

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