

## **Fifteenth meeting of the Customer Forum**

**Held on 26 July 2018**

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

**In attendance:** Graeme Dickson, Customer Forum  
Donna Very, Water Industry Commission for Scotland (WICS)  
Kerstin McEwan, Water Industry Commission for Scotland (WICS)  
Simon Collier, Water Industry Commission for Scotland (WICS)  
Simon Parsons, Scottish Water  
Tom Harvie-Clark, Scottish Water  
Robert Stewart, Scottish Water  
John Telfer, Scottish Water  
Gordon Reid, Scottish Water  
Peter Martin, Black and Veatch  
Mike Barlow, Black and Veatch

### **Chair's opening remarks**

The Chair welcomed everyone to the 15<sup>th</sup> meeting of the Customer Forum.

### **Apologies**

Apologies were received from Tom May.

### **Declaration of interests**

No declarations.

### **Minutes of the last meeting**

Approved.

### **Actions**

Actions were noted.

## Update on current activities

The Chair updated the Forum on a number of emerging issues following ongoing dialogue with WICS. The context was that the draft Ministerial policy and objectives for the coming SR period were now out for consultation. They clearly indicated that price trajectories for the period had to be seen in the context of long-term needs, with WICS being formally asked to now illustrate long-term price trajectories to meet certain assumed needs. Further, in draft WICS decision papers the Chair had been consulted on, it was evident that prices for SR21 needed to be set in line with determining long-term price trajectories. In this context, it seemed clear that the SR21 parameters the Forum were likely to be given on prices was firming considerably.

The Chair reaffirmed that, following the away day held earlier in the year, he had been engaged in a series of discussions with WICS in which he had set out the Forum's view. He had advised WICS that engaging in any serious dialogue about price rises up to let alone beyond inflation (at the 2% BoE target) would face significant difficulty without much greater clarity about a range of issues. Those issues included: what would happen to any increased resources when it was evident Scottish Water had considerably further to go in fully understanding the condition of its assets; better assessing and quantifying risk; improving the techniques of project appraisal; and prioritising spend across the business. Discussions with WICS had included: a 'holdback' and release mechanism for any cash until there is proof of need; that there should be regular review points within the SR period to assess whether the assumptions on which price trajectories had been built remained valid and with the option for customers money to be 'swept back off the table' if factors in the operating environment changed; and the need for independent assurance that what SW was developing by way of its asset knowledge and systems of decision making were leading, effective and efficient. The Chair reported that significant progress on all these matters appeared to be being achieved and this would be reported at the joint Stakeholder Meeting to be held later in the month, where the position would become clearer.

The Chair also reported on potential price trajectories being worked on by WICS in pursuit of the Scottish Government's desire to see these as part of the SR discussion. These were, in principle and outline, not dissimilar to those the Forum had discussed at the last meeting.

In discussion, the Forum welcomed the apparent progress being made on the matters above. In so doing they noted that: any holdback mechanism would require guarantees that the resources would only be available for purposes agreed in advance; that the creation of any such mechanism would require transparency and clear accountabilities attached to its use; that such a mechanism would not have implications that would allow for opportunistic reductions in borrowing; that there was a danger that any proposed mechanism would mean that the current generation of customers were paying for future customers' service levels; that customer tolerance of service failure would likely lessen if such failure happened while there was money being reserved. The Forum also stressed the clear need for review mechanisms on price trajectories which could be adjusted in the light of any evidence of the need for cash lessening with greater data or relating to other changes in the operating environment.

In relation to potential price trajectories the Forum were clear that: they would require significant levels of detail about the assumptions underlying any potential trajectories; that the levels of cash to be raised by such trajectories were transparent and revealed the assumptions which underlay the cash need; customer interest in the efficiency and value for money of Scottish Water would increase if prices were to rise even to the level of inflation; that stretching efficiency targets would be a necessary part of reassurance to customers; that customers would need to know exactly what they were getting by way of improved customer service and community benefit for higher charges. The Forum

considered there was a long way to go on these matters in providing necessary assurance price rises may be warranted.

Overall, a very clear narrative is needed to explain why customer charges may need to rise in Scotland as opposed to other parts of the UK which are likely to see falling prices. The narrative must set out what customers would be getting that distinguished the service as better than elsewhere in the UK. It was evident that considerable further work would be needed on this if customers were to be persuaded of the need for charge rises.

The Forum otherwise noted the position and looked forward to further updating.

Andrew Faulk and Agnes Robson provided an update on a meeting they had with SW to discuss vulnerable customers. There was welcome progress in the approach being taken and the Forum considered that it would be useful for an update presentation from SW on this subject.

Stuart Housden provided the Forum with an update on information he had received from the WICS regarding how developer charging worked.

Members from the Forum met with Belinda Oldfield and Mark McEwan to discuss Licensed Provider levels of service measuring and what SW can do to deliver for customers. The Forum agreed that it would be useful to do some independent research on SW end user relationships with its customers.

Agnes Robson provided an update on various strands of current research which included: the desire for an exercise which brought together community representatives of areas where Scottish Water had experienced significant negative reaction to proposals to explore community perspectives on the matter and compare with SW perspectives, which might include some community survey work; an exercise to test emerging and firmer price trajectories, depending on the results of the Behavioural Insights work (see below); customer views on leakage; some pilot work with Scottish Water in communities of place; potentially testing the Forum's emerging approach to protecting the interests of customers within any scenario of rising prices (even to the rate of inflation); customer attitudes to intergenerational equity and risk appetite around resilience and price; what are customers priorities when it came to trade-offs between competing priorities between and within operating silos. Kerstin McEwan provided an update on the work being done by Pete Lunn (behavioural insight expert) which is looking at price trajectories. The prototype of this work should be available by August/September and the design of the questions will be circulated to Customer Forum members to consider. Stage two of the Peter Lunn work will focus on understanding what customers really know about risk and this will be looked at in greater detail. Some desktop research might also be needed on the following: on how the economic cost of leakage was measured and how Scotland's leakage compared to elsewhere; and on modelling the effect of potential cost factors in the operating environment. On the basis of this discussion of current research and gaps in the research evidence available, it was agreed that Agnes Robson would further focus on a programme of research with Rachel Bell, Mairi Macleod and Fraser Stewart.

The Forum discussed the Ministerial Objectives which are out for consultation and highlighted a number of matters of relevance to the Forum and which had implications for how the SR21 process played out. Although the Forum is not expected to give a response as this falls within the policy territory in which CAS/CFU were responsible for customer representations and where the Forum was a recipient of Ministerial objectives as part of the RS process, the CFU had asked to meet the Forum on any issues arising from the Forum's perspective so that the CFU could consider such in making their response. A meeting with the CFU was to take place shortly and the matters highlighted in relation to the consultation paper would be raised there.

Stuart Housden updated the Forum on a recent meeting of the environmental sub-group which had reviewed a number of matters within government environmental policies which had potential relevance to the expectations on Scottish Water. It was proposed a considered letter go to Scottish Water to help them with where the Forum had identified particular interests as part of their preparations to engaging with the Forum on environmental questions. The group considered that SW could be doing more in the environmental space and recommended a small study of what other water companies have published by way of policies and objectives toward the environment would be useful. The Forum noted the discussions that had taken place and agreed the proposed actions.

The Forum noted that the Provisional Customer Objectives paper had now been issued to all on the Joint Stakeholder Group members following revisions from the last meeting.

## **Objectives**

### **Scottish Water**

The Chair welcomed Scottish Water to the meeting.

Simon Parsons provided an update on the impact the current weather conditions were having on water resource availability across Scotland. Scottish Water continue to actively monitor the situation and give advice to use water wisely.

### **Cash**

Tom Harvie-Clark provided an update on the cash inflows and outflows of Scottish Water and addressed a number of questions the Forum had regarding how the cash variances were generated and are utilised. Scottish Water's revenue comes from its customers and borrowing from Government and Mr Harvie-Clark explained that borrowing supports growth and enhancement but is not otherwise specifically identified in relation to other projects. Mr Harvie-Clark provided an update on financial performance against the tramlines and the variances built into the forecasts. In noting the situation, the Forum observed on the apparently strong financial position of Scottish Water compared to most in the wider public sector and the considerable flexibility the amount of available cash provided to meet changing needs and demands. As a consequence, in the current period investment would significantly exceed the plans for the period. The Forum noted the prevailing view among other stakeholders that any out-performance and other gains in the cost environment automatically go for additional spending, whereas the Forum saw that the potential use to relieve customer charging was a consideration they had anticipated would have been part of the tramlines process triggering discussions on cash surpluses. To date such discussions had never happened, partly because the use of the cash obviated the need for any such tramlines trigger discussions. The Forum noted that such additional spending had been approved by the OMG and/or the Scottish Government, depending on its scale. The Forum looked forward to arrangements as part of the future financial framework being developed which would allow for much greater customer scrutiny of how such resources might be best deployed and that the system moved on from an automatic assumption that additional cash was simply spent.

### **PFI**

Scottish Water provided an overview of their PFI contracts and those contracts, Daldowie, Highland and Dalmuir which are coming to the end of their contract life during the SR21 regulatory period. These 3 PFI contracts will require for SW to pay a market value termination fee and there is still internal debate as to the best option of what should be done at Daldowie, with an option to extend the contract for a short period being available if the strategic considerations necessitated that. The presumption is that the PFI schemes would return to within Scottish Water unless there were overwhelming reasons why not. A further 5 PFI contracts will expire during the period SR27. The Forum considered the work currently being done in preparing for the return of the PFI contracts to be appropriate and noted that while there may be some additional capital costs associated with the take-over of the PFI schemes, there were also very considerable annual revenue savings to be made over time.

### **Investment Planning and Prioritisation Framework (IPPF)**

Robert Stewart briefed the Forum on the background in developing the IPPF. Mr Stewart has worked closely with stakeholders to develop the framework and had taken on board comments from the Forum in this regard. This framework would be presented to joint SRC group for further comments and consideration. The Forum were encouraged to see this work had moved on significantly but considered there was still some work to be done in the environmental and wastewater space in the design of project appraisal criteria.

### **Black and Veatch – Resilience**

Mike Barlow (Scottish Energy consultant) and Peter Martin (Black and Veatch technical director) were welcomed to the meeting.

Black and Veatch provided an introduction to their work as the independent assurers and gave an overview of their assessment of SW's approach to evaluating resilience risk.

Black and Veatch reported that Scottish Water's approach in considering risks and collateral had been strengthening, and they now need to look at impacts on customers. They commented that Scottish Water have produced comprehensive reports and impact maps showing manageable risks and more serious multi-day events, and have come up with risk appetite criteria and a strategy to minimise the likelihood of any risk materialising as a significant service failure.

Black and Veatch reassured the Forum that even though Scottish Water set their own risk appetite criteria, they would confidently pass the criteria set by OFWAT and UKWIR for the rest of the UK's water companies.

The Forum raised a number of questions about the appropriateness of the resilience criteria adopted; about the relevance of comparisons with England and Wales; how Scottish Water quantified risk as well as exemplifying consequences of failure; about how Scottish Water prioritised spending in this area relative to other areas; about the customer research on which much of Scottish Water's approach relied.

The Chair thanked Black and Veatch for their report and presentation. The Forum noted that Black and Veatch had seen a considerable development in the approach of Scottish Water

over the past three years to make it more comprehensive and appropriate. Black and Veitch awaited seeing the compelling case which would be necessary from Scottish Water to be convincing on the need for expenditure in this area relative to others. The Forum indicated it would be useful to have an update in 6 months' time from Black and Veitch as there were still considerable reservations from the Forum about the approach to resilience planning which it would continue to pursue through the SR21 process. An action to examine the research that had been undertaken so far on customer appetite to risk was agreed.