meeting with the Chairman of Scottish Water.

### **4. Corporate Affairs**

The Commission noted CP55-07, a summary of the responses received to its consultation on the approach to the 2010-14 price review. The Commission noted the importance of ensuring that Waterwatch Scotland, as the customer representative, was fully engaged in the process. The Commission agreed that members of the Water Customer Consultation Panels should be invited to a briefing on the price review later in the year. **Action**

The Commission noted and welcomed CP56-07, a summary of discussions on its first stakeholder information workshop for the 2010-14 price review.

The Commission noted CP57-07, and update on progress with the office workplan.

The Commission noted CP58-07, an update on its framework contracts. The Commission noted the importance of taking a hands-on approach to managing consultants and clarifying the outputs they would be expected to deliver.

The Chief Executive updated the Commission on working with Waterwatch. The Commission noted a number of options were being considered to take forward the Commission's working relationship with Waterwatch. The Commission agreed these options should be pursued by the Chief Executive.

The Chief Executive updated the Commission on progress with recruiting a new Director of Competition. The Commission expressed its disappointment that a suitable candidate had yet to be found and noted the salary constraints that existed. The Commission agreed that a temporary solution should be explored.

## **5. Strategy**

The Commission discussed CP59-07, the draft document for Volume 3 of its methodology consultation for the 2010-14 price review. This document sets out its proposed approach to operating costs. The Commission approved the document but requested that more options for the levels of service performance and operating cost performance that Scottish Water should be expected to achieve, and by what date, be considered.

The Commission noted CP60-07, CP61-07 and CP62-07 in the light of the discussion which had taken place for CP59-07 and the agreement reached.

The Commission discussed CP63-07, a proposed methodology approach for assessing the lowest overall reasonable cost of meeting Ministers' objectives for enhanced levels of service. The Commission also discussed CP64-07, a proposed methodology approach to determining the scope for capital expenditure efficiency. The Commission supported the proposed approaches and agreed that they should be consulted on. However, the Commission agreed that more could be done to encourage Scottish Water to take a strategic approach to its business plans. The Commission also agreed that the possibility of working with Ofwat on the development and analysis of the cost base should be explored. **Action**

## **6. Investment**

The Commission noted CP65-07 an update on Scottish Water's progress with its water resource and drainage area studies. Scottish Water had been financed in the 2006-10 price review to carry out high level water resource plans for 78 water resource zones and complete drainage area studies for four major catchments. The Commission noted that there was evidence that critical milestones in the projects, including sign-off by the quality regulators would not be met on time. The Commission anticipated the Output Monitoring Group (OMG) would monitor this situation carefully.

## **7. Governance and incentives**

The Commission welcomed representatives from three of the office's framework contractors to present the preliminary findings of recent research they had carried out on potential governance and incentives structures for Scottish Water, and the impact on the role of the regulator. The Commission noted this research.

## **8. Competition**

The Commission noted CP66-07, an update on activity from potential entrants to the water and sewerage retail market in Scotland.

The Chief Executive reported on the responses that had been received to the Commission's seventh licensing consultation. The Commission noted this update and requested that specific issues raised by some respondents be discussed with them in person. **Action**

The Commission discussed CP67-07, an approach to assessing departures from Scottish Water's wholesale charges scheme (as per Section 29e of the Water Services etc (Scotland) Act 2005). The Commission discussed what mechanisms existed to appeal against determinations in this regard. The Commission noted that in the absence of the Commission holding concurrent powers, appeals would have to be referred to the Office of Fair Trading [or the Competition Commission]. The Commission agreed that the proposed process should be issued following minor amendment. **Action**

## **9. Costs, performance and levels of service**

The Commission received an update on progress with devising a wholesale charges scheme for the new retail market (CP68-07). The Commission noted that a draft scheme proposed by Scottish Water had been consulted on. Respondents to this consultation had highlighted a number of potential issues with the scheme. Furthermore, the Commission noted that Scottish Water had yet to demonstrate that the scheme complied with the charge caps set out in the Commission's final determination. The Commission noted that work was being undertaken to resolve these issues and that a revised scheme would be presented for approval at the Commission's next meeting.

The Commission noted CP69-07 which noted the long term likely incidence effects which may arise from Scottish Water's proposed charges scheme. The Commission requested that once a revised scheme was completed, the incidence effects on standardised customers be assessed. **Action**