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Dear Gordon

STRATEGIC REVIEW OF WATER CHARGES: 2015-20

Further to Bob Irvine's letter of 13 June 2012, I should like to inform you of the outcome of the Government's recent engagement on "Investing In and Paying for Your Water Services" and what confirm the decisions that I have taken. These decisions should be seen as amendments to that letter.

In broad terms, the stakeholders who responded to the engagement agreed that the policy framework that Ministers have put in place for Scottish Water is working well. They also confirmed that the areas identified as requiring further attention namely: the exemption scheme, surface water charging and charging for vacant non-domestic properties were correct. They identified a few further matters that require attention including business metering, connections for new developments and measures to water efficiency in the domestic sector.

The Government will work with stakeholders over the coming months to take forward work in the areas identified. I will confirm the policy surrounding these matters in the final Ministerial Investment Objectives and Principles of Charging for the next regulatory period in 2014.

Length of regulatory period

Stakeholders indicated clearly their support for the extension of the regulatory period to six years. The reasons given were that it would: ensure better long-term planning, increase confidence in Scottish construction industry to invest in skills and plant; provide alignment with the planning timeframes for key investment drivers (Water Framework and Flood Risk Management Directives) and would place Scotland out of phase with England and Wales planning periods.

The Customer Forum indicated reservations to the extension on the grounds that it is difficult to deliver pricing over a 6 year period owing to current economic uncertainties and inflation. I have written to Peter Peacock, Chair of the Customer Forum, to reaffirm the Government's firm commitment to 'broadly stable charges' and to that this extension is designed to promote more effective and efficient delivery of services for customers.

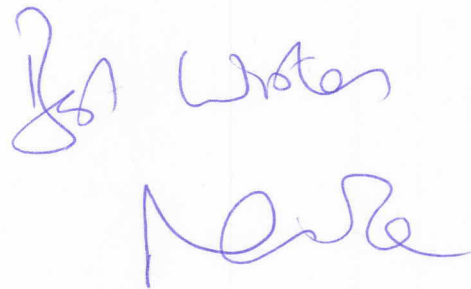
I therefore wish the Commission to undertake a Strategic Review of Charges for the six-year period 2015-21. As previously instructed, the Final Determination of Charges should be published by the end of November 2014.

Principles of Charging and Statement of Objectives.

I can confirm that the Government will finalise these by September 2014, and ahead of the election period, that will precede the Referendum on Independence.

I look forward to receiving regular reports on the progress of the Strategic Review of Charges.

I am copying this letter to the Chair of Scottish Water, the Chair of the Scottish Environment Protection Agency, the Drinking Water Quality Regulator, the Chair of the Customer Forum, Consumer Focus Scotland and the Chair of the Competition Commission.



NICOLA STURGEON