WATER INDUSTRY COMMISSION'S DRAFT DETERMNATION for SRC27: ICG RESPONSE

1. The Independent Customer Group (ICG) welcomes the opportunity to comment on The Water Industry Commission's (WICS) Draft Determination for SR27.

2. The role of the ICG is to challenge and support Scottish Water to ensure that the voice of customers and communities is at the heart of strategic and operational decision making.

3. As part of the process for the Strategic Review of Charges (SR27), and under the terms of the Memorandum of Understanding agreed by WICS, Consumer Scotland and Scottish Water, the ICG was given the formal role of providing an assurance report on the quality of the customer research undertaken to inform Scottish Water's Business Plan for the review period and the extent to which customer views were reflected in that Plan.

4. In its Assurance Report, which was published along with Scottish Water's Business Plan, the ICG found that the research was well designed and that it was satisfied with the quality and the rigour with which it had been carried out.

5. The headline findings from the research reaffirmed core messages that consistently emerge from customer research, namely that:

- Customers are broadly satisfied with current levels of service and do not want to see any diminution in standards.
- They recognise the need for investment and increased charges to maintain, replace and future-proof assets but are looking for good value and assurances that charges will be spent on their priorities.
- Cost-of-living pressures remain significant and affordability is a real concern for a substantial proportion of household customers.
- Ranked by customers among their top priorities are drinking water quality, reliability of supply, reduction in leakage, and protection from sewer flooding.
- While there is general recognition of the need to adapt to the impact of climate change, attitudes to climate mitigation are mixed and suggest waning support for the achievement of accelerated net zero targets for their own sake.
- Customers wish to see transparency, assurance and accountability in the delivery of the plan.

6. In its consideration of Scottish Water's Business Plan, the ICG:

- was clear that customer views had demonstrably shaped the Final Business Plan in terms, for example, of proposals for improvements in leakage, drinking water quality and aesthetics, and sewer flooding, all of which are customer priorities;

- remained concerned about the retained risks in the Plan, particularly from regulatory requirements, and expected to see a robust process for involving the customer voice should any question of re-prioritising investment decisions arise during the review period;

- expected to see a transparent mechanism for tracking delivery and costs against the Plan to provide the assurance requested by customers in the research that performance will be monitored and their priorities will continue to be met;

- was not in a position to say whether at CPI+3.3% the Plan was affordable as it had not been tested on a nationally representative sample of the population.

7. Throughout the process, the ICG maintained a "Challenge Log" of information sought from, and issues raised with, Scottish Water. Within the log, the ICG explicitly recognised that matters relating to Scottish Water's assumptions about CAPEX and OPEX costs and efficiency are matters for detailed discussion between WICS and Scottish Water and the ICG is not in a position to form a view. In commenting on the Draft Determination, therefore, ICG's response, informed by insight from the customer research, is focused on the proposed outcomes for customers and the associated charges.

8. From that perspective the ICG welcomes:

- the strengthened performance expectations in priority areas for customers, specifically drinking water quality, leakage, reliability of supply and sewer flooding;

- the proposed lower charge cap;

- the underlying principle that customers should not pay in advance for costs which might not materialise during the period, including for example:

    - regulatory burdens which are not yet crystalised

    - the conditional allowance for West Central Bioresource

- the flexibility of a potential additional 0.3% on tariffs in the second half of the period in the event of uncertain and uncontrollable costs materialising in the areas of pension revaluation and/or higher energy costs;

- the proposed monitoring of performance by WICS to ensure that investment is in line with the final determination and that Scottish Water is delivering on outcomes and outputs for customers.

9. Overall, the Draft Determination recognises the need for a substantial level of investment. It assumes that cost savings can be made, but adds back £168m for investment in service issues important to customers. Within a reduced profile of charges, it improves outcomes in priority areas for customers and provides safeguards for uncertain costs. Overall, this represents an attractive package for customers.

10. However, alongside value for money, customers prioritise the maintenance of high-quality water and waste-water services, trust Scottish Water to deliver them, and do not wish to see any reduction in standards.

11. In that context, we note there is a significant gap in assumptions over OPEX and CAPEX costs, in efficiency targets and in outcome performance, between Scottish Water's Business Plan and the Draft Determination. It is a gap that may not be easily bridgeable and the deliverability and the associated level of risk is a concern for customers. We therefore welcome WICS' openness to reconsidering the draft determination if further convincing evidence is presented. As previously stated (and recorded in the Challenge Log) these detailed and often highly technical discussions are matters for WICS and Scottish Water to pursue.

12. The customer voice has been a core component of the SR27 process to date. A point on which the ICG has consistently pressed is the need for this to continue during the review period and the associated requirement for a robust mechanism, which includes the customer voice, to be put in place to ensure that should the issue of re-prioritisation of investment emerge during the review period it is the subject of **collective** consideration by stakeholders. The ICG looks forward to hearing proposals for such an arrangement.

13. Notwithstanding that positions might change between now and the final determination, it is the view of the ICG that the direction of the draft determination is a positive one for customers and the ICG looks forward to a final determination which provides the best possible deliverable outcomes for customers at the lowest reasonable cost.

INDEPENDENT CUSTOMER GROUP

1 SEPTEMBER 2026