



Date: Wednesday 18 November 2020

To: draftrepresentation@watercommission.co.uk.

BRITISH WATER RESPONSE TO THE WATER INDUSTRY COMMISSION FOR SCOTLAND DRAFT DETERMINATION FOR THE REGULATORY CONTROL PERIOD 2021-27.

At a time of unprecedented change and pressures resulting from climate change, population growth, COVID-19 and other factors, British Water is very pleased to see the following in the Draft Determination for SRC21:

- A demonstrative collaborative approach in the development of a draft determination which outlines a long-term vision to 'keep Scotland's water wonderful'. It is clear that a collective vision has been thought through in order for all necessary parties to understand their role and responsibilities to deliver outcomes over the period.
- A holistic approach to significantly increase investment in an industry that contributes to the improvement of infrastructure, creates jobs and supports livelihoods across Scotland.
- A £4.5bn investment (an increase of £1,095m - around 30%) from the allowed investment in the 2015-21 regulatory control period.
- Whilst recognising the voice of customers through the Customer Forum, there has been clear recognition of the challenges ahead and the acceptance that significant investment is required to address an ageing asset base, the operational life of which has been prolonged, rather than renewed in recent years.
- The scope for Scottish Water to be flexible through a £133m ring-fenced allowance, for an option that has a higher net present value (NPV), to cover any additional costs is welcome. This should enable far greater innovation through the seeking out of best solutions for the long-term, rather than short-term lowest cost options.

British Water would also like to make the following points:

- The above is critical for the supply chain whose solutions can sometimes be overlooked when there is a predominant focus on short-term/low cost solutions. In order to achieve net-zero emissions by 2040 a close, open and collaborative approach will need to be developed in order to identify and test available technologies and products across the supply chain.

- We would encourage Scottish Water to continue to strengthen its engagement with the supply chain and continue to monitor the uptake of innovations as part of the journey to embed carbon, natural and social capital.
- It will also be important for Scottish Water to continue to clearly update supply chains on any project carry forward from 2015-2021, as a result of COVID-19.
- The supply chain is keen to support Scottish Water on the development of a Transformation Plan to 2040.
- The 1% real efficiency challenge and £150m capital efficiency challenge should help ensure rigorous decisions are made throughout the period.
- We will observe with interest how Scottish Water will propose charges, taking into account customer views in its Annual Scheme of Charges and the impact of the regulatory innovation used in the Draft Determination
- We would encourage WICS to continue to monitor the impact of COVID-19 on the medium and long-term to ensure Scottish Water is able to play a critical role in the Green Economic Recovery.

Yours sincerely

A handwritten signature in black ink, appearing to read "Lila Thompson".

Lila Thompson
Chief Executive

Citizens Advice Scotland Response to 'Strategic Review of Charges 2021-27: Draft Determination'

Scotland's Citizens Advice Network empowers people in every corner of Scotland through our local bureaux and national services by providing free, confidential, and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help, and we change lives for the better.

Summary

Citizens Advice Scotland welcomes the opportunity to respond to WICS' Strategic Review of Charges 2021-27: Draft Determination consultation. Citizens Advice Scotland is the consumer representative body for water, energy, and post sectors in Scotland.

Citizens Advice Scotland's key points:

- We understand that prices must increase over the longer term:
 - a. To protect customer services against diminution and expensive restoration
 - b. Intergenerational equity: to ensure current and future customers pay a fair share of the overall cost of longer-term investment
- We understand that charges during 2021-27 are capped at an average of CPI+2%, and although this maximum position may be applied, some years may require lower increases.
- We welcome further financial support measures by the Scottish Government to protect low income households from price shocks however, view this as a potentially time-bound position. However, we believe that those eligible for the Water Charges Reduction Scheme (WCRS) should not pay a higher proportion of their weekly income on water and sewerage charges at the end of the regulatory period than they currently pay. Furthermore, longer-term financial support based on income rather than Council Tax banding will more effectively target financial support to low income households, including those that may struggle to pay but are not eligible to receive WCRS reduction.
- We will continue to monitor the real impact of price increases on low income households through our research programme and work with the Scottish Government to identify affordability policy that meets the needs of low-income households.
- We would welcome any flexibility applied by Scottish Water, within the context of customers' views on price profile, to price increases during year 1 and 2 of the 2021-27 regulatory period to provide much needed breathing space for households and businesses recovering from the impact of Covid-19.
- We welcome the Draft Determination's position on embedding the customer and community voice into decision making. However, such a process is time and resource intensive and will require to be adequately funded.

Context to CAS' consultation response:

1. Prior to March 2020, water industry partners worked collaboratively and extensively to establish the framework for the current price review process and to prioritise investment needs. Following substantive work carried out by Scottish Water to better understand overall asset health, we recognise that greater investment is required, beginning with the 2021-27 period, to address emerging issues and commitments within the industry. These include:
 - Ageing assets needed to be replaced, including MEICA installed 20 years ago and now at the end of its life
 - Population migration from west to east 'topping out' existing infrastructure capacity
 - Net zero emissions targets by 2040
2. CAS also recognises that to delay investment will result in diminished customer services and a more costly outlay to restore services later. Furthermore, delaying increasing customer charges to fund this would unfairly burden future customers with the cost of doing so, which was unfair. It is important to ensure that current and future customers pay their fair share of the cost of longer-term investment.
3. Covid-19 has had a significant financial and circumstantial impact on both household and non-household customers across Scotland. Subsequent non-payment and deferral of water and sewerage charges have placed further pressure on Scottish Water's available financial resources to deliver against increased commitments. Reconciling the need for greater income to protect service levels, at a time of increasing financial burden on the customer base, will require careful consideration of timing and any impact that further increases may have on those who may struggle to recover.
4. Recent CAS statistics show that debt enquiries within CABs have overtaken employment enquiries. Approximately one third¹ of householders in Scotland are concerned about their ability to pay debt and Council Tax, and buy food and other essentials. Fraser of Allander reported² that *'the various employment support schemes have softened the initial impact of Covid19 on the Scottish labour market'*. However, there are concerns that the removal of employment support schemes will see a sudden escalation in unemployment and redundancy. 39% of respondents in a recent CAS survey³ were concerned about the security of their job in the next 12 months.
5. Whilst we welcome the Scottish Government's proposed increase in the WCRS from 25% to 30% for those on Council Tax Reduction, it is important to ensure that the additional benefits of the discount scheme cover the cost of any increase in household charges over the regulatory period. Furthermore, CAS research⁴ identified that not all low-income households qualify for WCRS. Such households may include those working for minimum wages who are more likely to find that any increase in bills beyond any increase in their income may affect their ability to pay for other essentials such as food or energy.
6. The current Covid-19 pandemic presents a significant challenge for the water industry, and in particular, to Scottish Water. A Scheme of Charges for 2021-22 and beyond must strike a careful balance between the need for longer term capital investment, whilst recognising and responding to the impact that Covid-19 has had, and will continue to have, on household and organisational finances. WICS has set an average cap of CPI+2% which offers flexibility to facilitate discretionary decision making on pricing. We welcome, and view as essential, further customer research by Scottish Water to inform its Scheme of Charges.

¹ Diffley Report October 2020, commissioned by CAS (*unpublished*)

² Fraser of Allander, 'Labour Market' Scottish Economy / October 13, 2020

³ Diffley Report October 2020, commissioned by CAS (*unpublished*)

⁴ CAS 'Charting a new course: a study in developing affordability policy for water and sewerage charges' September 2018

Specific points:

7. CAS welcomed the introduction of and EBR / EBP approach by WICS within the current price review period. A lengthy process of collaborative co-design provided much needed insight and shared understanding of stakeholders' role, perspectives, and priorities, built trust and facilitated open and transparent discussion. It has provided us with a basis upon which to identify common ground and goals, culminating in a new water sector vision. And it has offered an opportunity to work together to better understand the real challenges the sector is facing during the years ahead, removing surprises and supporting an agreed direction of travel and shared outcomes.
8. CAS is keen to understand EBP in practice, particularly around work with non-household market organisations, and welcomes the extended invitation from WICS to share in workshop sessions. We welcome the view that *'Customer and community complaints should reflect only relatively small and genuine human errors. There should be no systematic issues that could be identified by a review of customer and community contacts'* and believe that this core principle should also be a priority within the non-household market.
9. We have welcomed WICS' consultative approach of sharing draft decision papers throughout the SR21 process, and inviting comments. We believe that this has supported greater understanding of the overall challenges for the water industry and helped to identify preferred outcomes.
10. The SR21 price review process has helped identify values beyond economics and funding and embedded a commitment to evidence the customer and community voice within decision making. CAS welcomes this. However, we believe that if the national engagement strategy is to be delivered successfully, it will require Scottish Water to understand service provision and empowerment from a customer and community perspective, rather than corporately. Making customers and communities feel that their contributions are valued and that they are an important part of the process is essential if we are to increase their value of water and win their support for higher charges. CAS will continue to work with Scottish Water to support this transition.
11. We welcome the ring-fenced fund of £133m to support a move towards longer term and more innovative capital investment. Furthermore, we welcome inclusion of customer and community views to identify additional benefit. However, investing in 'empowering customers and communities' is time and resource intensive. Effective and successful engagement with the public to ensure that decision making is fully informed will require to be adequately resourced both in terms of funding and skills. We anticipate that greater transparency in to how this will be achieved will form part of the transformation planning process.
12. We welcome many of the developments set out with the Draft Determination such as a greener Scotland, a flourishing environment, best value for customers and a more prosperous Scotland. The SR21 process has supported a process of moving away from a shorter-term focus towards lasting and sustainable change and identifying culture and working practices that will more effectively support this. CAS believes that to do this well, customers and communities must be viewed as equal and invested stakeholders.
13. We welcome Scottish Water's commitment to making further 1% year on year efficiency savings whilst addressing emerging needs and maintaining levels of services to customers. Previous efficiencies have helped to keep customer prices stable and have indeed demonstrated value for money. Moving to a 25-year strategic planning process provides a more flexible basis upon which to plan for and invest to meet business as usual, whilst creating space to accommodate changing priorities.
14. Covid-19 has reduced water services usage within the non-household market and increased water usage among domestic customers. Scottish Water has experienced a reduction in

income from the non-household market, yet no increase in income from domestic users. CAS would welcome a review of the longer term impact this may have on Scottish Water's revenue and the commission's views on how it will ensure that the cost allocation ratio between household and non-household customers remains fair and representative.

15. CAS welcomes the financial support measures that have been put in place to support non-household customers impacted by Covid-19. However, we remain concerned about the longer-term impacts that the pandemic will have on businesses, particularly SMEs. Additionally, recent CAS research⁵ has highlighted that some licenced providers did not pass on the benefits from Covid-19 measures to their customers. Therefore, we would welcome further insight from the Commission on additional support beyond the existing scheme and how it will ensure that this is extended to customers.
16. We welcome the Customer Forum's involvement in the two areas set out within the Draft Determination for Scottish Water's Transformation Plan to reflect customers' expectations and to support Scottish Water to deliver on its commitment to become more customer-centric and community focused. Whilst we acknowledge that disruption around Covid-19 was unanticipated and constrained the role of the Customer Forum in the final stages of the price setting process, we look forward to working with the Commission's and Scottish Water to review how customers and communities will be independently embedded within the next price review process.
17. CAS is aware that borrowing supports stable customer charges, keeps charges lower, and funds capital investment. The Draft Determinations acknowledges that '*borrowing now only leads to higher bills in the future*', particularly around interest payments. CAS would welcome further discussion to better understand the Commission's and the Scottish Government's thinking on longer term borrowing vs customer charges to fund Scottish Water.
18. We welcome the development of additional funds that will deliver broader benefits to communities. We believe that by working collaboratively with communities, Scottish Water will become a leader in inclusive initiatives that utilise communities' capacity and potential to deliver greater shared spaces and wellbeing.



Water Policy Manager
Citizens Advice Scotland

⁵ 'Understanding SMEs' experiences of the non-domestic market in Scotland Report', October 2020 (*unpublished*)



Charles Yates
CmY Consultants Ltd

18 November 2020

Water Industry Commission For Scotland
Moray House
Forthside Way
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Email: draftrepresentation@watercommission.co.uk.

Re: Strategic Review of Scottish Water's charges 2021-27 (Draft Determination)

Dear Sir or Madam,

As a seasoned observer of the Scottish Water industry, I am pleased to respond to this consultation with my views on the Strategic Review of Scottish Water's charges 2021-27 (Draft Determination).

The Water Industry Commission for Scotland (WICS) and the Scottish Government have built this Strategic Review of Scottish Water's charges around fundamental changes which will have a sustained impact on the Scottish Water industry and I hope well beyond. This review is founded on:

- The Objectives that the Scottish Ministers have set for Scottish Water, which include an industry-leading target to achieve net zero emissions by 2040
- Ethical Based Regulation and Ethical Business Practice (EBP) which are both centred on longer term thinking by requiring candour in conversations and interactions between regulator, regulated company and customers. It is regulation and business based on trust
- This Strategic Review begins a long-term and sustained process of increasing investment to £4.5bn over 2012-27 to maintain and replace assets in an economically optimal way. This is an increase of £1.1bn (around 30%) from the allowed investment in the 2015-21 regulatory control period.

The review brings exciting and welcome changes but it comes at a cost to consumers and, as with most major changes, entails managed risk including starting a journey of discovery without full detail of parts of the route. WICS have proposed an average maximum price increase of CPI+2% each year, on average, over the regulatory control period with further real increases in charges to follow. This price increase is despite a demanding 1% real efficiency challenge year on year on certain operational expenditure by Scottish Water and a £150m capital efficiency challenge on the long-term sustainable level of investment.

Perhaps most creatively, to fully adopt EBP requires a profound transformation of Scottish Water, its culture and the way it interfaces with customers and other stakeholders. WICS considers that a root and branch transformation of Scottish Water is required to deliver the outcomes in Scottish Water's Strategic Plan. To monitor progress in this key area, WICS

requires that Scottish Water produce a Transformation Plan that sets out how Scottish Water's "*organisation, procedures and practices will be different at the end of the 2021-27 regulatory control period, including a clear description of the resources required and key milestones.*"

WICS' strategic review materially widens the old regulatory debate focussed on charges, capex and service levels as key objectives to make trust and emissions equally important. This is the right approach in a world which is increasingly suspicious and where meaningful dialogue and trust are fading. Now is the time for economic regulators and utilities, especially publicly owned companies, to be seen to be open, honest, transparent and to "*Take every decision as if the customer was in the room*". Scotland and particularly the water sector are well placed to take a lead in this transformation and to be an exemplar of best practice. However even for Scottish Water this will require a revolution in hearts and minds for some staff; and combining a focus on pipes and pumps with greater emphasis on consumer preferences and the environment.

Turning to the planned sustainable investment programme, this combines investment to meet Net Zero in 2040, replacing assets which are at the end of their life and capital expenditure to increase the resilience of service provision and adaptation to climate change. WICS is seeking renewed focus on planning investment over the long-term and the application of whole-life cost analysis to optimise investment rather than constraining investment to what can be afforded within a hard budget constraint largely set by the regulator. By making economically optimal investment decisions Scottish Water can keep bills down for future control periods.

However successful investment implementation requires that Scottish Water and its supply chain have all the skills and capabilities to efficiently increase annual investment by 30% and do so with full engagement by all local stakeholders. In addition, WICS acknowledges that Scottish Water faces a challenge to achieve the long asset lives used in its analysis.

WICS is aware that valuing emissions (and other non-cash costs) in appraisals may increase the cash cost of investment and welcomes Scottish Water's intent to absorb any such additional costs. Prudently, WICS has created a ringfenced allowance of £133m over the control period to cover any additional costs incurred by Scottish Water as a result of selecting an option that has a higher risk-adjusted net present value, after allowing for externalities such as carbon, than the lowest cash cost option.

This review sets innovative and highly challenging targets for Scottish Water and requires a radical, fresh approach to responding to customer preferences. Fully delivering the candour and trust required by EBP would be a big step towards success.

Yours sincerely



Charles Yates
Managing Director, CmY Consultants Limited

Drinking Water Quality Regulator for Scotland

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Alan Sutherland
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Water Industry Commission for Scotland
First Floor
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18 November 2020

Dear Alan

Strategic Review of Charges 2021-27 – Draft Determination

Thank you for inviting me to comment on the Draft Determination. I recognise that this is the product of extensive engagement with stakeholders which has enabled a collective understanding of the challenges facing the industry in the long term.

I am pleased that your Draft Determination proposes the need for increased investment so that Scottish Water can continue to deliver this vital public service, in particular, investing in assets that have either reached or are reaching the end of life. The growing need to replace assets has been clearly evidenced during the review process and aligns with our own observations from site audits and when investigating water quality events and incidents. As the customer research has shown, and the pandemic has underlined, the need to maintain a safe and plentiful supply of drinking water quality is vital for public health.

I am reassured that the proposed levels of funding should enable Scottish Water to maintain current standards of service and include an allowance for enhancement and growth broadly similar to that of previous periods. In my annual report for 2019, which was published on 10 August 2020, I noted that the compliance with drinking water quality standards at 99.92% has been static over the last few years despite significant levels of investment. I recognise that maintaining levels of compliance is a challenge particularly given climate change impacts on water resources, altering demand patterns and the current capability of Scottish Water's assets. However, it is paramount that standards are not allowed to deteriorate.

I wish to highlight that the comparison with England and Wales is not favourable for drinking water quality unlike other areas of performance used in comparative measures. I recognise that the poorer performance may well reflect the large numbers of assets that Scottish Water has to operate compared to its counterparts. However, it underlines the need for investment and the scope for further improvement.

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Looking to the future, I fully recognise and welcome the need to ensure projects are appraised appropriately, moving away from investment decisions being taken based on the lowest economical cost, but to choices based on a longer term range of benefits. However, it will be important to ensure that the transition to an improved appraisal process does not delay the delivery of investment to replace ageing assets such that quality standards are compromised. Whilst I also welcome the development of a new investment decision-making process and the flexibility this brings to addressing both near-term and long-term challenges, I remain concerned over the lack of certainty for quality regulators of the timescales for addressing particular needs. This is an area that I will be monitoring closely through the work of the Investment Planning and Prioritisation Group.

I am fully supportive of Scottish Water's Transformation Plan. Whilst this allows Scottish Water to take full ownership of its future strategy, it also builds on the trust and good relationships that have been developed within the industry and, in particular, between Scottish Water and DWQR since both were created in 2002. I believe that this is key to ensuring that regulators and customers can be reassured that relevant information is taken into account when delivering services and the required improvements.

I look forward to working collaboratively with you and your team during the evolution of the industry and delivery of the industry vision.

Yours sincerely



Sue Petch
Drinking Water Quality Regulator for Scotland

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Consultation Response

Water Industry Commission for Scotland:
Draft Determination of Charges 2021-27
November 2020



Scottish
Environment
LINK

Scottish Environment LINK is the forum for Scotland's voluntary environment community, with over 35 member bodies representing a broad spectrum of environmental interests with the common goal of contributing to a more environmentally sustainable society. This response has been prepared by Scottish Environment LINK's Freshwater Group.

Introduction

We are pleased to be able to comment on an important matter of public policy which seeks to fund the investment needs of Scottish Water for the coming 6-year period. We note however that this is the first 6 years of a longer-term strategy that has milestones and targets running until to 2040.

This is one of the first major long-term public investment strategies issued since the declaration of a climate emergency by the First Minister, and it is important it is assessed in conjunction with the need for significant societal adjustments in behaviours to both mitigate and adapt to climate change. Any strategy that is to be relevant to the needs of our environment also needs to address the health of our natural water resources, rivers and seas and also contribute to building natural capital in a species rich and bio-diverse country. This will necessarily involve both managing water catchments, the source of raw waters for public and nature's use, and securing appropriate support for mitigation and adaptation in the face of predicted climate change over the next 20 years.

We have noted the Draft Determination builds out of earlier Decision Papers by the Water Industry Commission concluding with final Decision Papers on Asset Replacement and Prospects for Prices. However it is not clear to us if measures, both regulatory and financial are in place to build partnerships better placed to address the ongoing, (and predicted to get worse) deterioration of catchments, that affects water quality and quantity, and thus biodiversity as well as economic outcomes and wellbeing. We are aware that in England Ofwat has encouraged investment by water companies in these catchment improvement measures, and we seek assurance that this is also the case in Scotland. It is hard for us to see if this is the case, and if so what investment will occur in the six year period and beyond.

High-level observations:

- LINK members note that the Draft Determination is designed to provide the resources to move toward doubling the rate of investment on asset health. We assume this covers pipe networks, water treatment works and sewage treatment systems amongst others.
- LINK members note the references to the investment plans supporting a welcome move by Scottish Water to achieve net zero by 2040. However, we note that the private water companies in England have just announced their intention to meet net zero by 2030 and are doing so in circumstances where water charges in England are not planned to rise in real terms and investment in 'natural solutions' to meet and mitigate the challenges from climate change are core to company strategies.
- LINK members welcome the recognition in funding of better stewardship of the land assets held by Scottish Water for biodiversity conservation, quiet access and enjoyment, and supporting communities. Understanding the condition and natural attributes of Scottish Water's land assets will be a pre-requisite for planning investment in those assets that builds natural capital and promotes biodiversity. Delivering these ambitions provides opportunities



for Scottish water to work in partnership with NGOs and communities. We are aware Scottish Water holds several important protected sites listed as SSSI under Scottish legislation, but a number of these are not in Favourable Conservation Status. Investment to address this is a statutory requirement. Please can you confirm this will be included in the final determination?

- LINK members welcome references to improvements to the state of fresh water, riparian and coastal habitats by investment in waste-water treatment discharges. We note however that Nature Scot has recently reported that important Freshwater habitats in Scotland are not in good condition and would expect Scottish Water to contribute towards addressing this in the round, in partnership with others, and not just through investment in waste-water treatment. Catchment health should be an objective for Scottish Water as this helps manage and mitigate surface water flooding, helps prevent silt run off, and contributes towards raw water quality - and aids biodiversity recovery.

However, we also note that:

- Doubling the consumption of capital resources by building significant new assets and the more ready replacement of existing assets (rather than taking a repurposing circular economy approach) will inevitably accelerate the rate of consumption of the planet's resources and cause increased emissions.
- It is planned that such investment should be net zero in emissions when assessed over the whole life of the asset. With many assets having potentially long lives extending beyond 2040 the challenge to Scottish Water in achieving net zero across all its activities including investment activity is therefore very significant. It is not clear whether this will in fact be achievable by 2040 and thus the investment strategy risks adding to harmful emissions in the shorter term, at a time when the need to address emissions is immediate and urgent.
- While there is emphasis on an increased rate of asset replacement, there is little or no emphasis on the need to significantly extend asset lives and reduce maintenance needs over time in order to minimise the production of emissions.
- There is little emphasis on investing significantly in natural processes to deliver improved water quality and quantity, and waste-water management over conventional asset investment in 'hard' infrastructure. These are serious omissions, and a missed opportunity to restore wetlands, improve river quality, improve beaches and slow and reverse the loss of nature, whilst saving money.
- Furthermore there is no apparent strategy to help businesses, or householders to avoid the use of high-cost treated water (which consumes energy adding to emissions) for non-drinking water purposes (watering lawns, washing cars, flushing toilets, etc). This looks to be an oversight and runs counter to sustainability principles.
- If we have understood the draft documentation correctly, it would appear that the entire cost of the investment, apart from a reducing proportion of government borrowing over the period up to 2040, will be met by water charge payers at the cost of rapidly increasing charges. As such this is in marked contrast to many other sectors where Governments are increasing their investment to help transition to a low carbon economy.
- The question whether it should be water consumers alone that are required to meet these costs and what the role of taxpayers could be in sharing the cost burden does not appear to have been considered.

We conclude that while there are many welcome aspects of the strategy that the Draft Determination seeks to finance, it is not clear that this is a strategy suitable in all respects for a climate challenged world over one which would seek as a priority to extend asset lives, and emphasise the need for



innovation in service delivery and design, in order to minimise the need for the greater consumption of capital/resources, and seek a more circular approach.

There is a danger that significantly increased charges to deliver the finance necessary to replace assets and build a way to a net zero approach, may in fact avoid the need to face up to more challenging questions that would provide for more long-term environmental sustainability and deliver even greater benefits to communities, the natural environment and consumers.

Finally, as noted earlier, private water companies in England have just announced their intention to meet net zero by 2030 and are doing so in circumstances where water charges in England are not planned to rise in real terms and investment in 'natural solutions' to meet and mitigate the challenges from climate change are core to company strategies. Indeed, the launch featured the involvement of environmental NGOs, some members of Scottish Environment LINK, who showcased partnership land management programmes jointly funded by water companies, DEFRA and the charities themselves. It seems Scotland is a long way from this progressive position.

This response is supported by the following LINK member organisations:

- Badenoch and Strathspey Conservation Group
- Buglife
- Fidra
- Froglife
- Scottish Wild Land Group
- Scottish Wildlife Trust

For more information contact:

Craig Macadam
Convener of the LINK Freshwater Group,

[Redacted contact information]

Or

[Redacted contact information]
LINK Advocacy Manager

[Redacted contact information]



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Registered Headquarters: 13 Marshall Place, Perth, PH2 8AH
Advocacy Office: Dolphin House, 4 Hunter Square, Edinburgh, EH1 1QW

From: [REDACTED]
Sent: 26 October 2020 15:18
To: Draft Representation
Subject: [EXT] Water Industry Commission draft determination for the regulatory period 2021-27

I would like to make a contribution before you publish your Final Determination on 10 December. I understand comments need to be received by 19 November.

You say you welcome Scottish Water's commitment to work with customers and communities and make decisions 'as if an active customer voice were in the room'.

I was not part of the Customer Forum because I did not know about it. However, I am anxious to have my voice heard. I have read your papers but I feel excluded from your concerns and deliberations.

I live in a small group of old farm cottages which share a dated communal septic tank. The tank is obsolete and does not meet the 2015 regulations as it is undersized for the number of households. Repairing is not an option, nor is replacing the tank an option, due to lack of space. We have tried to pay to join the public main drainage network but, having obtained plans and estimates from contractors, we find that the amount to be paid upfront by each household is over £4,000. Four of the eleven households say they cannot pay. We cannot proceed. What should we do? We feel we should be treated fairly and have as equal a chance to join the main drainage as if we were in a new housing development. The cost of having a safe sewage system should not be beyond our reach.

I am sure there are many rural communities in Scotland with concerns about their private water supply or drainage. I would like to read that Scottish Water is committed to helping poor rural communities such as ours to join the main drainage. It is important for the environment and for the local community. Yet there is no mention of helping update private drainage schemes in your Consultation or in your draft determination.

I hope our concerns can now be included in your plans for Scottish Water from 2021.

[REDACTED]

Sent from my iPad

From: [REDACTED]
Sent: 18 October 2020 16:24
To: Draft Representation
Subject: [EXT] Strategic Review of Charges 21-27

Dear Sirs,

I write in respect of the above draft publication regarding the future prices that Scottish Water will impose on the Scottish consumer.

For many years now, Scottish Water has been permitted to increase its annual prices well above inflation. And the current paper proposes to continue this practice. Given this, I do not understand how the publication can justify the statement that "the proposed increases over the next six years will still mean customers and communities are paying broadly the same in real terms as they were in 2002." Further above inflation multi-year price rises written into regulations only serve to needlessly penalise the consumer.

In my own experience here in Gullane, over the past 2 years I have had discoloured water twice (broken pipes, according to Scottish Water) and total loss of water once (to fit a stop-cock into a neighbour's water pipes - an "unplanned" event, according to Scottish Water, hence my being caught in the shower with no way to wash off the soap). Over the past 20 years, there has been sewage overflow near the Gullane Bents car park, and neighbours houses have been inundated with raw sewage. In addition there is an on-going issue of sewage discharge into Aberlady Bay. And there has been leakage from Scottish Water's reservoir on Gullane Hill. These are issues that I personally know about. All in one small village. The Report states (page 33) that Scottish Water now matches that of the best performing water companies in England and Wales. If my own experiences are at all representative (and I have no reason to believe that they are not), then God help the rest of the country.

What should be the basis for the Report's proposals to increase future water charges are the tables on pages 64, 67, 68, 69 and 70. But these tables just submit figures. Neither in the notes nor in the text is there any discussion as to how these figures were arrived at, what assumptions were made, what would be the implications of different assumptions, what are expected to be future conditions of service, what would be the implications if the figures were changed, are the figures accurate, are they appropriate? In a 121 page report, these are the sorts of issues I would expect (indeed hope) to see discussed. Certainly more than the rest of the verbiage that makes up the report, most of which is PR-speak and meaningless.

The primary issue is that Scottish Water is a monopoly organisation. And it operates as such. There is minimal oversight, and no structures in place to hold Scottish Water to account.

The Cabinet Secretary for Environment, Climate Change and Land Reform, who should have responsibility for oversight of Scottish Water, has 8 other serious areas for which she is also responsible. Furthermore, the Scottish Government website that details her all responsibilities, places "Water Quality and Scottish Water" last, in a non-alphabetical list. So I doubt that Scottish Water takes up very much time of the Cabinet Secretary.

And I do not recall the last time Scottish Water was discussed in the Scottish Parliament - though perhaps you could enlighten me on this. Certainly from my perspective, I see no evidence that our elected representatives are offering any meaningful oversight.

In a normal situation, of course, one would vote with one's feet, and find another supplier. Oh, I forgot, Scottish Water is a monopoly. So so much for that idea.

In a normal situation, the customer should be able to hold the supplier to account. However water consumers have no power to hold Scottish Water to account. The only thing that big companies like Scottish Water are concerned about is money. So making Scottish Water financially liable to the consumer for any loss of service would go some way towards increasing accountability. That would require the conditions under which compensation may be claimed to be dramatically more liberal. Currently the conditions under which compensation may be applied for are so limited and so rigid, that I doubt that Scottish Water has paid any compensation to consumers over the last financial period (again, perhaps you can enlighten me on this). There is a strong and sneering attitude in UK to "compensation culture". But one only has to look to the NHS to see how compensation culture has resulted in dramatic improvements in both medical care and patient concerns since the 1980s.

As I assume you will ignore my comments, and press ahead with imposed high increases in water charges, can I at least request that a mid-term review is held. This at least may help to hold in check Scottish Water's licence to print money, which is what the current proposals amount to. Scottish Water should also be happy with such a mid-term review, as it would provide an opportunity to confirm that the assumptions and the conditions under which these proposals have been made retain their relevance.



From: enquiries <enquiries@watercommission.co.uk>
Sent: 16 November 2020 09:16
To: Draft Representation
Subject: FW: [EXT] Fwd: Proposed Price Increase in Water Charges in Scotland

From: [REDACTED]
Sent: 13 November 2020 19:48
To: enquiries <enquiries@watercommission.co.uk>
Subject: [EXT] Fwd: Proposed Price Increase in Water Charges in Scotland

Sent from my iPad

Begin forwarded message:

From: [REDACTED]
Date: 13 November 2020 at 19:39:13 GMT
To: [REDACTED]
Subject: Fwd: Proposed Price Increase in Water Charges in Scotland

Sent from my iPad

Begin forwarded message:

From: [REDACTED]
Date: 13 November 2020 at 19:37:48 GMT
To: draftpresentation@watercommission.co.uk
Subject: Proposed Price Increase in Water Charges in Scotland

The Scottish Tenants Organisation oppose the proposed price increase in Scottish Water at the rate of inflation plus 2 percent in real terms in the coming years and instead we believe water prices should be frozen in the period 2021-2027.

Citizens Advice Scotland have stated that even if price mitigation is increased from 25 percent to 30 percent that will only help Low Income Households for 2-3 years at most. In fact CAS state that with this price escalator covering 20 years Low Income Families will suffer significantly to their severe detriment. In fact CAS go on to say that 47 percent of working families in Scotland run out of money before the end of the month at least once a year and therefore they will suffer financially if this price hike in water goes ahead.

This price hike in water from 2021 to 2027-28 and beyond with the advent of the economic crisis associated with the COVID-19 Pandemic would also be disastrous for average households who pay £372 a year for Water. Their water bills would rise by 25 percent in six years and double in price in 20 years. This is unacceptable and really begs the question why they are unfairly wanting to increase water charges. Scottish Water and its regulator the Water Industry Commission for Scotland are hand in hand demanding these price increases trying to justify it by saying they have to improve water and sewerage infrastructure and become net zero in carbon

emissions. These arguments are weak in that improvements to our water and sewerage infrastructure have been ongoing for a number of years and the planned reduction to net zero carbon emissions will be far less costly than previously thought.

In conclusion we call on the Scottish Government to abandon this price hike in water charges and freeze them for the common good at this difficult time. We suspect that the real purpose of these massive proposed price increases is to fatten up Scottish Water to be sold off to the Private Sector this putting profit before people and is completely unacceptable.


Campaign Coordinator
Scottish Tenants Organisation

Sent from my iPad



**Scottish
Water**
Trusted to serve Scotland

28 October 2020

Alan Sutherland
Chief Executive
Water Industry Commission for Scotland
First Floor, Moray House
Forthside Way
Stirling FK8 1QZ

Castle House
6 Castle Drive
Carnegie Campus
Dunfermline
KY11 8GG

W: www.scottishwater.co.uk

Emailed to: draftrepresentation@watercommission.co.uk

Dear Alan,

Strategic Review of Charges 2021-27 – Draft Determination

I write to respond to the Draft Determination of the Water Industry Commission for Scotland, published on 8 October, following our board's consideration of this at our meeting today.

We strongly welcome the recognition of the need for increased investment so that we can maintain services to customers, deliver our commitment to achieve Net Zero emissions and play a full part in achieving the water sector vision.

However, we note your stretching expectation that Scottish Water will deliver annual efficiency savings beyond what any UK water company has previously managed, transform as an organisation and build an active and two-way relationship with the customers and communities we serve.

We acknowledge that while the charges' cap you propose could mean a 30% increase in our investment programme that will only be achievable if we effectively engage with customers and communities across Scotland to build their support for higher charges that are fair to both current and future customers.

From our point of view, the draft determination is both an opportunity for Scottish Water to deliver the future water and waste water services we have designed together with customers, communities and stakeholders in our strategic plan and also a significant challenge for us as an organisation.

The Strategic Review of Charges

Throughout the development of this strategic review of charges you have adopted an Ethical Based Regulation approach which has fostered collaborative working across industry members and a focus on the long term. This has enabled the industry to identify and address the upcoming challenges we face together, whilst maintaining the trust and confidence of customers. As a business that manages assets that last decades and in some cases centuries, Scottish Water welcomes this new approach.

As part of this long-term approach, the Scottish Government invited Scottish Water to work with those engaged in the water sector to develop a vision, setting out how the sector will deliver its vital services and provide leadership in responding to the climate emergency. This vision, co-created with key water industry stakeholders and endorsed by the Government, sets out that 'Scotland's water sector will be admired for excellence, secure a sustainable future and inspire a Hydro Nation'.

Our Strategic Plan – A Sustainable Future Together, published in February, describes how we will seize the opportunities and rise to the challenges ahead - building on past success to meet customers' expectations, deliver Scottish Ministers' objectives and play our leading role in achieving this ambitious vision.

Within our Strategic Plan we set out the need to transform as we deal with the climatic threats to our services, replace our ageing assets, and play our full part in reducing carbon emissions beyond net zero. This plan is focused on how we will meet our customers' current and future expectations; pursuing excellence in all we do, seeking always to act responsibly and ethically, building trust, leading and inspiring others, to achieve strategic outcomes that are aligned with our role in achieving Scotland's ambitious Water Sector Vision.

We welcome that the Draft Determination recognises the significant ambition of our plan, and the vital role we play in supporting a Flourishing Scotland.

Our Asset Challenge

We also welcome the Draft Determination's focus on the asset replacement challenge we face. As highlighted in the Draft Determination, to deliver consistently excellent services we rely on a vast number of complex and diverse assets. Many of our assets were built over 50 years ago, and some of our water mains and sewers are well over a hundred years old, so it is inevitable that every day assets can fail and there is potential for customers to experience disruption to their water and waste water services. Managing the risk of failure of our assets more effectively has been key to improving service levels in recent years. While we will continue to excel in this, pursuing ever greater operational effectiveness, the Draft Determination rightly highlights that we must increase investment significantly to ensure we can replace ageing assets and deal with climate change.

As referenced in the Draft Determination, we have recently updated our asset replacement modelling to develop a more granular understanding of the likely replacement profile for our considerable mechanical and electrical assets. We are now expecting to see greater investment required for replacement of these assets over the next 6 years than we had previously understood. We will continue to assess the level of investment demand as we progress through the period, and further develop our asset data and analytical capability to further strengthen our forecasts.

Charge Increases

As outlined in our Strategic Plan, our plan to deliver great value for customers is based on keeping customer prices affordable over the long term, making smarter investment choices and transforming how we will work. In delivering our services our Strategic Plan sets out our commitment to take all possible steps to drive for further efficiency. As recognised in the Draft Determination, even in achieving the demanding efficiency targets set, financing the necessary investment will require above inflation increases in charges.

Failure to smoothly increase charges to enable us to meet the inevitable replacement of our assets at the end of their lives, and manage the climatic changes, would lead to a burden on future customers to pay disproportionately more for the same service in comparison to current customers. It would also hinder our ability to achieve our ambitious target of achieving beyond net zero emissions. In consequence we agree that it is essential we progress towards the long-term levels of sustainable investment.

The Draft Determination rightly highlights the considerable impact that COVID-19 has had on customers, the economy and the uncertainty that it created. To maintain and build trust and confidence we must always be sensitive to our household and non-household customers' financial situation as we increase charges and progress towards investment levels that will enable us to sustain our service levels over the long term and deliver our role in achieving Scotland's ambitious Water Sector Vision.

This creates a difficult balance to strike - balancing investment needs to replace ageing assets, increase the robustness and resilience of drinking water, further improvement to the environment and progress towards net zero on the one hand, against the economic circumstances of our customers in the shorter term and fairness to future customers.

We will work with customers and stakeholders to ensure we strike the best possible balance each year to the current and future economic circumstances of our customers, seeking to avoid significant price increases in the future. COVID-19 has created particular uncertainty for businesses who were already reducing their consumption of water. We will continue to monitor this closely and welcome the proposal in the Draft Determination for future joint work in this area.

Investment Planning

In our Strategic Plan we highlighted a new investment planning framework that will prioritise investment to replace worn out assets, improve asset capability, address compliance issues and risks, meet areas of greatest customer impact, and support new housing and business growth while achieving a net zero emissions future. This new approach will allow us to continually incorporate the latest evidence, collaborating with stakeholders to ensure the costs and benefits of competing investment priorities are considered appropriately. We agree that this approach will initially be challenging, particularly given the difficult prioritisation that will be required over the coming years to balance replacing assets at the end of their useful lives with investment to further enhance drinking water quality and the environment. We are confident, however, that this new approach will ultimately enable a more flexible and transparent framework through which we can make smarter investment decisions. We are committed to working with stakeholders to continually improve the framework and to building trust and confidence through ever more robust investment appraisals.

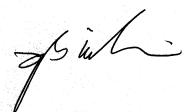
Within these investment appraisals we will take a more holistic approach, considering wider benefits such as supporting our commitment to achieve net zero emissions, as well as wider social and community benefits and supporting the 'green recovery'. We will also increase stakeholder and community engagement, beginning conversations earlier so communities can influence the selection of the solution by incorporating their thoughts, concerns and ideas into our decision making. The proposed ring-fenced capital expenditure allowance for options that deliver greater benefits than the least cost option will support this approach and we welcome the proposal for further work on its mechanics, so it does not hold up decision making.

Transformation

Delivering our Strategic Plan, and becoming an exemplar open, transparent learning organisation, requires radical transformation. As outlined in our Plan we are taking a strategic approach to change to drive transformation and innovation throughout the business and build the capacity and skills to lead, inspire and influence others to explore new approaches. We look forward to working with WICS and others as we develop, deliver and update our Transformation Plan which will be crucial to making progress to our Strategic Plan.

I would like to take this opportunity to thank you and the team in your office who have been leading the work on the Strategic Review of Charges.

Yours sincerely



Douglas Millican
Chief Executive

Alan Sutherland
Water Industry Commission for Scotland

Our Ref: JL/SRC21
Your Ref: SRC draft
determination

By email: draftrepresentation@watercommission.co.uk

If telephoning ask for:

[REDACTED]

17 November 2020

Dear Alan

Strategic Review of Charges 2021-2027: Draft Determination

Thank you for inviting SEPA to comment on the above document.

How society manages the provision of its water supply and its waste water services will be a key determinant of how successful it is. Even a water-abundant nation such as Scotland needs to unlock innovation on a grand scale to meet the challenges we face with climate change. As Scotland's environmental regulator, SEPA is determined that we will support this focus on both excellence and innovation in water supply and wastewater management.

SEPA welcomes the proposal for increased investment and transformation in the draft determination, which is clearly needed to deliver Scottish Government's Water Sector Vision and SEPA's water supply and wastewater sector plan for One Planet Prosperity.

Over the past 3 years, SEPA has been closely involved in the development of the innovative approach to this Strategic Review of Charges, through its membership of the SRC21 Stakeholder Advisory Group. We agree that the proposed level of investment is critical to help futureproof services and tackle climate change.

We understand that the draft determination proposes that Scottish Water should take environmental, social and financial capital values into account in all of its decision-making in investment appraisals going forward, which we strongly endorse. We would be happy to work with WICS and Scottish Water to ensure that the ring-fenced allowance proposed in the draft determination supports this approach.

As/

As a public body committed to openness and transparency, SEPA feels it is appropriate that this response be placed on the public record. If you require further clarification on any aspect of this correspondence, please contact Jennifer Leonard, Unit Manager, Quality & Standards Unit.

Yours sincerely



Terry Ahearn
Chief Executive Officer

cc. by email:

██████████, Scottish Water

██████████, Scottish Government

██████████, DWQR

██████████, CAS



Community and Enterprise Resources
Executive Director **Michael McGlynn**

enquiries@watercommission.co.uk

Our ref: A3376965
Your ref:
If calling ask for: Michael McGlynn
Phone: 01698 453838
Date: 11 November 2020

Dear Sirs

WICS publishes draft determination of water charges in Scotland

I refer to your email dated 8 October 2020 and write to update you.

South Lanarkshire Council notes the plans to undertake work to maintain the water and sewerage systems. South Lanarkshire Council would recommend public health benefits feature when determining the priority allocated to planned improvement works.

The council collects water charges on behalf of Scottish Water (SW). Remittance to them is not based on the actual amount of water charges collected but on the overall percentage of water charges levied on the council tax bills issued. At the moment therefore SW receive around £0.28 of every £1 the council collects. This is more than they would receive if it was based on the actual collection of water charges due to the lower collection rate of water only bills i.e. those council tax payers in receipt of full benefit.

The attached document caps annual increases annually over the Regulatory period (2021-2027) at CPI +2%. Potentially therefore charges could increase at a higher rate than council tax property charges and if this was the case SW would get a bigger share of the income collected. Collection rates will however most likely be hit if the charges are increased as more people struggle to pay. Over this year and last year water charges have only increased by 1.6% in 19/20 and 0.9% in 20/21 year but the expectation from this report is that households will now pay more. Based on the current CPI at 0.7% this could lead to an increase of 2.7% in 20/21. It should be noted however that the CPI is volatile and can move quite significantly over a period (over 1 month July to August this year it moved 0.6%). It is worth noting the statement in the report however 'The Commission recognises that the Scottish Government may adopt measures to help customers pay their water charges in their Principles of Charges for the sector; for example, through the council tax reduction scheme. These mitigating measures are matters for the Scottish Government.'

Also the report states, 'despite the current uncertainties around the current customer base and future growth, the Commission has set a cap on the maximum amount of charges at CPI+2% for each year of the regulatory control period. Scottish Water must propose charges in its Annual Scheme of Charges that are consistent with this annual cap and/or the cumulative application of this cap'. This suggests that the increase in some individual years could be higher than the cap as long as the cumulative application of the cap is not exceeded. This is unclear if charges can be higher than the cap in some years

Montrose House, 154 Montrose Crescent, Hamilton ML3 6LB Phone: 01698 454798
Email: michael.mcglynn2@southlanarkshire.gov.uk



Another point to note is that many customers don't differentiate between council and water charges on their bill and just see the council as the problem. Significant increases in water charges could exacerbate this issue. It should also be noted that the CPI is volatile and can move quite significantly over a period (over 1 month July to August this year it moved 0.6%).

There is also no mention of the fees Scottish Water pay councils for administering and collecting their charges (in SLC £89k/month). Obviously if debt levels increase then there is a bigger administrative and collection burden on councils.

I trust the above information is of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael McGlynn', with a stylized flourish at the end.

Michael McGlynn
Executive Director