WICS QUERIES ON SCOTTISH WATER ANNUAL RETURN v14 2010-11

SECTION A - BASE INFORMATION – QUERIES

AR 01

Reference: Section A, Table 1, Commentary, p3

Query: The commentary notes that a significant number of gap sites have been identified but are not yet in charge. Please provide an estimate of the expected total revenue impact of these properties for 2011-12.

Response:

As set out in the A Table commentary, as at 31 March 2011 there were 11,915 Water Supply Points and 13,759 Sewerage Supply Points which had a status of 'New' or 'Partial' at the CMA and were therefore not yet included in settlement and generating wholesale charges. These Supply Points equate to 15,195 distinct properties. Some of these properties will not be occupied and therefore charges will not arise.

These Supply Points will have been created via the New Connection or, in most cases, the Gap Site process, the latter including both project and business-as-usual activity.

We have estimated the likely revenue impact in 2011-12 of gap site properties which had a status of 'New' or 'Partial' as at 31 March 2011 to be in the range £1-2m. This is dependent on a number of factors including the occupancy status, size, consumption and rateable values of the properties; the proportion of properties found to be duplicate and therefore not unique market properties, in which case they should be subsequently removed from the New and Partial Status without being progressed into the market; and the dates on which the properties are ultimately processed into charge by Scottish Water and Licensed Providers.

AR 02

Reference: Section A, Table 2, Line A2.17

Query: We note that within the Distribution System and Operational Use there was an increase in volume of water for 'Programmed Flushing & Swabbing' relating to a water quality incident at Burncrooks WTW. Please provide a short explanation of the incident, the category of the incident and why this is not considered as part of 'Reactive Water Quality Incident' sub-component.

Response:

Elevated levels of aluminium above the PCV (Prescribed Concentration or Value) were detected within Burncrooks WTW on the evening of 17 March 2011. The network was reorganised to reduce the number of customers affected by this and "do not drink, do not cook" notices were issued to customers still being supplied by the works. This incident was reported to the Drinking Water Quality Regulator as a "Major Event" the highest classification of water quality incidents. On 18 March 2011, water was flushed from the system upstream of customer demand, in order to turn over water from the works until the WTW had recovered.

The 'Reactive Water Quality Incidents' subcomponent of Distribution System and Operational Use (DSOU) represents flushing that has occurred as a result of water quality complaints from our customers. In the Burncrooks instance, the water quality issue was detected in the WTW and water was proactively flushed from the system to avoid water quality problems for our customers and to minimise disruption of supply, therefore it is recorded as programmed, or planned, flushing and swabbing.

We understand that the current sub-categories 'Programmed Flushing & Swabbing' and 'Reactive Water Quality Incident' may not best describe the volumes of water assigned to them. For AR12 we will look to rename the DSOU sub-categories so that they more accurately reflect the operational use of the water. Any future renaming of these sub-categories will not affect the total volume of water used for DSOU as reported in line A2.17.

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AR 03

Reference: Section A, Table 2, Lines A2.24 and A2.25

Query: In the guidance to Table A (page 8 refers) Scottish Water is required to provide a breakdown of its MLE reconciliation adjustment. Please provide this tabulated breakdown with an explanation of the difference in MLE methodology compared with the previous reporting year.

Response:

The tabulated reconciliation adjustment of the MLE is provided below:

Line	Component	Uncertainty (95% CI)	Information Source	Value (Ml/d)	MLE adjustment (Ml/d)
A2.10	DI	7.50%	Mid-point of confidence grade	2000.08	1962.39
A2.11	Unmeasured H-H	3.00%	Mid-point of confidence grade	841.89	848.24
A2.12	Measured H-H	3.00%	Mid-point of confidence grade	0.28	0.29
A2.14	Measured Non H-H	7.50%	Mid-point of confidence grade	419.79	427.70
A2.13	Unmeasured Non H-H	37.50%	Mid-point of confidence grade	17.05	18.66
A2.15	Legal Unbilled	17.50%	Mid-point of confidence grade	50.72	52.95
A2.17	DSOU	7.50%	Mid-point of confidence grade	6.02	6.14
A2.16	Illegal Unbilled	17.50%	Mid-point of confidence grade	2.20	2.29
A2.20	USPL	7.50%	Mid-point of confidence grade	94.81	93.02
N/A	Leakage - top down	20.60%	MLE calculation	756.92	699.15
A2.22	DMA	7.50%	Mid-point of confidence grade	653.42	658.48
	Trunk Mains	17.50%	Mid-point of confidence grade	30.71	31.27
	Service Reservoirs	17.50%	Mid-point of confidence grade	9.23	9.40
	Leakage - bottom up	7.11%	MLE calculation	693.36	699.15
A2.25	**Total Leakage (Post MLE Reconciliation Adjustment)**				699.15

The MLE methodology for AR11 differs from the AR10 methodology in that a different weighting has been used to apportion the uncertainty between the top down and bottom up leakage values. The AR11 weighting is based upon the variances of the two leakage estimates. In AR10 the uncertainty was apportioned based upon the standard deviation of the two leakage estimates.

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AR 04

Reference: Section A, Table 2, Line A2.27

Query: We note that consideration is being given to using a Per Household Consumption estimate for future reporting of Unmeasured Household Consumption. Please outline the methodology under consideration and explain the advantages and disadvantages of this approach over the use of Scottish Water's Continuous Area Per Capita Consumption monitors.

Response:

In discussion with the previous Leakage Advisor (Tynemarch) and the current Leakage Reviewer (SMC), it has been identified that maintaining accurate dynamic occupancy rate data for the Monitor is a challenging and costly exercise with a degree of concern over accuracy. An advantage of using PHC over the previous PCC methodology is that the requirement to establish occupancy levels in each of the PCC zones is removed, thus negating a significant source of uncertainty from the water balance calculations.

Using the current Continuous Area PCC Monitor (Acorn Classification, stratified for Monitor and Scotland), we can calculate the PHC with reduced uncertainty and then determine total household demand for Scotland with greater certainty.

It is our intention to continue reporting PCC in line with recognised Best Practice (UKWIR).

We plan to develop the PHC methodology with the agreement of the Leakage Reviewer before implementing any change.

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SECTION E - OPERATING COSTS AND EFFICIENCY - QUERIES

AR 05

Reference: Section E, Table 9

Query: Please explain the main causes for the extent of the variations in the operating cost of these large sewage treatment works.

	Name	Allers	Kinneil Kerse	Laighpark (Paisley)	Perth	Stirling	Troqueer
	Name of operational area	South	South	West	East	West	South
2011 AR	**Power costs**	116	195	387	118	182	84
2010 AR	**Power costs**	115	111	281	77	211	30
	% change	0%	76%	38%	53%	-14%	179%
2011 AR	**Service charges SEPA**	22	185	380	32	41	20
2010 AR	**Service charges SEPA**	21	186	343	26	29	13
	% change	3%	-1%	11%	22%	43%	47%
2011 AR	**Total direct costs**	187.6	441.4	987.0	241.1	398.9	55.2
2010 AR	**Total direct costs**	235.2	343.1	763.9	195.6	358.5	84.8
	% change	-20%	29%	29%	23%	11%	-35%
2011 AR	**General and support expenditure**	26	37	66	57	113	24
2010 AR	**General and support expenditure**	60	23	54	40	51	21
	% change	-57%	61%	22%	41%	123%	12%
2011 AR	**Functional Expenditure**	213	478	1053	298	512	79
2010 AR	**Functional Expenditure**	295	366	818	236	409	106
	% change	-28%	31%	29%	26%	25%	-26%

Response:

The main reasons for the changes at these sites are detailed below,

Allers – Employment costs have decreased by -£48k reflecting lower allocation of staff costs.

Kinneil Kerse – Power costs have increased by +£84k due to change in allocation of sewage treatment power from 50% to 91% (see explanation below).

Laighpark (Paisley) – Power costs have increased by +£106k due to change in allocation of sewage treatment power from 85% to 97.5% (see explanation below), and tank cleaning costs not undertaken every year.

Perth – Power costs have increased by +£41k due to change in allocation of sewage treatment power from 40% to 59% (see explanation below)

Stirling – Employment costs have increased by +£89k due to change in split of sewage and sludge costs, and Power costs have decreased by -£29k due to change in allocation of sewage treatment power from 60% to 45% (see explanation below).

Troqueer - Power costs have increased by +£54k due to major upgrades at the site. Due to the extent of the upgrade it was not possible to use the updated power allocation method detailed below, and therefore the previous estimated split of 50% was used. The new method will be used in future years. Reduction in Hired and Contracted spend due to the upgrading of the works.

Allocation of power costs: Power costs for sites which provide both sewage and sludge treatment are split between the processes based on allocation. In order to improve cost capture further the process of allocation changed from one which was based on estimates provided by an appropriate operations team leader or manager to one which involved identifying sludge related plant kW ratings and estimated run times. This has led to some changes in power allocation between sludge and sewage treatment.

General and Support expenditure is not costed directly to individual treatment works. The total general and support cost for an operational area are allocated to the works within that area based on the share of the employment costs (as the majority of support costs are for staff) of the treatment works in that operational area. As the operational areas have changed between AR10 and AR11 this has led to some changes in the proportion of support costs allocated to individual works.

WICS QUERIES ON SCOTTISH WATER ANNUAL RETURN v14 2010-11

SECTION G - INVESTMENT MONITORING - QUERIES

AR 06

Reference: Section G, Table 1, Lines G1.9 and G1.10

Query: Lines G1.9 and G1.10 show total reasonable cost contributions during 2010-11 of £16.9m. Scottish Water's Quarter 4 2010-11 RCC and Infrastructure Charge return (submitted 29/4/11) shows total reasonable cost contributions during 2010-11 of £7.6m. Please explain this discrepancy.

Response:

As with the Quarter 4 2010-11 RCC and Infrastructure Charge return, the Reasonable Cost Contributions reported in G1.9 and G1.10 relate to developments that have reached a stage of completion during 2010/11 at which developers can claim RCC from Scottish Water.

As shown in our Quarter 4 2010-11 RCC and Infrastructure Charge return (summarised below), during 2010/11 payments made to developers for projects that reached completion during 2010/11 amounted to £7.6m (£0.687k water and £6.938k wastewater). Additionally, developments, with a £9.1m RCC liability for Scottish Water, were completed during 2010/11 but the developers did not claim the RCC during the year. Accordingly £9.1m has been added to our provision.

	Water		Wastewater	
	Q&S2 & Q&S3 Total RCC contributions	RCC Provision	Q&S2 & Q&S3 Total RCC contributions	RCC Provision
Total	**£686,703**	**£3,130,991**	**£6,938,027**	**£5,964,852**

Table G1 includes overheads of £193k.

AR 07

Reference: Section G, Table 1, Line G1.37

Query: 'Infrastructure charge contributions for infrastructure assets'. This line indicates that £2.9m of infrastructure charge contributions were received during 2010-11. Scottish Water's Quarter 4 2010-11 RCC and Infrastructure Charge return (submitted 29/4/11) shows total infrastructure charge revenue for water of £4.2m and for wastewater of £3.7m. Please explain this discrepancy.

Response:

The RCC and Infrastructure Charge return shows infrastructure charge income received by Scottish Water. Line G1.37 in Table G1 shows how much of that income was invested by Scottish Water.

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AR 08

Reference: Section G, Table 2, Line G2.11

Query: 'Type A Raw Water Supplies'. This line shows a forecast of 3 works in columns 30 and 40 but a total of zero in column 80. Also, reporting to OMG has indicated that the original delivery plan forecast of five works is expected to be delivered by March 2013, as does the total in line G4.7. Please clarify.

Response:

The information contained in G4.7 is correct. At the end of Q1 2011/12 one Type A raw water source achieved MS5 sign-off with the remaining 4 sources forecast to achieve sign-off in Q3 2012/13 (two sources) and Q4 2012/13 (two sources) respectively. The G2.11 entry for 2012/13 should show 4 sites and not 2. We will correct and resubmit.

The formula in the locked cell G2.11 column 80 does not pick up the data from the correct cells. This will be remedied in our final submission.

AR 09

Reference: Section G, Table 2, Line G2.25

Query: 'Improvements to the Wastewater network'. The profile provided in this line appears to be for line G2.32 ('No. of wastewater network assets brought into compliance') and does not line up with line G4.16. The profile in G4.16 appears to be the correct information.

Response:

The information contained in G4.16 is correct. Improvements for 32 properties are forecast to be delivered in 2012-13. The profile reported in G2.25 is erroneous. We will correct and resubmit in our final tables.

AR 10

Reference: Section G, Table 3, Lines G3.1-3.19, Columns 40, 60, 70 and 80

Query: Scottish Water has not completed G3.1-3.19, Columns 40, 60, 70 and 80 which should show the interim targets for annually monitored outputs. These interim targets are required for OMG monitoring and Scottish Water has previously provided values for this information. Please resubmit this table with the interim targets completed.

Response:

This table relates to Serviceability measures. We have not populated these columns as we do not have Delivery Plan targets for the years in question. Our March 2010 Delivery Plan Table 3.1 only included our forecast March 2010 position and our Delivery Plan targets for March 2015. Our Delivery Plan did not include targets for intermediate years, other than for properties with low pressure for which the Number of Properties Removed from the Register is profiled in table 10.7.

We are aware that reports, such as the CIR, contain forecasts for these serviceability measures across the period but would emphasise that these are forecasts and not Delivery Plan targets for the intermediate years.

AR 11

Reference: Section G, Table 3, Line G3.3

Query: 'Number of Microbiological failures at WTW'. The Ministerial Directions target (Column 10) is given as 38 and the actual performance as 44 (Column 50). This would mean that the target was failed. Reporting to OMG has indicated that the target was 60 and that performance was ahead of target. The delivery plan (March 2010) shows a ministerial target of 60 but an expected performance of 38. Please explain your approach to targets in this area.

Response:

The G3.3 column 10 "Ministerial target 2010-15" value should have shown 60. We have not failed our target and remain on course to exceed the Ministerial direction and outperform with a forecast for 38 failures by March 2015.

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AR 12

Reference: Section G, Table 3, **Line G3.5**

Query: 'Number of failing WWTW'. We note that at the end of March 2011 the number of failing wastewater treatment works is recorded as 12. In their June submission, SEPA states that 31 wastewater treatment facilities failed their consents of which 14 failed according to the OPA criteria. Please advise the correct actual values.

Response:

All the values are correct. There are two subtly different definitions for OPA and Serviceability measures for failing WWTW.

The OPA reported value of 14 failing works is in compliance with the agreed OPA definition.

Although SEPA's report shows a total of 31 upper and lower tier failures the number of works failing to achieve serviceability requirements is based on "look-up table" compliance. SEPA's Regulatory Method (RM40) explains this more in detail:

SEPA Regulatory Method RM40:
2.5.3 Annual Operator Compliance Reporting Targets

SEPA sets annual operator compliance targets as a **12 month rolling compliance** and this reporting statistic allows a direct comparability of licence compliance with England and Wales.

This compliance statistic reports lower tier only compliance for all qualifying samples i.e. does not differentiate between lower tier and upper tier exceedences. Any exceedence (including results which exceed the upper tier standard) will count against the look-up table as a lower tier exceedence only.

When the look-up methodology is applied for serviceability measurement a total of 12 works were classified as failing, consistent with the number of failing works reported in G3.5. However, we were successful with a late appeal at Dyke which is no longer classified as a failing works, reducing the total to 11, which is consistent with data in SEPA's Annual Report (Table 3b).

We will amend G3.5 in the resubmission to reflect the removal of Dyke.

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AR 13

Reference: Section G, Table 3, Line G3.7

Query: 'Maximum number of UIDs'. The table indicates that Scottish Water currently has 821 UIDS and a target for 2014-15 of 539. Please can you provide additional information on Scottish Water's plans to achieve the 2014-15 target over the remaining four years of the period.

Response:

The Ministerial direction is to reduce the number of UIDs from 827. Our Delivery Plan target is to have 539 UIDs remaining by March 2015. At March 2011 this figure had been reduced to 821. The forecast profile through to March 2015 is shown below:

Forecast profile at 31 March 2011:

	March 2012	March 2013	March 2014	March 2015
Number of UIDs	785	707	606	539

These figures are subject to change as investigative studies continue in the Glasgow area.

AR 14

Reference: Section G, Table 3, Line G3.8

Query: 'Number of Pollution Incidents'. This line indicates that the number of pollution incidents has increased from 788 to 824 in the last year, against a March 2015 delivery plan target of 548. Please explain the underlying reasons for this increase and provide additional information on Scottish Water's plans to achieve the 2014-15 target over the remaining four years of the period.

Response:

Since the Delivery Plan target was set, Scottish Water implemented a business-wide focus on the capturing and reporting of environmental pollution incidents (EPI). As a result, there has been an increase in the number of reported EPIs.

The EPI Team communicate regularly with SEPA to discuss and agree the category for each reported incident and discount those incidents which SEPA decides, after their investigations, are not EPIs. This has led to an increased confidence in our EPI numbers.

As a result of the heightened focus being given to EPI, we are better placed to implement measures to minimise these occurrences.

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AR 15

Reference: Section G, Table 3

Query: There are a number of entries in this table which do not appear consistent with OMG reporting. We attach a table showing areas of inconsistency we have observed. Please provide your response to the comments provided.

Response:

We acknowledge that the Ministerial targets submitted in G3 column 10 were not consistent with your expectations. We will amend in the resubmission. We have added an additional column to your serviceability spreadsheet for additional information to answer your points in more detail. This aligns the numbers reported at OMG and the Annual Return.

AR 16

Reference: Section G, Table 4, Line G4.24

Query: This line shows 13 environmental studies completed to Milestone 5 whereas Line G2.33 shows 14 as does the Q4 2010-11 OMGWG report. Please clarify.

Response:

The information contained in G2.33 is correct. The number of environmental studies reported in G4.24 (column 4) will be amended to 14 to align with G2.33. We will correct and resubmit in our final tables.

AR 17

Reference: Section G, Table 4, Line G4.20

Query: The information in this line for MS5 does not agree with that provided in line G 2.29. This line shows 10 outputs in total whereas G2.29 shows 13.

Response:

The information contained in G4.20 is correct. The G2.29 profile should show 10 outputs forecast for delivery in 2012-13. We will correct and resubmit in our final tables.

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AR 18

Reference: Section G, Table 4, Line G4.29

Query: 'Works associated with the commonwealth games'. The total in this line shows 92 outputs delivered (consistent with line G2.40) but the profile indicates 67 outputs delivered. We understand from information supplied to OMG that this relates to uncertainty over the 24 outputs at Elmvale row. However, the information provided in the table should be internally consistent. Please clarify.

Response:

As shown in G2.40, and the Q4 CIR, 92 outputs are forecast to be delivered by 31 March 2015. The Elmvale Row outputs are under discussion at OMG. We will align G4.29 with G2.40 when we resubmit our final tables.

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SECTION M - REGULATORY ACCOUNTS - QUERIES

AR 19

Reference: Section M, Table 7, Line M7.3

Query: Please explain and assess the main drivers behind the decrease in the wholesale non-household revenue from £324.593m in 2009-10 to £302.404m in 2010-11, and please provide a reconciliation base on the main factors.

Response:

The table below provides the analysis of wholesale non-household revenue into the main revenue categories and the year-on-year variances.

	2010/11	2009/10	Variance	Variance
	£m	£m	£m	%
Primary wholesale revenue				
2010/11 billing:				
Water charges	110.7	115.4	-4.7	-4.1%
Waste water charges	164.6	179.6	-15.0	-8.4%
Trade effluent charges	23.4	22.5	0.9	4.0%
Other primary charges	5.2	3.8	1.4	
Settlement reports received April/May 2011	-0.5		-0.5	
2009/10 billing:				
Settlement reports received in 2010/11	-3.8		-3.8	
	299.6	321.3	-21.7	-6.8%
Non primary wholesale revenue				
Building water	2.6	3.0	-0.4	-13.3%
Disconnections (incl temporary)	0.2	0.3	-0.1	-33.3%
	2.8	3.3	-0.5	-15.2%
Total wholesale revenue (Table M7.3)	**302.4**	**324.6**	**-22.2**	**-6.8%**

During the 2010/11 financial year settlement reports in respect of 2009/10 were received with the net impact being a charge to SW of £3.8m. This reduced the reported revenue for the 2010/11 financial year.

The decrease in non primary wholesale revenue has been driven mainly by the economic climate which saw a downturn in new building developments.

The decrease in primary revenue is primarily due to a combination of two factors; a real terms reduction in charges (as anticipated in the 2010/11 charges scheme model) and a reduction in the demand for our services at non-household premises.

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The 2010/11 tariffs reflect the K factors in the Final Determination and the October 2009 RPI, which was -0.78%. Measured against the 2008/09 non-household customer base, the 2010/11 wholesale charges scheme tariff model anticipated an overall reduction in revenue of 4.8% with reductions of 2.6% and 5.8% for water and waste respectively with a 0.2% increase for trade effluent (due to the rebalance from wastewater to trade effluent tariffs).

The table below shows the impact of the tariff changes on the water, waste water and trade effluent primary revenues, reconciling from the 2009/10 revenue to the 2010/11 revenue.

Primary revenue - year on year movements						
	Water		**Waste water**		**Trade effluent**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Revenue - 2009/10	115.4		179.6		22.5	
Average reduction in tariffs	-2.1	-1.8%	-9.0	-5.0%	0.2	1.0%
RPI adjustment to tariffs	-0.9	-0.8%	-1.4	-0.8%	-0.2	-0.8%
	112.4		169.2		22.5	
Other changes - net	-1.7	-1.5%	-4.6	-2.6%	0.9	4.0%
Revenue - 2010/11	110.7		164.6		23.4	

Within the other changes, a decrease in demand is the main factor contributing to the reduction in wholesale revenues. On average, daily billed volumes (Ml/day) decreased by -1.6%. This would have been driven in part by the economic climate and in part by customer behavioural changes.

While the main factors have been quantified, there were other factors which also impacted the year-on-year variance but to a lesser extent. Some examples, which are difficult to quantify specifically, were an increase in SPID/ property/meter numbers (upside) and changes in vacancy/occupancy status (net downside).

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AR 20

Reference: Section M, Table 18WW, Line M18WW.5

Query: Please explain the increase in the "internal cost of PPP schemes" in 2010-11 compared with 2009-10.

Line	Description	Wholesale core total	Source
M18.5	Internal cost of PPP scheme	7.839	Annual Return 2010-11, table M18WW
M18.5	Internal cost of PPP scheme	5.397	Annual Return 2009-10, table M18WW

Response:

The main reason for the increase was temporary centrifuging and associated tanker diversion costs (£1.8m) to alleviate storage constraints at Daldowie STC.

(More details on the movements by site can be found in the Table 3a commentary, under line E3a.24.)

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AR 21

Reference: Section M, Tables M18W and M18WW, Lines M18W.11 and table M18WW, Line M18WW.12

Query: Please explain the increases in "Manage billing data" for both the water services and waste water services in 2010-11 comparing to the figures in the 2009-10.

Line	Description	Water service core total	Source
M18.11	Manage Billing Data	0.621	Annual Return 2010-11, table M18W
M18.11	Manage Billing Data	0.068	Annual Return 2009-10, table M18W

Line	Description	Waste water service core total	Source
M18.12	Manage Billing Data	0.658	Annual Return 2010-11, table M18WW
M18.12	Manage Billing Data	0.159	Annual Return 2009-10, table M18WW

Response:

Costs of wholesale – manage billing data – have increased by £0.7m due to the costs of the vacancy review project, gap site processing and associated field work, and data analysis and correction.