

Ofwat's consultation on Involving customers in decisions about water and sewerage services: Response from the Water Industry Commission for Scotland

We agree that it is important to increase the level of customer involvement in the price setting process. This is because there are new developments facing the water industry.

First of all, it is clear that the investment needed to improve the quality of drinking water and the water environment is likely to be an ongoing requirement. Unconstrained, this may lead to an upward pressure on bills that is more difficult to mitigate through cost efficiencies than in the past. This means that it is important for customers to buy into potential improvements in order to maximise their willingness to pay.

A further development is that the difference in the levels of service provided by companies is becoming less marked. Comparative competition, and in particular benchmarking, may no longer be as effective in encouraging companies to improve their performance. As a result, the regulator increasingly may have to rely on pressure from customers in order to encourage companies to continue to improve their performance.

A discussion of equals between the company and its customers may be an appropriate way to respond to these developments. This should improve the legitimacy of the price review process in the eyes of customers and ensure that customers are willing to pay for levels of service provided from, and the statutory improvements included in, their water bill.

In Scotland, we propose to achieve this by involving customers in decision making; particularly in determining how and where service should be improved.

Our proposals for customer engagement

We have been in discussion with Scottish Water, Consumer Focus Scotland, WaterWatch Scotland, the Drinking Water Quality Regulator (DWQR), the Scottish Environmental Protection Agency (SEPA) and officials from the Scottish Government in order to develop proposals for customer engagement.

The customer forum

The proposals involve establishing a customer forum to engage directly with Scottish Water and the Commission as an integral part of the price review process. The customer forum will have the objectives of:

- Understanding and representing customers' priorities and preferences in the Strategic Review of Charges process; and consequently
- Seeking to secure the most appropriate outcome to customers.

The price review process

The customer forum will seek to agree with Scottish Water the priorities for, and costs of, discretionary improvements to customer service. These are the improvements customers generally value most despite having the lowest impact on bills. The Commission would be minded to adopt this agreement in its determination. As such, this should improve customers' willingness to pay for the overall price settlement.

Furthermore, the customer forum will advise and comment on proposals for the delivery of baseline levels of service and the delivery of the enhanced outcomes required by the Scottish Government. This means the customer forum could influence how the environmental and drinking water quality outcomes determined by Ministers are to be delivered and the timescale for delivery.

These discussions are not intended to take place separately- but rather within a clear view of what customers would regard as reasonable and affordable.

We recognise that clear and understandable information will be needed to help inform an effective engagement between Scottish Water and the customer forum. This is why we are working with Scottish Water to develop a format for study reports to show the range of options available to deliver a required improvement. Furthermore, we have developed a ready reckoner to allow customers to compare the cost of alternative options in a way that should be understandable and relevant to them, i.e. the impact on customer bills. We are publishing the ready reckoner on our website.

We also believe it is important that customers can count on agreed improvements being delivered. We propose to retain our existing arrangements that require Scottish Water to confirm that improvements are signed-off by the quality regulators as having been delivered.

Constitution of the customer forum

The customer forum would comprise representatives of household customers, retailers and the Scottish Council of Development and Industry (SCDI). As such, the proposals find a way to bring the voice of the representatives of household customers and retailers together in a customer forum for the purpose of the next price review.

The importance of including retailers in the customer forum

The presence of retailers in the customer forum is vital. This is because there is a competitive tension between the retailers and the wholesaler; where there is a greater scrutiny of the costs of, and services provided from, the wholesaler.

This tension is possible only because the legal separation of retail activities from the rest of the vertically integrated business has meant that the interests of the retailers and the end users of water services are aligned more closely. This is because the retailer is responsible for collecting charges from customers and would experience, first hand, the consequences of an adverse movement in prices or a worsening of service. This has led to retailers naturally taking up the position of customer champion.

As such, the legal separation of retail activities creates informed buyers of wholesale services. These informed buyers are well placed to represent the priorities of customers and exert pressure on the wholesaler to improve efficiency over the medium to long run.

Benefits from retail separation

Our experience north of the border shows there could be benefits for both company and customers in pursuing a legal separation of retail activities. Our view is that customer engagement, where there is an engagement involving retailers, in price setting can only enhance those benefits.