The Customer Forum: a Scottish contribution to a Hydro World

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Outline

• Background
• Price control reviews in Scotland
• Why was the Customer Forum created?
• How did it go about its tasks?
• What did it achieve?
• What difference did it make?
• What made the process work?
• What might be done differently?
• Could other countries do it?
Background

- Scottish Water (SW): publicly-owned provider of water in Scotland
- Water Industry Commission for Scotland (WICS): the economic regulator
- Strategic Review of Charges: where WICS determines maximum charge for water, to meet Ministerial Objectives at lowest reasonable overall cost
- Typically 5 years - price control review
Why was CF created?

• WICS historically benchmarked efficiency of SW against E&W water companies

• Time-consuming debate on this, & scope for efficiency improvement, & capex plan

• WICS: should be better way
  • SW now efficient, is benchmarking worthwhile?
  • what do customers want?
  • need for legitimacy on rising bills
  • What is “lowest reasonable overall cost”?

• Need for more customer input
What is the Customer Forum?

• Customer engagement way forward per US
• Discussed with govt, SW, customer bodies
• 2011 Cooperation Agreement with WICS, SW and National Consumer Council
• Create Customer Forum for 2015-21 review
  • To work with SW on customer research on customers priorities for service improvements & level of charges
  • Represent customer priorities to WICS & SW
  • Seek to secure most appropriate customer outcome
• Timetable, deliverables, agreed issues
Membership & work

• 8 members + chairman
  • Appointed jointly (by WICS, SW, NCC)
  • Wanted buy-in by all parties
  • Consumer reps incl. academics & retailers
  • Chairman a former minister

• June 2012 familiarisation with water issues
• Customer research: CF asked SW do more
• 8 Service Improvement Reports: CF why?
• Engagement process with WICS per Cooperation Agreement, incl Business Plan
SW Business Plan

• SW Business Plan in two parts
  • Baseline required standards: 96% rev, 61% capex
  • Discretionary intended CF advice: 4% rev, 39% capex

• Coop Ag initial aim: CF to provide input at margin to inform WICS decision on charges

• Oct 2012 WICS asked CF to seek to agree a Business Plan with SW: including charges?

• Expectation/hope it would be basis of charge determination but no commitment by WICS
WICS Guidance Notes

• Business Plan to be consistent with Ministerial Objectives and WICS Notes

• Ministerial Objectives:
  • “the triangle of prices, size of investment programme and lending to Scottish Water”

• WICS Guidance Notes: 21 in 3 stages
  • Opex, capex, efficiency, service, financial etc
  • CF to advise on “lowest reasonable overall cost”
  • Eg tradeoffs standards, quality, risks, cost, price
  • Not just exogenous – responded to CF queries
Financial Tramlines

• Proposed in WICS Guidance Notes
• To monitor SW financial performance & ensure adequate financial strength
  • Financial ratios eg cash interest cover
• Parties to consider what steps to take if performance above/below guidelines
• Reassured SW & CF in negotiating
  • Cost & efficiency assumptions not so critical
What was agreed?

• Jan – Apr 2014 Engagement Sub-Committee
  • 11 fields for engagement on final Business Plan
• Agreed many new performance measures
  • Levels of Overall Performance Assessment relative to other companies, Customer Experience Measure, High Esteem Test, 6 service activity measures
• SW/CF customer work programme 2015-21
• CPI-1.75% price cap over 2015-21
• 1.6% p.a. price increase first 3 yrs: certainty
• Future discussions in light of performance
What difference did CF make?

- WICS endorsed Draft Determination
  - checked Agreement consistent with WICS Notes
- WICS still decided cost of cap & efficiency
- CF changes to Draft Business Plan
  - Itself different as a result of earlier CF involvement
- Earlier, more certain, acceptable Business Plan enabled better investment planning
- SW better understanding of customers
- New performance measures, & 1.6% fixed
What made process work?

• Strong support of all parties for something better than previous process
• Proactive & interactive regulatory role
• Public ownership of SW? Unclear cf E&W
• Financial tramlines? Helpful. Necessary??
• Personalities matter: key leaders at WICS, SW, CF were positive and worked together
What to do differently?

• Not much!
• Set up CF earlier in Review process
• Set up CF more independent of company
• Clearer budget responsibilities for CF
• More resources for CF earlier in process
• More continuity regulatory commissioners
• Statutory basis? Would be disadvantage
• Agreement binding on regulator? No, but don’t lightly reject or modify it
Could others do it? Yes

- Existing price control reviews problematic
- World experience (water, energy) confirms cos & customer groups keen & able
- CF modifies but does not remove regulatory influence and responsibility
- A challenge to specify efficiency? (eg E&W)
- CF uses water more effectively for customers
- CF a significant Scottish contribution to a Hydro World