

Workshop

Stakeholder workshop 6: Scottish Water's customer base and levels of service

Strategic Review of Charges 2010-14: Methodology
Glasgow, 16 August 2007



Key dates for the price review

Methodology consultation published	10 May –26 July 2007
Methodology consultation period closes	19 October 2007

SW submits first draft business plan 30 May 2008

Ministers issue guidance 30 September 2008

SW submits second draft business plan 13 March 2009

Draft determination of price limits published	30 June 2009
Draft determination consultation closes	23 September 2009

Ministers issue directions 23 September 2009

Final determination of price limits published	30 November 2009
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Methodology consultation

- The methodology consultation was published in 4 volumes during May, June and July.
- For each volume we are holding two workshops for stakeholders.

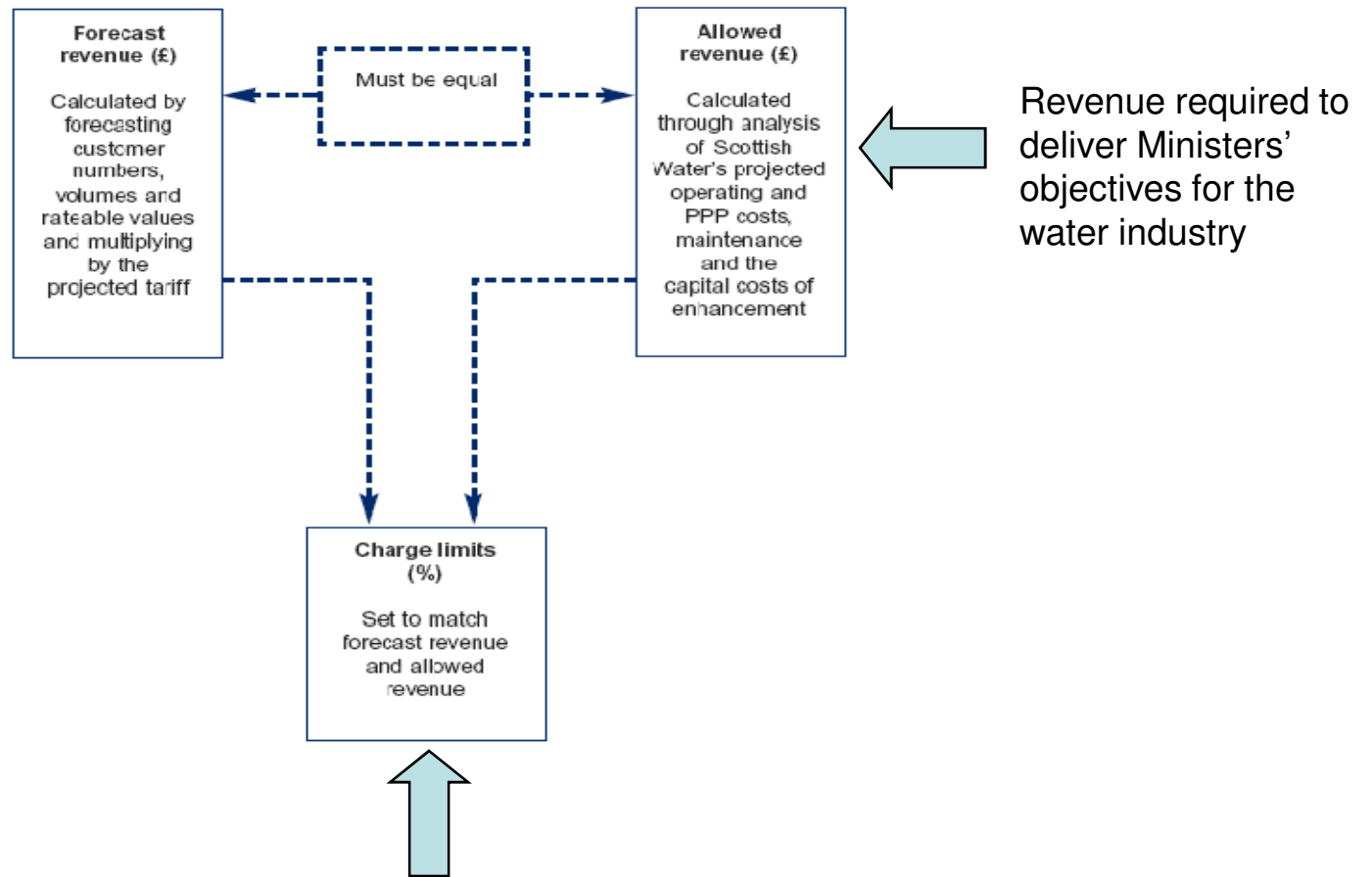
Volume	Publication date	Workshops
1. Financing Scottish Water	10 May 2007	12 April 2007 26 July 2007
2. Customer revenue and levels of service	31 May 2007	10 May 2007 Today
3. Operating costs	28 June 2007	31 May 2007 30 August 2007
4. Capital expenditure	26 July 2007	28 June 2007 20 September 2007

Volume 2 of the methodology consultation posed three high-level questions:

1. What are respondents' views on our approach to establishing the revenue and **customer baseline** for the SRC2010-14?
2. What are respondents' views on our proposals to encourage Scottish Water to continue to improve the **level of service** it provides to customers?
3. How do respondents view the changes we are making to reflect the new **competition** framework?

Revenue base: Scottish Water's customer base is an important element of setting charge limits

The assumed **customer base** impacts on the charge caps set. The higher a customer base that the Commission assumes, the lower that charge caps (and therefore customer bills) need to be.



Charge caps are set consistent with the lowest overall reasonable cost of delivering Ministers' objectives

Revenue base: Volume 2 explores the issue of establishing a revenue baseline in the following ways

- Are Local Authority databases the best way of calculating the number of household customers in Scotland? Can financial information from Local Authorities be used as a check on Scottish Water's reported household revenue?
- Is our proposal to calculate future changes in the revenue base by using both the level of expected 'background' growth and the release of development constraints appropriate? Is there a risk that we will either over or understate the actual base?
- The creation of a Central Market Agency (CMA) for the new retail market will maintain an accurate record of non-household customers. Do respondents agree with our proposal to use information from the CMA to establish a baseline for non-household customers?

Levels of Service: At the 2006-10 review we used Ofwat's Overall Performance Assessment (OPA) to measure the levels of service Scottish Water provides its customers.

- The OPA combines a number of measures of performance to calculate a single performance score.
- This performance score is a valuable tool for making comparisons with England and Wales.
- However, at the 2006-10 review we were unable to use some of the OPA measures as information was not collected on a consistent basis with England and Wales.

OPA component	Included or not	Basis and comparability of measure
Inadequate pressure	Included	Actual performance, equivalent measure
Supply interruptions	Included	Actual performance, equivalent measure
Hosepipe restrictions	Included	Assumed performance
Drinking water quality	Included	Actual performance, some difference in definition of measure
Sewer flooding (overloaded sewers)	Included	Actual performance, equivalent measure
Sewer flooding (other causes)	Included	Actual performance, equivalent measure
Sewer flooding (at risk)	Included	Actual performance, equivalent measure
Company contact (3 out of 4 measures)	Included	Actual performance, equivalent measure
Assessed customer service	Not Included	
Sewage sludge disposal	Included	Actual performance, equivalent measure
Sewage treatment works compliance	Included	Actual performance, equivalent measure
Category 1 & 2 pollution incidents (sewerage)	Not Included	
Category 3 pollution incidents (sewerage)	Not Included	
Category 1 & 2 pollution incidents (water)	Not Included	
Leakage	Included	Assumed performance

Levels of service: we also used the OPA to set milestones for Scottish Water to improve...

- In 2005 when we calculated Scottish Water's allowed for operating expenditure, we assumed it would offer the same levels of service as companies in England and Wales.
- However, in reality a gap existed between Scottish Water's levels of service and that of the English and Welsh companies.
- We therefore set Scottish Water targets to begin to close this gap.

	2004-05 actual	2005-06	2006-07	2007-08	2008-09	2009-10
Scottish Water	177	-	195	213	232	250
Companies	288-324					

Levels of service: Volume 2 explores levels of service in the following ways

- Should Scottish Water be required to make further improvements in its levels of service after 2010?
- Is the OPA the best way of measuring levels of service?
- Can our use of the OPA be enhanced? For instance, by using measures previously not included.

Levels of service: Volume 2 explores levels of service in the following ways

- Should we incentivise improvements in levels of service by setting OPA targets again? Or does this confuse how we will measure Scottish Water's performance against the regulatory contract?
- How reasonable is our proposal to ask Scottish Water to indicate the costs of improving its levels of service, and then taking this into account when we assess efficiency?
- How will the introduction of retail competition affect our use of the OPA?

Competition: In April 2008 the new retail market will open for non-household customers. We need to take account of this change in the price review.

- In the next review, we will take account of the introduction of competition by calculating:
 - A cap on the charge Scottish Water can make to its household customers for water and sewerage services.
 - A cap on the charges Scottish Water can make to retailers for providing wholesale water and sewerage services to the retailers' (non-household) customers.
 - A default tariff which retailers must offer to non-household customers (to be enforced through licence conditions).

Competition: Volume 2 focuses on competition in the following ways

- Do respondents have a view about the level at which we should set default tariffs?
- Should we take account of the efficiency included in the review in the default tariffs? Or would such an approach prolong the need for price regulation in the market?
- Do respondents have a view about the introduction of competition, and the approach we are taking?

Any other issues?