



The 2010-15 price review

Our most recent price review was published in November 2009, covering the five-year period 2010-15. At a time of continued economic uncertainty the review brought good news for customers, with a freeze on charges for households and businesses in 2010-11 and 2011-12 and prices being kept below inflation for the five years to 2015. Furthermore, Scottish Water should remain in a strong financial position over the next five years, which bodes well for future charges.

The review allowed for a sustainable future for the Scottish water industry – financing an investment programme of £2.5 billion to maintain the assets, improve environmental performance and drinking water quality, and promote a greener water industry.

Our governance and accountability

We are a non-departmental public body with statutory responsibilities, which acts independently of Ministers. Our board structure reflects current regulatory best practice and brings significant relevant professional experience to bear on our work.

As part of our accountability, we must agree a corporate plan with Scottish Ministers and submit our annual report and accounts. The corporate plan sets out our work plans and budget projections for a five-year period.

We consider that we are accountable to those customers in whose interests we are regulating Scottish Water. We achieve this accountability through consultation, explanation and transparency in our work. In particular, we strive to ensure that our published documents are clear, easy to read and relevant.

Our budget is around £4 million a year, and is set to remain static over the next four years of the regulatory control period. The budget is received as a levy from Scottish Water (around £2.75 million), with the rest provided by the licensed providers of retail water services in Scotland.

Our work for water and sewerage customers



Find out more

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Our work for water and sewerage customers



Our role

The Water Industry Commission for Scotland is the economic regulator of the Scottish water and sewerage industry. We have a statutory duty to promote the interests of consumers. We do this by making sure that customers receive both high-quality services and value for money. We also facilitate greater value and choice through a competitive retail framework.

We have adapted price cap regulation (or 'RPI-X regulation') – an approach used by all of the UK economic regulators – to the situation of Scottish Water, a public sector water company.

The main elements of our approach are as follows:

- Every five years we set prices that allow Scottish Water the resources it needs to deliver ministerial objectives for the water industry at the *lowest reasonable overall cost*. The objectives include improvements in water quality, environmental performance and customer service.
- We have developed a framework that involves setting challenging targets for Scottish Water to improve. We monitor and report on the company's performance in meeting these targets.
- At the start of each price setting period Scottish Water signs up to a written 'regulatory contract'. The contract is transparent, achievable and subject to rigorous monitoring, with managerial incentives closely tied to performance against the contract.

We work closely with other key stakeholders, particularly the quality regulators (the Scottish Environment Protection Agency and the Drinking Water Quality Regulator) and the customer representative (Waterwatch Scotland).

Achievements to date

There has been a remarkable transformation of the water industry in Scotland over the past ten years.

- The industry has moved from an unsustainable position where the industry's value was less than its outstanding debt to a point where Scottish Water is one of the financially strongest companies in the UK's water industry.
- Customer service levels have improved markedly¹, leakage has been cut by over a third, and more than £5.5 billion has been invested in maintaining current assets, and improving drinking water quality and environmental performance.
- At the same time, Scottish Water has made dramatic improvements in its efficiency, the cumulative effect of which is to have driven down average bills by around £105 a year lower than they would otherwise have been.
- Household bills compare well with those for customers in England and Wales; in 2011-12 they are around £30 lower than the average bill south of the border.

As this transformation has been achieved, the relationship between the Commission and Scottish Water has moved from a more oppositional 'regulator versus regulated' position, to something much more constructive. Scottish Water values its reputation and has come to take real responsibility for its own performance within the broad financial framework set by the regulator.

Taking this responsibility has been made easier by the clarity that exists within the framework on the objectives to be met by the industry. Performance against these objectives is monitored by an executive-level stakeholder group comprising representatives from the Scottish Government, the various regulatory and customer interest bodies and Scottish Water itself. This ensures that there is agreement on progress against targets and a forum for addressing issues with delivery performance.

1. As measured by the overall performance assessment score, which increased from 132 in 2002-03 to 291 in 2009-10.



Introducing a competitive retail market

Another key achievement of the framework in Scotland has been the introduction of a competitive market for retail water and sewerage services.

Since April 2008, all 130,000 businesses, public sector and other organisations across the country – from the smallest corner store to the largest international company – have been able to choose the retailer that best suits their needs. Some 47,000 customers (around 42% of the market) have already renegotiated the terms of their supplies – receiving either better prices or more tailored levels of service, and in many cases both.

Competition of this kind, where Scottish Water's wholesale and retail activities are made separate, is driving a more efficient industry in four ways:

- First, new retailers compete for customers by offering more competitive prices and seek out more cost-effective and innovative ways to serve customers.
- Second, new retailers place pressure on Scottish Water to improve the wholesale service it provides.
- Third, new retailers are able to identify where inefficiencies exist and can put pressure on Scottish Water to make improvements.
- Fourth, there are now clear incentives available to customers and their retailers to innovate and reduce their own and Scottish Water's costs.

There is now more than three years experience of the actual costs and benefits of the retail framework. The costs are much lower and the benefits rather more wide-ranging than we originally assumed; our latest analysis estimates that the benefit for customers of the introduction of retail competition in Scotland is more than £300 million².

2. Based on the net present value of already achieved and potential future cost reductions.

