



**Putting customers
at the centre
of the price review
process**

A proposal about the future of regulation





This document is the first in a series of publications concerning the future regulation of the water and sewerage industry. We welcome comments and suggestions from stakeholders on the proposals outlined.

Information about how to respond is provided on page 4.



Introduction

It is now more than ten years since economic regulation of the water and sewerage industry in Scotland was established. In that time the industry has undergone a significant transformation.

- Scottish Water has dramatically improved the level of customer service it provides¹ and has cut its leakage by more than a third.
- Household bills are, on average, £105 lower than they would otherwise have been.
- Scottish Water has invested £5.5 billion in maintaining its assets and improving drinking water quality and environmental performance.
- Around 40% of businesses and public sector organisations are getting lower prices and/or better customer service as a result of the introduction of competition.
- Scottish Water is now in a financially sustainable position.

Monitoring and scrutiny processes in place, developed with other industry stakeholders, work well in ensuring that the benefits for which customers have paid are delivered. For example, the Outputs Monitoring Group, which comprises representatives from the Scottish Government, Scottish Water, the Drinking Water Quality Regulator, the Scottish Environment Protection Agency, Waterwatch Scotland and the Commission undertakes regular, detailed scrutiny of the delivery of benefits to customers.

Looking forward, our final determination of charges (published in November 2009) anticipated further benefits for customers over the period 2010-15. These include stable bills, continuing customer service improvements and the delivery of a large but efficient investment programme.

¹ As measured by its overall performance assessment score, which records performance in areas that matter the most to customers such as how quickly supply is restored after an interruption, or how quickly Scottish Water handles complaints.



The need for change

Although regulation has delivered significant benefits to customers and the environment we believe there is no room for complacency and we wish to build on the successes to date. We must make sure that the industry is properly equipped to meet the challenges that lie ahead, including carbon reduction targets, affordability and customer expectations.

We are planning ahead now for the next price review process, when we will set charges for the period beyond 2015. This work is likely to involve simplifying the regulatory system and encouraging greater customer participation in decision-making. It is important to emphasise here that we envisage evolutionary development of existing processes rather than fundamental change.

Our initial thoughts in the specific area of customer participation are set out here. We expect to publish further consultation documents concerning other areas of our work over the coming months.

Initial proposals

The cornerstone of our approach is that customers should be at the centre of future decision making. In particular, we think that customers should have more of a say about discretionary aspects of the investment programme and their timings.

Overcoming barriers to participation

We acknowledge that at present there are a number of barriers that may deter customer participation in future price reviews. These include the following:



Complexity

The current price setting process is complicated and technical. Simplifying the process and reducing the amount of technical information involved could be expected to encourage greater participation.

Too late to influence

We are sharing our thoughts at this early stage in order to incorporate comments and suggestions when we come to define the next price review process. Involving customers earlier in the process should allow their views to be incorporated more effectively in the decision-making process. It would also allow more time to enable a fuller discussion and engagement with customers, and for this engagement to influence policy.

Relevance to the customer experience

It is important that customers understand and value the improvements they are paying for and the costs and benefits of alternative approaches and options. This in part involves providing them with information such as the impact on their bills of improvements; this is likely to be a more relevant measure for customers than the total cost of a given project.

Planning for the long term

In our current process investment plans appear to be constrained by the length of the regulatory control period. While this may provide certainty during the period, it is unlikely to match the investment profile of the industry. Looking beyond the five-year period would allow for a more comprehensive long-term strategy where investments are phased and planned at the time they are needed. Planning to improve Glasgow's drainage, for example, is a long-term commitment that cannot easily be made consistent with five-year plans. Similarly does such planning allow us to understand the potential for innovation or rationalisation of Scottish Water's assets?

Working with others to encourage wider participation

There are a number of actions that we believe will help us to develop customer participation:

- We will continue to work closely with the Scottish Government, Scottish Water, Waterwatch Scotland, Consumer Focus Scotland and a range of other household and business stakeholders to explore new ways to involve customers.
- We will seek to expand the list of stakeholders who might help us to evolve our price setting process.
- We plan to undertake a review of the ways in which customers have been successfully involved in other industries.
- We have set up a dedicated team to foster customer engagement and are working closely with other stakeholders to explore new ways of engagement across different industries.

Next steps

This document outlines our initial thoughts on how customer involvement in the price review process might best be encouraged. We acknowledge that these are early days and are seeking active involvement from stakeholders at each stage of the process.

This is the first in what will be a series of discussion documents concerning the future of regulation of the water and sewerage industry in Scotland.

If you would like to participate in our future planning, please contact Katherine Russell, Director of Corporate Affairs, on 01786 430200 or by emailing: Katherine.russell@watercommission.co.uk. We would be happy to meet to discuss how your organisation may participate; alternatively we would welcome comments and suggestions on our proposed approach.

We would welcome responses and suggestions by 25 October 2010.



Water Industry Commission for Scotland

Ochil House, Springkerse Business Park, Stirling FK7 7XE.

T 01786 430200 **F** 01786 462018 **E** enquiries@watercommission.co.uk

www.watercommission.co.uk

