



The Scottish Parliament
Pàrlamaid na h-Alba

TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

AGENDA

20th Meeting, 2009 (Session 3)

Tuesday 22 September 2009

The Committee will meet at 2.00 pm in Committee Room 5.

1. **Decision on taking business in private:** The Committee will decide whether to take item 3 in private.
2. **The Strategic Review of Charges 2010-14 - The Draft Determination:** The Committee will take evidence from—

Sir Ian Byatt, Chairman, and Craig Mackenzie, Analyst, Water Industry Commission for Scotland.
3. **The Strategic Review of Charges 2010-14 - The Draft Determination:** The Committee will review the evidence heard earlier in the meeting.

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The papers for this meeting are as follows—

Agenda item 1

Written evidence from SEPA, Water UK and Waterwatch
Scotland

[TIC/S3/09/20/1](#)

Private paper (to follow)

TIC/S3/09/20/2

WRITTEN EVIDENCE FROM SEPA, WATER UK AND WATERWATCH SCOTLANDWRITTEN EVIDENCE FROM SEPA**The Strategic Review of Charges 2010-14: The Draft Determination**

Thank you for providing the Scottish Environment Protection Agency (SEPA) with the opportunity to comment on the above consultation document. The document provides welcome confirmation of deliverability and affordability of a nationally significant investment programme within a challenging economic context. We agree with the pivotal proposal to extend the regulatory period to 2015 and are pleased to see recognition of the need to study and invest for a sustainable water industry for the future.

SEPA is pleased to note the following areas confirmed within the draft determination:

- Major investment in Glasgow's drainage network to deliver environmental and flooding improvements, contributing to the Metropolitan Glasgow Strategic Drainage Plan (MGSDP), a Scottish Government priority under the National Planning Framework. We recognise the uncertainty surrounding the solutions required and are already working with Scottish Water to develop and agree these through studies being undertaken as part of the MGSDP.
- We remain concerned about slippage in delivering sewer network improvements in the previous investment programme, in large part due to the need to study and deliver improvements in the previous period. These requirements should form part of the Q&S3a programme, even though we recognise that this will again create a significant level of overhang into the Q&S3b programme.
- We note and welcome the intention to add a further £245m for investment in the fifth year. We agree with the proposal that these funds should be allocated by the Outputs Monitoring Group once the identified studies conclude. Appropriate and effective investment in Glasgow's sewer network remains SEPA's highest priority for these funds. We also understand that the additional funds ensure that studies necessary to inform future investment periods will be completed. These will avoid the slippage issues we have seen in previous programmes and are essential to the "Break the Cycle" approach.
- We note that the draft determination supports the need for a proactive approach to tackling infiltration in Glasgow's sewer network. A staged approach to addressing extraneous flows (both infiltration and inflows) is being piloted in Glasgow. However, we believe that a systematic national approach is needed and have therefore proposed an additional Ministerial objective to establish a plan to assess the operational, flooding and energy impacts across the whole of the Scottish sewer network.

We would like to draw your attention to two serious concerns, where we would welcome further discussion and resolution with the Scottish Government and yourselves:

- We cannot support the proposal for further studies at Loch Ryan, which will lead to further delays to improvements required under the Urban Wastewater Treatment Directive and Shellfish Waters Directive. We have raised this as a major issue at the Output Monitoring Group and in recent correspondence with the Commission. We have also advised Scottish Government of our position and trust that all parties will act on any further instruction from Ministers regarding this scheme.
- With regard to the possible implications of transfer of trade effluent responsibilities which could affect Scotland's effectiveness in implementing the Priority Substances Directive, we would ask to be involved in any discussions involving a transfer of activities which could affect environmental protection.

We attach further detailed comments for your consideration in the attached Annex.

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, SEPA Corporate Office, at the address shown below.

Annex

SEPA's comments on the Strategic Review of Charges 2010 – 2014 – Draft Determination

Levels of Service Performance (p.13): We continue to support the OPA measure of performance, and endorse the need for continued improvement. We are pleased to note the substantial improvement made in discharge compliance with licence conditions over recent investment periods, but note that this relates to compliance with quality standards only, and there are many assets which currently fail to comply with other licence requirements such as the provision of standby facilities, operational procedures, flow monitoring facilities, telemetry, and other infrastructure requirements. This will be highlighted when SEPA introduces a new compliance assessment scheme in 2010, although we will continue to report the OPA target as before during this regulatory period. We note the proposed OPA target for a 5 year investment period. We would strongly agree that the performance of PFI/PPP operated works such as Dalmeir Wastewater Treatment Works should not be treated as exceptional cases, and that Scottish Water should continue to be accountable for the performance of all of its assets, including those operated under a PFI/PPP contract.

Transferring activities to licensed providers (p.14): We note that the draft determination suggests the transfer of trade effluent sampling and consent monitoring to a licensed provider. We are extremely concerned that this would reduce the effectiveness of such an important regulatory regime, which will be key to addressing the requirements of the Priority Substances Directive. Monitoring is a key component of regulatory control and enforcement of trade effluent, since it is essential in controlling influent loads and hence works performance at treatment works, as well as identifying and acting on environmental pollution. We would oppose any proposals which could create ambiguity or confusion and hence weaken prevention and enforcement actions in this area. We would ask that we are engaged in any further discussions on this issue.

Investment Programme (p.18+): SEPA can confirm that we have had extensive engagement with Scottish Government and Scottish Water in the development of the environmental improvement programme and are pleased to note the proposal to fund Priority 1 objectives in full within the four-year investment period allocation, as well as the overhang from the Q&S3a programme.

It must be noted that SEPA reluctantly identified some projects for inclusion in the 'Priority 2' category, recognising the financial constraints that we are working under, but warned that failure to deliver these would carry infraction risks for the Government. Our understanding is that the extension to a 5 year period, which would include Priority 2 Package 1 and the Q&S2 "orphan" projects within an additional £245m for enhancement investment should reduce these risks. We support the proposed phased approach to allocation of the remainder of this investment, to be agreed by OMB when needs are confirmed for Glasgow's sewer network and the revised Bathing Waters Directive. The additional fifth year of funding must allow significant progress to continue to be made in Glasgow. We trust that this approach will be clarified in the final determination following issue of the final Ministers Objectives.

SEPA is fully committed to the 'Break the Clyde' approach whereby Scottish Water study a problem in one period in order to identify the actual investment required to deliver the most appropriate solution in the next period. SEPA is fully engaged with Scottish Water on strategic studies of the Glasgow drainage system and any improvements identified as a result of these studies should be implemented if at all possible within the constraints of the programme. In a similar context we would support Scottish Water's requirement to adapt to and mitigate the potential threat to climate change.

Underpinning both of these objectives is a need to understand and quantify the ingress of extraneous surface and ground water into the foul drainage network. SEPA has proposed that an additional output be added to the Minister's Objectives to ensure that a method and plan to assess impacts of this extraneous water are completed in the SR10 period in order to inform further investment required not just in the Glasgow network but across Scotland as a whole. It should be noted that an understanding of the sources of this extraneous water and the potential for its removal from the foul water system may well have implications for carbon emissions (and climate change mitigation), relieving development constraints and alleviating floods. SEPA supports the inclusion of these studies in an extended 5 year period.

Capital Maintenance (p.21): SEPA notes the proposal in the Draft Determination to significantly reduce the capital maintenance allowance by over 5%. We would seek reassurance from the Commission and Scottish Water that this will not create financial constraints in improving compliance and reducing pollution incidents.

Drinking Water Quality (p.21-22): Although this area is strictly a matter of the Drinking Water Quality Regulator (DWQR), SEPA notes the proposal for a £1m annual allowance for project work to investigate the potential for 'elimination' of the risk of cryptosporidium in 'low risk' catchments. Whilst SEPA would always support the use of none or low engineered solutions to any quality problem, we question whether any risk can be 'eliminated' and note that it would be the responsibility of SEPA to deliver this outcome by use of diffuse pollution regulation. Indeed, several of the priority catchments identified in the forthcoming River Basin Management Plan are those where Scottish Water and SEPA have identified risks to drinking water quality. In these catchments, SEPA will be directing specific resources to reduce diffuse pollution under the Controlled Activity Regulations. It is however not clear if or how these powers can be used to eliminate the risk of cryptosporidium to the satisfaction of DWQR. We would seek early engagement with key stakeholders to explore this in more detail.

We support the proposal for preliminary studies to be undertaken in the security of supply zones and the use of a 7 stage process (suitably revised) to ensure that solutions are appropriate. We would ask for SEPA involvement in this process in a similar role to the SR06 water resource zones.

Environmental Improvements (p.23+): SEPA confirms that tackling the legacy of the unsatisfactory sewerage network in Glasgow remains our highest priority, and we also acknowledge the enormous uncertainty surrounding the solutions to be pursued or the investment required. We remain committed to supporting Scottish Water in the studies of these networks and to the use of a management process similar to the 7 stage process adopted in the current period. We agree that a pro-active approach to tackling infiltration, or more properly extraneous water ingress, may have the benefit of reducing the scale of solution plus other benefits on pumping and treatment costs.

SEPA has serious reservations over the proposal to 'ring fence' the investment required for Loch Ryan until further 'studies' have been completed, and we have voiced our concerns at the Output Monitoring Group and through previous correspondence with the WICS during July 2009. We have not reproduced our concerns here, but re-iterate that we cannot support this approach and urge the Commission to revise its position in the Final Determination so that Scottish Water can continue with their procurement process.

Growth (p.24): this is an area that still causes some confusion, in particular when growth may trigger a substantial step improvement in capacity of treatment levels. SEPA believes that further discussion is required both in Water Supply and Drainage Infrastructure to facilitate growth in many areas, particularly as we emerge from the present economic climate and development pressures may again increase. For this reason, SEPA and Scottish Water are reviewing the current Memorandum of Understanding on this subject.

Other Investment Priorities (p.25): we welcome the proposals for funding to address the ongoing odour issues at Seafield, and for the implications of the Flood Risk Management Bill. In this and in several other areas that involve uncertain Outputs we will continue to engage with Scottish Water and an ongoing Seven Stage Management Process, or something similar.

Leakage (p.28): SEPA notes references throughout the document to leakage reduction and particularly welcomes the proposal for further reduction to "proper economic and sustainable level" (p.29), which should lead to benefits for the water environment and carbon emissions. We note the proposal for a reduction in leakage from current levels down to, an as yet unconfirmed, target of 500MI/day by the end of the regulatory period (please clarify if this is 2014 or 2015?). SEPA would wish to see more robust and targeted statements of objectives and would welcome the opportunity to engage further with the key stakeholders to define this target. In particular, we believe that leakage reduction has a significant part to play in reducing deficits and supporting decisions on resource investment, and it is essential that robust estimates of both long and short term economic levels are available on a water resource zone level to support this. For these reasons, we would intend to continue our involvement in the Regulatory Leakage Group.

In a similar context we welcome the proposed funding for metering trials (p.12) and would wish to be engaged in so far as ensuring that the scope includes the potential environmental benefits as a result of possible lower water use and any consequential reduced abstraction that may occur.

WRITTEN EVIDENCE FROM WATER UK**WATER UK RESPONSE TO THE WATER INDUSTRY COMMISSION FOR SCOTLAND (WICS) ON THE DRAFT DETERMINATION OF SCOTTISH WATER'S STRATEGIC REVIEW OF CHARGES FOR 2010-2014**

Our response covers a number of issues in the WICS' approach which raise general questions of regulatory process and relate to a number of themes and concerns in common across the UK water industry.

The draft determinations of charges and prices respectively in Scotland and in England and Wales, are an important step in the process towards establishing appropriate final determinations later this year – determinations that we trust will ensure an industry that is environmentally, socially and financially sustainable both for the next 4 to 5 years and well into the future.

Transparency and Regulatory Approach

Transparency is important to ensuring the rigour and consistency of the regulatory approach and adherence to understood and reasonable principles by a regulator.

While the WICS' draft determination is accessible to most stakeholders, it lacks transparency of its reasoning and evidence, despite publication of the WICS' staff papers.

It is also unclear why the WICS' set out a disclaimer in their draft determination to the effect that staff papers cannot be relied upon. With the introduction of competition in Scotland and in England and Wales, and more separation of activities, there is a need to consider the extent to which, despite different ownership models, convergence of the regulatory approach in Scotland, England and Wales is appropriate. For instance, to what extent is this important to ensuring consistent incentives in different markets, such that competition is not distorted, and consumers are fairly and consistently treated across Great Britain.

Financeability:

The WICS states that "Scottish Water's financial strength should, at the end of this regulatory period, be on a par with the stronger [England and Wales] companies" (pages 8-9).

As with Ofwat's tests for financeability for companies in England and Wales, it would be helpful for the WICS, to state more clearly how they undertake the test of financial strength, and how the DD ensures that, in future, enhanced financial strength is achieved.

Rate of Return

The Commission states that its proposed 2.7% allowed return is equivalent to a 4.1% post-tax real WACC after adjustments made for Scottish Water's higher depreciation relative to England and Wales companies.

Given the different ownership and regulatory structure in Scotland, and the fact that the WACC can never be 'market tested', such comparisons are somewhat hypothetical. Even so, it is notable that the overall return allowed by the Commission is lower than for any comparable regulated UK company including Network Rail and Royal Mail and indeed, Welsh Water. This appears to be primarily driven by the cost of equity which is stated to be much lower than for UK water companies, and lower than that allowed for other state owned or funded enterprises Royal Mail and Network Rail.

Furthermore, difficulties in understanding the rationale for the WICS' WACC for Scottish Water are compounded by the unusual adjustments made by the WICS for depreciation - the relevance and transparency of which are not evident.

Cost of Equity and Dividend Policy

The Commission states that it considers the Minister's decision not to take dividends in its assessment of the cost of equity. However, the commercial cost of equity should be independent of dividend policy¹.

¹ Miller, M. H. and Modigliani, F. "Dividend Policy, Growth and the Valuation of Shares" *Journal of Business* pp 411-33

It is notable that Welsh Water pays dividends to its customers and that while Network Rail and Royal Mail do not, their respective regulators set market based costs of equity, examining the relative risk of their business activities. The risks associated with an enterprise's operations do not change if equity returns are foregone.

Business Rates

The WICS has taken a different view of Business Rates in Scottish Water's determination than has Ofwat in England and Wales, whereas these are non-controllable cost increases being set by the same external body according to the same methodology and bearing the same risk profile. It is not clear why different regulators should take a different view of systematically the same cost variable. Furthermore, it would seem that Ofwat – at least on water rates - has taken an appropriate view on cost pass through of this element, recognising its exogenous nature. We are pressing Ofwat to extend this to its treatment of wastewater rates, with the same rationale.

Inflation assumptions

The Commission has taken a simplistic approach to indexation in the Draft Determination in assuming constant inflation over the period. Inflation assumptions –and the profile from year to year - can impact significantly on allowed and expected returns and financeability². These issues arise from the fact that prices in any year are set to reflect inflation in a prior period, not inflation at the time, and are compounded by uncertainty in the inflation forecast. However, the WICS' approach appears to overlook these potentially important effects. We note that Ofwat has taken a different – and in some respects more reasonable - approach to inflation from the WIC.

Opex

The Commission has stated that it considers that Scottish Water's operating costs should remain broadly constant over time. However, the rationale for this assumption is unclear – indeed, a flat opex profile is not consistent with, or supported by, observed performance in England and Wales.

Transfer of Activities to Retail business

Water UK is currently considering at an England and Wales level questions around accounting separation of activities. We note the proposals made by the WICS for further transfer of activities to the retail business for Scottish Water. In both arenas we would like to see the development of, and adherence to, much clearer, appropriate and consistent principles for separation. For instance, we note the WICS' proposal that responsibility for managing trade effluent be transferred to the retail business in Scotland, yet there is a lack of discussion or clarity as to how this may influence the effectiveness and cost of managing risk around trade effluent discharges, accountability and performance incentives – and ultimately the impact on customers and the environment.

² A recent report for Water UK by independent consultants NERA, provides some assessment of these issues in the context of the E and W draft determinations for PR09 by Ofwat.

WRITTEN EVIDENCE FROM WATERWATCH SCOTLAND**Request for information relating to WWS' response to:
WICS: The Strategic Review of Charges 2010-14 - The Draft Determination****Introduction**

Waterwatch Scotland (WWS) is the national complaints handling authority for all domestic and non domestic water customers and consumer representative body for the water industry in Scotland.

Our role is to:

- Investigate complaints
- Represent customers' interests and views
- Influence policy
- Inform and advise

WWS' responsibility for second tier complaints handling means that it can take forward individual customer grievances against water providers. WWS can also make statutory recommendations to Scottish Ministers, the Scottish Government, Scottish Water and other industry regulators on customers' behalf including: Scottish Environment Protection Agency (SEPA), Drinking Water Quality Regulator (DWQR) and the Water Industry Commission for Scotland (WICS). WWS can report on any matter that it understands to be relevant to the customer and in the customer's best interest.

The Strategic Review of Charges 2010-14: The Draft Determination**General Comments**

At WICS' request, WWS' response is based primarily on the main Draft Determination document, not the Staff Papers.

WWS acknowledges SW's improved performance over the last regulatory period and welcomes the clear timescales and expectations that are outlined within the Draft Determination.

WWS recognises that WICS has taken forward points that were raised during WICS' Draft Determination workshops and welcomes that these points have been reflected in the Draft Determination document e.g. unwinding cross subsidies relating to trade effluent, measuring SW' improved levels of service using OPA scores, the use of metering to control water consumption, etc.

WWS notes that customers' interests and the delivery of customer benefits have been referred to throughout the Draft Determination and welcomes this more customer focussed approach.

WWS welcomes the use of clear tables in the report which outline specific charge caps for households and retail suppliers, and feels this helps avoid ambiguity or confusion.

WWS welcomes the comments contained in Sir Ian Byatt's *Introduction*, which acknowledges the extent of SW's success during the last year and the need for continuous improvement in order to further benefit customers and / or develop further customer benefits.

Introduction

WWS notes that the Draft Determination is published at a time of economic uncertainty and increasing pressure on public expenditure.

WWS broadly supports the principles of charging adopted and welcomes the fact that the WICS proposals do not compromise the prospect of stable charges for future generations. However, WWS would point out the fact that stable water charges do not necessarily equate to affordable water charges. Support for low income households unable to meet their obligations to pay for water and sewerage services remains inadequate (*Affordability of Scottish Household Water and Sewerage Charges: Historic Trends and Current Position 2008*). Household water and sewerage charge debt currently stands at a cumulative total of £288.5m from 1996 to 2008. This is an increase of £6m over the last financial year.

WWS continues to support the phased unwinding of cross-subsidies, however would emphasise that they be carried out in a supportive manner using effective communication with customers.

WWS welcomes the introduction of a 5 year regulatory period and the associated and stated benefits that this will offer water customers. As WICS is aware, WWS has long advocated evening out peaks and troughs within and across the regulatory periods. WWS does have concerns however, regarding the reduction in the amount of borrowing available over a five year regulatory period versus a four year regulatory period which creates a shortfall of £10m per year. WWS requests that WICS transparently demonstrates that there is no detrimental impact on customers' priorities as a result.

WWS welcomes WICS' more transparent and inclusive consultation process leading to this Draft Determination.

WWS reiterates its offer previously made to WICS to make use of WWS' National Panel structure as a resource to disseminate future Draft Determinations or any other consultations by WICS to customers; Panels are used by other industry stakeholders in this way.

In general, WWS welcomes continued pressure on SW to improve its customer services during Q&S3b although we would like to see a greater emphasis placed on improving service quality aspects such as customer satisfaction and customer consultation. WWS would also support a move to make the measurement of customer service aspects a greater part of performance measurement scoring and would be pleased to continue to work with WICS to develop this approach.

WWS welcomes increased pressure on SW to achieve its economic level of leakage by 2014.

WWS notes and endorses the view that SW needs to continue to build understanding of its assets, asset performance and management of investment programmes to ensure efficient delivery of such. Indeed, under these headings, the number of customer contacts and complaints received by WWS that indicate a lack of knowledge on behalf of SW of these areas, is a cause of concern for WWS. Better asset information improves the quality and flow of information between wholesaler and retailers which ultimately benefits the customer and improves the customer experience. It also further enhances understanding of how the SW investment programme will benefit customers. Better knowledge and understanding of vital components has to be the basis for continued improvements.

WWS has noted that it is the Scottish Government's desire to retain SW in public ownership but that the Government has reduced the level of funding available to SW compared to previous periods. WWS has concerns that this could result in some customer priorities not being included in Ministerial Objectives and Scottish customers receiving a poorer level of service than their E&W counterparts in areas such as external sewer flooding.

WWS welcomes further discussions with WICS on taking forward a household metering trial. A trial will provide credible evidence on which to base further development of policy affecting metering within Scottish households. Research into metering is part of WWS' current workplan and as part of its role as customer representative organisation for water customers, WWS is pleased to input its work done to date on domestic metering in various capacities to WICS to recommend suitable customer groups for the pilot.

WWS welcomes funding to alleviate Glasgow's severe drainage problems. WWS would like to highlight that not all of this work will be undertaken by SW but that there will be a degree of reliance on other organisations to work closely with SW to deliver the solution. As customer representative body for water customers, WWS is aware of the need to employ a mechanism to ensure other organisations engage, commit and contribute to the programme on an ongoing basis until completion; having an appropriate check and balance in place will safeguard the interests of customers.

Proposed Charge Caps

WWS welcomes the outlined charge caps which will guarantee price rises to customers below the rate of inflation.

WWS welcomes proposals to control fluctuations in prices by applying a price freeze. However, WWS would also advocate for stability of prices and suggests that surplus funding from any price freeze responding to further depreciation in interest rates, is rolled forward and spent on mitigating potential customer demands on future funding e.g. external sewer flooding.

Customer research (*Willingness to Pay Stated Preference Research Report 2008 SW / WWS*) suggests that customers are willing to pay a little more for additional investment in areas which are important to them e.g. reducing incidents of external sewer flooding, mitigating low pressure, etc. WWS seeks reassurance that the current Draft Determination will not compromise the future delivery of long term investment goals, highlighted as priorities by customers through 2nd tier complaints - 10% of WWS customer contacts are concerned with sewer flooding, 10% are concerned with water supply including low pressure. WWS supports the inclusion of credible evidence to drive price determination e.g. Stated Preference Willingness to Pay / WWS customer contact statistics and would like to see greater alignment of customer priorities with charges. WWS would welcome further engagement with WICS to develop these aspects further.

Governance & Initiatives

WWS endorses and welcomes flexibility for SW to deliver the outcomes required in the next regulatory control period. This will allow for greater efficiencies to be realised, which will ultimately benefit customers. However, there must also be a balance of responsibility and accountability to govern this flexibility and WWS would see a greater and properly constituted role for the Outputs Monitoring Group in this regard.

WWS notes that the SG plans to allow SW to borrow a maximum of £140m in each year of the regulatory period. Further, WWS acknowledges that this will be available to draw down when necessary, and will limit the number of times SW has to revert back to WICS for further funding. However, WWS is keen to see a control mechanism in place to govern this process to promote the balance of responsibility and accountability.

WWS supports the assessment of SW' outperformance taking place at the end of each regulatory period. However, a greater degree of emphasis on minimising overhang is required and of the mechanics that assess areas of performance with areas of under performance. WWS feels that the current calibration of scoring potentially drives perverse outcomes on OPA scoring that do not always benefit some customer groups.

WWS welcomes the principle of maximum borrowing from the SG to minimise the risk for customers from services not being delivered. The current borrowing process offers visibility, however WWS is concerned that there would potentially be a loss of transparency if alternative funding mechanisms are used. Furthermore, WWS would seek assurance that alternative funding mechanisms would not have a negative impact on customer charges, and that there will be no increase in the risk of service failure.

How we have set charges

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

Key Assumptions: The chargeable customer base

WWS supports the incentives proposed for retailers to identify customers not being charged, as WWS would support the principle that every customer should pay for what they use. However, WWS has the following concerns:-

- concessions / incentives to retailers must not be at the expense of domestic customers
- when non paying non domestic customers are identified, more dialogue is required between the retailer and the customer before presenting the customer with an invoice
- every customer must pay but must also have a clear process by which to do this
- retailers must not put customers under undue pressure to recover unpaid water and sewerage charges
- small businesses based within domestic properties must be protected against paying twice

WWS wish to be part of any future consultations to identify the processes and policy that will govern these issues.

Growth

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

Allowed for operating costs

WWS endorses the assumptions made by WICS in respect of SW operating costs and feels that these have has been judged appropriately.

WWS requests that WICS transparently demonstrates that the costs associated with the set-up and ongoing maintenance of the competitive market, paid for by all customers, has produced savings in other areas of SW operations, thereby resulting in a neutral impact on customers or tangible savings. WWS notes that in the previous determination 2006-10, c. £12.7m was set aside for retail competition.

WWS would like to highlight that in E&W, Ofwat is charging licensed providers for the cost of accounting separation whereas in Scotland it falls to all customers. WWS requires further transparency into the benefits delivered to customers from supporting these costs.

Regulatory reporting – WWS would seek to ensure that such costs are comparable or more favourable than E&W. £2.5m has been allocated – WWS would like further clarity on what customers are receiving in return.

Benchmarking

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

Levels of service performance

WWS agrees that OPA has served a purpose as a means of measuring performance, and welcomes the extension and realignment of OPA to include Assessed Customer Service. WWS would like greater involvement in the development of qualitative measures for OPA that place greater emphasis on a more balanced representation of customer service and customer experience alongside quantitative data. WWS already plays a significant role in this regard and would like to work further with WICW to develop this aspect further.

WWS acknowledges that England and Wales are moving on from OPA to the Service Incentive Mechanism to measure performance. WWS would welcome a more customer focussed approach incorporated into mechanisms measuring OPA performance. Furthermore, WWS would welcome a move away from absolute service targets that measure purely in numerical value the number of successes or failures SW presents against OPA targets. This can drive perverse outcomes in how SW prioritises its capital investment expenditure i.e. SW may choose to spend £1m to resolve low pressure issues for 40 houses within an urban area as this gives higher returns in terms of value for money and a higher OPA score than spending £1m on resolving low pressure issues for a small rural community with very few houses. In tandem with OPA targets,

WWS would encourage the development of mechanisms that measure how effectively SW' responds to restore services to customers in the event of a service failure. This would introduce a more customer service driven culture. Within its role as customer representative body for Scotland's water customers, WWS will be conducting ongoing bi-annual Stated Preference Research with SW from 2010; the results from this will feed into the next regulatory period to help determine areas for investment using a robust customer focussed evidence base.

WWS would also welcome the introduction of a customer engagement measure that measures SW on the effectiveness of its consultation processes from the planning phase of a project through to delivery of the solution. SW should be able to evidence customer participation, where appropriate, and how effectively customer consultation with the public has influenced the final outcome. WWS would support the need for proof of effective engagement with local communities before capital schemes are given approval to precede. Bearing in mind WWS' statutory role regarding SW' Consultation Code and our work to date with SW, WWS is particularly keen to work with WICS in this regard.

WWS welcomes WICS' strong position regarding SW' management of PPPs. It is vital that customers do not pay twice to support failing infrastructure regardless of how it was originally financed. WWS is concerned however, that this position by WICS appears to be at odds with the level of investment now being made available for SW to tackle odour issues at Seafeld WWTW. WWS would seek clarity for customers on what might appear to be a contradictory position.

Wholesale charge caps: unwinding cross subsidies

WWS supports the phased unwinding of cross subsidies however, would emphasise that they be carried out in a supportive manner using effective communication with customers.

WWS would wish to be involved in further consultation on how these cross subsidies should be unwound at the retail level.

WWS welcomes the unwinding of trade effluent cross subsidies but feels that a phased approach must be used.

Transferring activities to licensed providers

WWS has some specific concerns regarding WICS' proposals to transfer some activities currently performed by SW to licensed providers. WWS has evidence from non domestic customers that some processes put in place to facilitate competition have led to a detriment in the level of service they have received. As a result, there is a risk that some processes may be viewed as overly bureaucratic and prevent customers engaging with those best placed to resolve an issue. WWS will address this point in more detail within our response to the Marketing Framework consultation but would like it noted that it has some serious concerns regarding the proposed process changes.

Resulting wholesale charge caps

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

Impact of charge caps on the competitive retail market

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

Incidence of the industry's costs

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

Investment programme: SG objectives for 2010-14

WWS welcomes the £245m undefined investment to be allocated over the five year regulatory period and proposes that a list of appropriate projects be developed for allocating surplus funding in 2012 to increase customer benefits e.g. removing properties from the external sewerage flooding register.

WWS notes that for the third consecutive year, external sewer flooding remains a major and growing concern for customers; 10% of all WWS contacts received concern sewer flooding issues. The lack of an objective to address this issue is disappointing and has a detrimental impact on customers who have repeatedly suffered from external sewer flooding on and around their properties.

WWS welcomes the progress achieved to date in resolving low pressure issues but also highlights that the problem of low pressure is still a cause for concern to customers; low pressure issues represent 49% of all water supply contacts to WWS.

WWS welcomes the reference that has been made to progress work on adapting to and mitigating the potential threat of Climate Change however, would seek reassurance that SW will be provided with sufficient funding to allow it to fulfil its responsibilities in line with the Climate Change (Scotland) Bill – in particular responsibility for water efficiency and water conservation.

SW view of investment required to deliver the SG objectives

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

WICS' view on the level of investment required to deliver SG objectives

Environmental Improvement £473m - WWS notes that much of the investment programme is being driven by quality regulators and not by customers and further notes that over half of the funding is allocated to Glasgow's drainage programme (£250m) and the new Bathing Waters Directive (£20.6m) and that no funding has been allocated to external sewer flooding. There needs to be greater focus on delivering against customer priorities. WWS feels that there needs to be a greater emphasis on customer services and customer consultation built into this process as well as performance monitoring of the process to completion. WWS supports funding for capital maintenance as this is the key to long term sustainability and does recognise that quality drivers will produce customer benefits. However, WWS would seek assurance that there is no detrimental impact on customer services caused by efficiency and maintenance drivers.

Definition of Outputs: WWS notes that WICS has made reference to having had discussions with SEPA and DWQR regarding the monitoring and assessment of SW' performance but that WWS has not been included in this process. As 2nd tier complaints handling organisation for Scotland's water industry, we would welcome further dialogue with WICS in the future to engage the positive role we play in improving customer services.

WWS notes that reference is made to Loch Ryan and welcomes the level of scrutiny which this issue is receiving as it is vital that the final solution is the most cost effective and delivers the required output first time. Such processes are vital if the industry is to avoid a situation similar to that experienced at Campbeltown.

WWS supports funding for studies that lead to more efficient investment / solutions involving work taking place between and amongst regulatory bodies to create synergy and maximise efficiencies.

WWS welcomes funding for improvements to drinking water quality, however, seeks assurance that DWQR is comfortable with the level of risk customers now carry. WWS welcomes further studies on cryptosporidium.

Growth

WWS notes that a significant amount of funding was made available to SW for growth in this current regulatory period (2006-10) for which, the customer has already paid. Since the Ministerial Objectives for 2006-10 were approved, growth has been reported as slowing down. WWS is keen to establish whether all

funding that was allocated has been spent specifically in this area or whether a funding surplus has occurred and how this will be allocated in the future.

WWS has concerns that SW's claim for further investment to address internal flooding is addressed elsewhere in the programme and that WICS state that there are no clear outputs for this investment. WWS is still of the view that internal sewerage flooding is a key concern of customers.

Other investment priorities

WWS welcomes that funding is being made available for Seafield, but feels it is important not to lose sight of other WWTW sites that are equally problematic in terms of odour. WWS seeks confirmation that the prioritisation of Seafield is as a result of work identified by SOSG.

WWS welcomes and endorses funding for SW to resolve low pressure issues for customers. Low pressure has been a significant issue for customers over a long period of time.

Profile of investment between regulatory control periods

WWS welcomes the statement made regarding the UID programme in Glasgow and completion of the mains renewal programme and believes it is a positive statement as it protects customers from escalating costs due to work outstanding.

Investment to develop the regulatory framework

Again, WWS would request that WICS transparently demonstrates that the costs associated with the set-up and ongoing maintenance of the competitive market, paid for by all customers, has produced savings in other areas of SW operations, thereby resulting in a neutral impact on customers or tangible savings.

WWS would welcome further clarity regarding how the accounting separation of water networks and water treatment will benefit water customers.

Treatment of uncompleted projects from previous investments

WWS welcomes the principle that water customers do not have to pay twice for outstanding projects. In addition to previous comments regarding the potential strain on capital expenditure costs, increased costs have to be funded through SW' effectiveness. Arguably, this is to the detriment of other SW customer priorities. WWS appreciates the frustration of tolerating a reduced level of service in the meantime due to delays in completing outstanding projects.

Scope for efficiency

WWS has only provided comment in areas of particular concern or where WWS feels it can add value, rather than commenting in all areas of the Draft Determination.

Leakage

WWS welcomes the focus on leakage reduction however, WWS has evidence that customers are still dissatisfied with the length of time SW takes to fix leaks and in particular with SW' communication and consultation in this regard.

Conclusion – Good for sustainable development in Scotland

WWS welcomes the fact that this should be part of any plan for SW and can confirm from evidence that customers do support environmental improvements.

WWS notes that there is now a requirement for SW under the Climate Change (Scotland) Bill to promote water conservation and water use efficiency and WWS is keen to see that SW is adequately resourced to carry this out.

Additional Notes / Comments

The recent SEPA consultation: Proposals to Amend the Water Environment (Controlled Activities) Fees and Charges (Scotland) Scheme, highlights that the cost of compliance with the new pricing regime will have a significant financial impact on SW that, ultimately, will be reflected in the charges to its customers. Consequently, WWS would seek assurance that any additional costs levied onto SW are accounted for within the 2009 Draft Determination.