

Eighteenth meeting of the Customer Forum

Held on 18 October 2018

Attendees: Peter Peacock (Chair)
Rachel Bell
Andrew Faulk
Agnes Robson
Bob Wilson
Stuart Housden
Sue Walker
Jo Dow

In attendance: Graeme Dickson, Customer Forum
Donna Very, Water Industry Commission for Scotland (WICS)
Kerstin McEwan, Water Industry Commission for Scotland (WICS)
Douglas Millican, Scottish Water
Simon Parsons, Scottish Water

Observers: Carlos de Regules, OECD Peer
Anne Yvrande-Billon, OECD Peer

Chair's opening remarks

The Chair welcomed the OECD peers to the meeting. The peers would be observing as part of their review of the SRC process.

Apologies

Apologies were received from Tom May and Mairi Macleod.

Declaration of interest

Andrew Faulk declared that he had been appointed as a member to the Scottish Government Working Group for Energy and Consumer issues.

Minutes of the last meeting

The minutes were approved.

Actions

Noted.

Update on recent activities

The Chair provided an update on activities since the last meeting.

The Chair met with Roseanna Cunningham, Cabinet Secretary for Environment, Climate Change and Land Reform to update her on emerging issues and the work of the Forum. The Chair stressed to Ms. Cunningham the need for future availability of borrowing for Scottish Water and that if the possibility emerging from current discussions of creating a fund for future investment while smoothing prices over time, it was important that the existence of any such fund did not tempt a reduction in future borrowing, or otherwise be utilised in ways which would defeat the original purposes of any such fund. The discussions further ranged over engagement with communities and the synergies between Scottish Water and other dimensions to of her portfolio in which Scottish Water had a potentially strong role to play. Ms. Cunningham considered Scottish Water to be performing well and would like to be kept updated on the work of the Forum.

The draft of a possible 'social contract' has now been circulated to the wider stakeholder group and the Chair has had an opportunity to discuss the document with Douglas Millican, CEO of Scottish Water. Scottish Water had indicated they would welcome further discussion on the ideas and, in principle, considered that the points outlined in the document could contribute to thinking within the "Supporting a flourishing Scotland" strategic objective within Scottish Water's Strategic Plan. The Forum will develop their thinking on each of the point and will work closely on the development of the Strategic Plan.

The Chair, as authorised at the last meeting of the Forum by members, had a discussion with the CEO of Scottish Water on 2019/2020 charges. The Chair had signaled to Scottish Water that while there was great merit in sticking to the agreement reached for SR15, were Scottish Water to make a case for retaining the current annual price trajectory through to the end of the period which focused on 'spend to save' type measures which would reduce future pressure on prices, or produced other attractive customer benefits, then the Forum would be willing to enter a discussion on this, without commitment at this stage. The Chair indicated that earlier strong signals from the Commission that they would be open to an interim determination to alter the agreed price profile for the current period were now weakening. The Chair would have a further discussion with WICS and possibly the Scottish Government on this matter and the Chair will report back. It was noted that even if 19/20 prices remained at a 1.6% level, consistent with earlier years, that meant that the 20/21 financial year could still be utilised in relation to the issues rehearsed above.

The Chair had delivered a presentation at Water Scotland 2018 conference at the SECC, alongside Gail Walker of CAS. There had been some very interesting presentations by Scottish Water in relation to their recent consultation on their Strategic projections; the Hydro Nation Scholars and some presentations on some innovative work being done in and around the Scottish Water industry.

The Forum noted next steps on Scottish Government's recently closed consultation "Investing in and paying for your water services from 2021". The Forum noted that next steps in the process are Scottish Government will analyse and interpret views submitted as part of the wider agenda to allow for WICS to issue its final determination in 2020. That analysis would not be likely to be complete for some time.

The Chair, Agnes Robson and Stuart Housden had a meeting with the OECD peers who are currently reviewing the SRC process. The progress report, which documents how the process operates using input from all stakeholders, will be shared with Forum members when finalised.

It was noted that John McLaren and Danny Phillips have been asked to review and update their previous reporting to the Forum and identify any matters in which it may be possible to say there has been a material change in circumstances.

Alan Sutherland, Sam Ghibaldan and the Chair recently met to discuss borrowing and whether the current borrowing regime would serve as a long-term benefit to customers. Further discussions will take place on this matter and the Chair will keep Forum members updated.

The Chair and Stuart Housden met with the Scottish Whisky Association as part of the Forum's objective to meet with business representations. This was a very interesting meeting which gave rise to a discussion on the reliability of supply and the quality of water supplied to business customers. The SWA agreed to send a note to their members around the key issues in the Strategic Review of charges in case that elicited any further views.

The Chair had presented at a Behavioural Insights Conference in Cape Town. Some interesting presentations were given, and the Chair recounted the recent policy initiatives and behaviours of government and the people of Cape Town during their recent water shortage crisis.

The Chair gave indication from his recent conversation with Scottish Water in regards to the England and Wales Business Plans and the strong signals that were emerging on commitments to further reduce leakage. Scottish Water appear keen to ensure that they engage fully on what more they can do to move in the same direction. The Forum welcomed this indication as continuing to address leakage has been a matter the Forum has been making clear is important.

Sue Walker provided (on behalf of Mairi Macleod) an update on a recent performance monitoring group meeting. This meeting focussed on the development of the drinking water matrix which is being developed to meet EU drinking water quality directives. It was noted that DWQR were unable to attend the meeting and a bilateral would take place between Scottish Water and DWQR to update them on this meeting and current thinking. The next meeting of the group would focus on what would be done in the next period regarding the removal of lead.

Andrew Faulk provided an update on the IPPF Project Appraisal meeting he had attended. ToRs had now been agreed and the papers for the next meeting had been circulated. Andrew agreed to circulate the paper on community engagement to members for information.

Rachel Bell provided an update on a Consumer Matters Stakeholder Workshop she had attended with the key themes being legitimacy, trust and transparency within the water industry. DEFRA, OFWAT and the National Infrastructure Commission gave presentations.

Bob Wilson, Rachel Bell and Mairi Macleod met with Anglian Water to learn about Anglian's interaction with Scottish Water. Anglian consider the relationship with Scottish Water to be good but there are areas that could be improved especially around drainage and connections. Anglian would be happy to facilitate a meeting where the Forum could meet some of their customers to gain a further insight into LP/SW/end user relationships as part of helping the Forum fashion their thinking to take back to Scottish Water. A similar meeting is scheduled with Business Stream and Veolia.

Scottish Water

The Chair welcomed Simon Parsons and Douglas Millican (CEO) from Scottish Water to the meeting.

The CEO reflected on the recent letter from Alan Sutherland, CEO of WICS which outlined current thinking around the SRC and how Scottish Water aim to take this forward.

The changed approach of the Strategic Plan, replacing the Business Plan and what Scottish Water want to achieve strategically, was discussed. Scottish Water will look to their stakeholders for input into the development of its Strategic Plan and are keen to work with the Forum and other stakeholders to co-create its final plan. Scottish Water will take ownership and delivery of the Strategic Plan development process. The next joint stakeholder group will focus on issues around co-creation as a method in relation to the Strategic Plan and its development. The Customer Forum welcome the principle of Scottish Water seeking to co-create its Strategic Plan with the Forum and other stakeholders and looked forward to working with Scottish Water on this matter, to meet their joint responsibility to seek to agree the Strategic Plan for onward submission to the Commission and provide the basis of the next Determination of charges.

Arising from the correspondence from Scottish Water to the Commission, Simon Parsons provided an update on the financial framework definitions. Scottish Water provided an update on potential early investment levels for the next period and recapped on the tiers and what each tier would cover. Tier 1 would cover all recurring costs with the vast majority of items being "no choice". Tier 2 would be for large scale asset replacement – such as membranes and the IPPF system would play in part in these decisions, all 'choice' items. The Forum welcomed this early indication of thinking from Scottish Water and appreciated there was still much more development of the ideas to come. (the correspondence from Scottish water and their presentation slides are attached to this minute for information)

Simon Parsons provided an update on the IPPF. Scottish Water reported that it is important to get the IPPF up and running as soon as possible to deliver and support the supply chain. The IPPF is very much a work in progress and will be developed over time. At present, Scottish Water are keen to develop IPPF and to build and gain confidence amongst its stakeholders. Douglas Millican reported that there is an increasing need for finance for asset

replacement feeding through the system currently, and not just for the long term. The Forum acknowledged the points being made and indicated that more work would be needed for them to understand the relationship between early demand for increased funding and the creation of any fund for long term asset replacement

The Chair thanked Scottish Water for their input and closed the meeting.