XVth World Water Congress

Competition without Privatisation: The Scottish Water Model

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Introduction

Is it possible to have (useful) competition <u>without</u> privatisation?

If so, how?

The Scottish experience shows it is possible to maintain public ownership and control <u>and</u> to secure equal (or greater) efficiency.

Two regulatory methods have helped do that:

- Comparative competition
- **Regulated retail markets**

Background: A Parliament’s Obsession

- **The Water Industry (Scotland) Act 2002**: Created Scottish Water and the legal framework for current system of economic regulation.

- **The Water Environment and Water Services (Scotland) Act 2003:** Strengthened framework for environmental regulation.

- **The Water Services etc (Scotland) Act 2005:** Introduced retail competition and updated the framework for economic regulation.

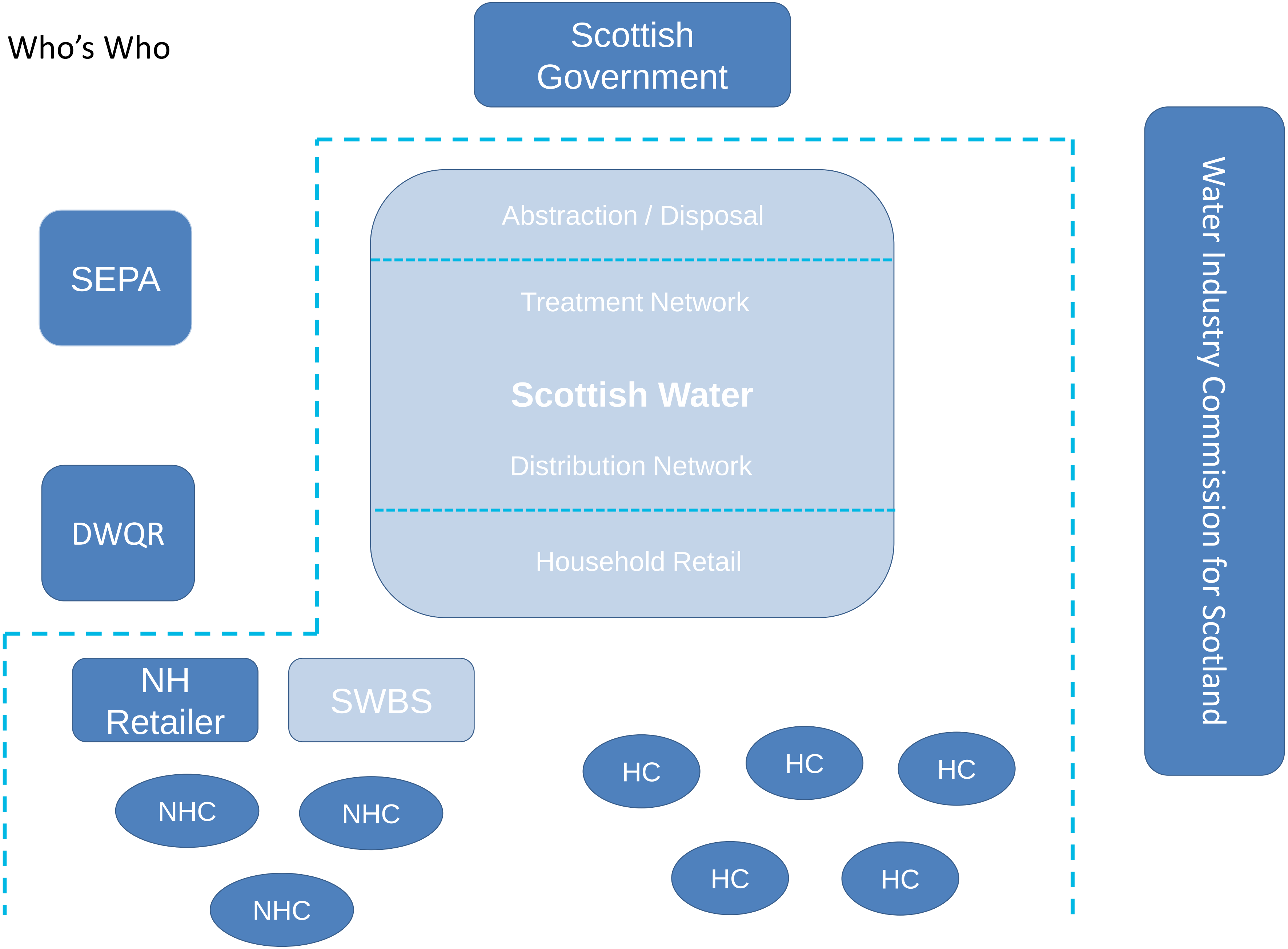
- **The Water Resources (Scotland) Act 2013:** Focuses on promoting the wider use of Scotland’s water resources.

Key Dramatis Personae

- **Scottish Water:** Publicly owned, statutory corporation, whole supply chain. Funded through customer charges and public loans.
- **Scottish Water Business Stream:** Ring fenced subsidiary of Scottish Water, retails water and sewerage to non-household customers.
- **Other Licensed Retailers:** Currently 17 other companies licensed to retail
- **Scottish Minsters:** Ultimate control of Scottish Water. Set policy framework and strategic objectives.
- **Water Industry Commission for Scotland:** Issue licenses and regulate wholesale prices.
- **Scottish Environmental Protection Agency & Drinking Water Quality Inspectorate:** Monitor and enforce environmental and drinking water standards.

- **Customers:** Population of circa 5 million. Non-Household market turnover circa **£375m p/a**

Who's Who


Scottish Government
SEPA
DWQR
Abstraction / Disposal
Treatment Network
Scottish Water
Distribution Network
Household Retail
Water Industry Commission for Scotland
NH Retailer
SWBS
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Regulatory Method 1: Comparative Competition

Historic System:

1. Ministerial Objectives and Lending
2. Scottish Water Business Plan
3. Commission Comparison
4. Commission Detr. RPI-X
5. Scottish Water Appeal?
6. Commission Approval of Annual Charges Scheme

Turnover circa £1.1bn/$1.7bn

2002-15 invested £6.6bn/$10.2bn

Savings circa 30-40% since 2002

New System:

1. Ministerial Objectives and Lending
2. Scottish Water Business Plan
3. Commission Comparison
4. Commission Guidance on Ranges
5. Customer Negotiations
6. Commission Detr. CPI-X
7. Scottish Water Appeal?
8. Commission Approval of Annual Charges Scheme

Regulatory Method 2: Retail Competition

Context

English and Welsh Industry

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Privatisation without Competition?

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Albion Water Competition Law Challenge

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English reform: Water Act 2014

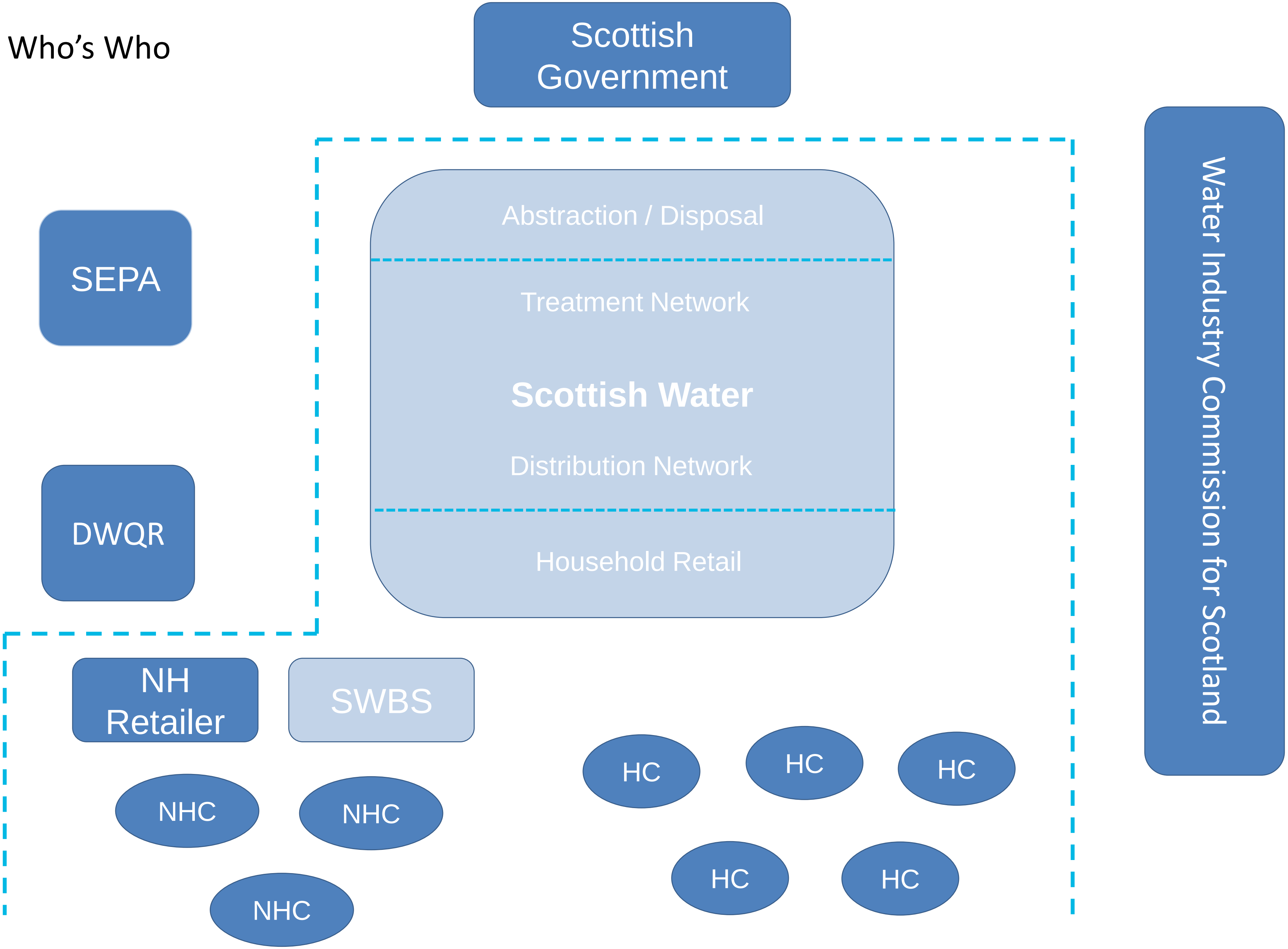
Scotland's answer…..Water Services etc (Scotland) Act 2005

The Water Services etc (Scotland) Act 2005

Created competition for retail services to non-household customers (business; public and third sector).

- Criminal offence to use the public water / sewerage network
- Unless you are a) Scottish Water or b) a Licensed Retailer
- Gives the Commission power to set the rules of the game

Who's Who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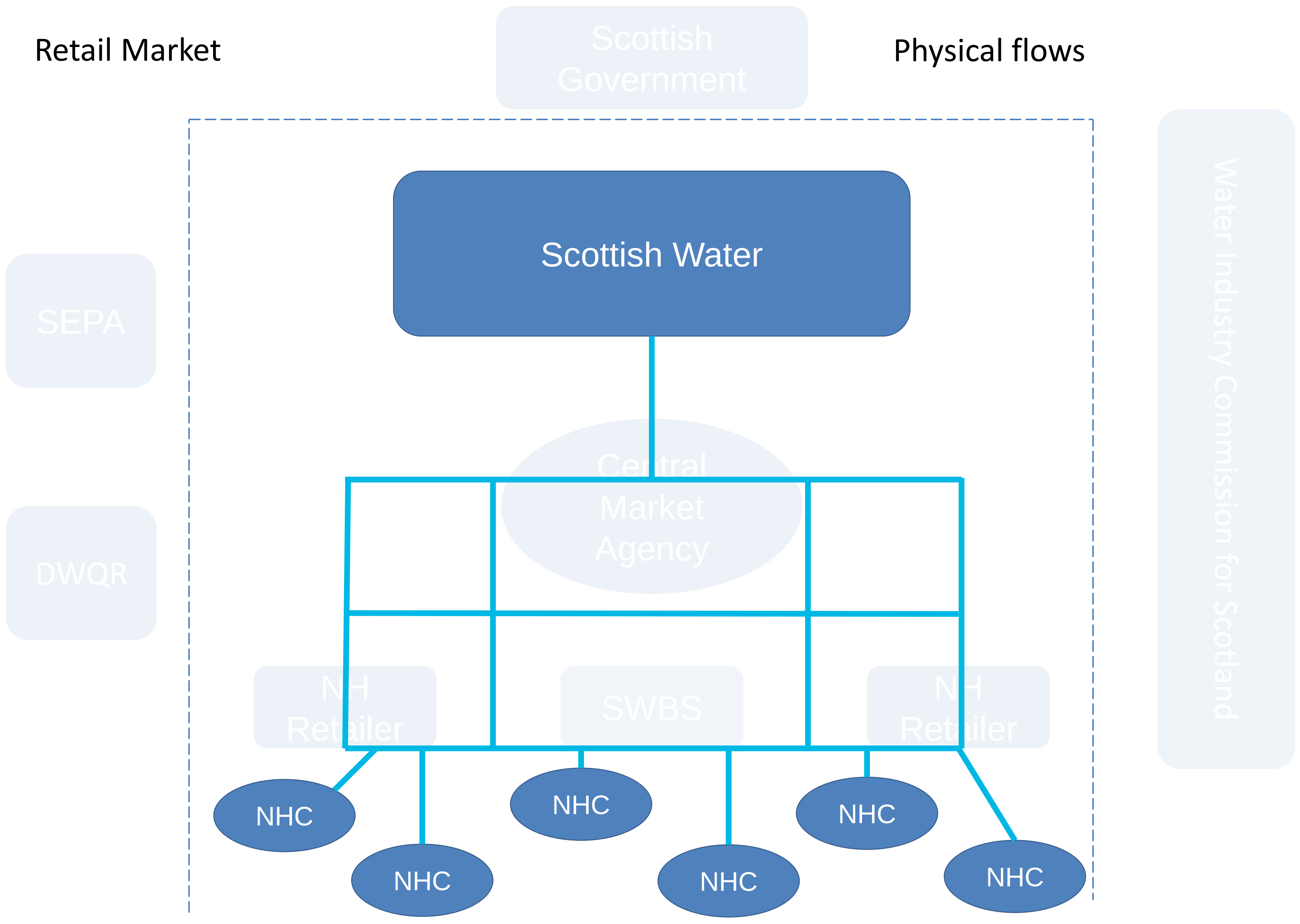
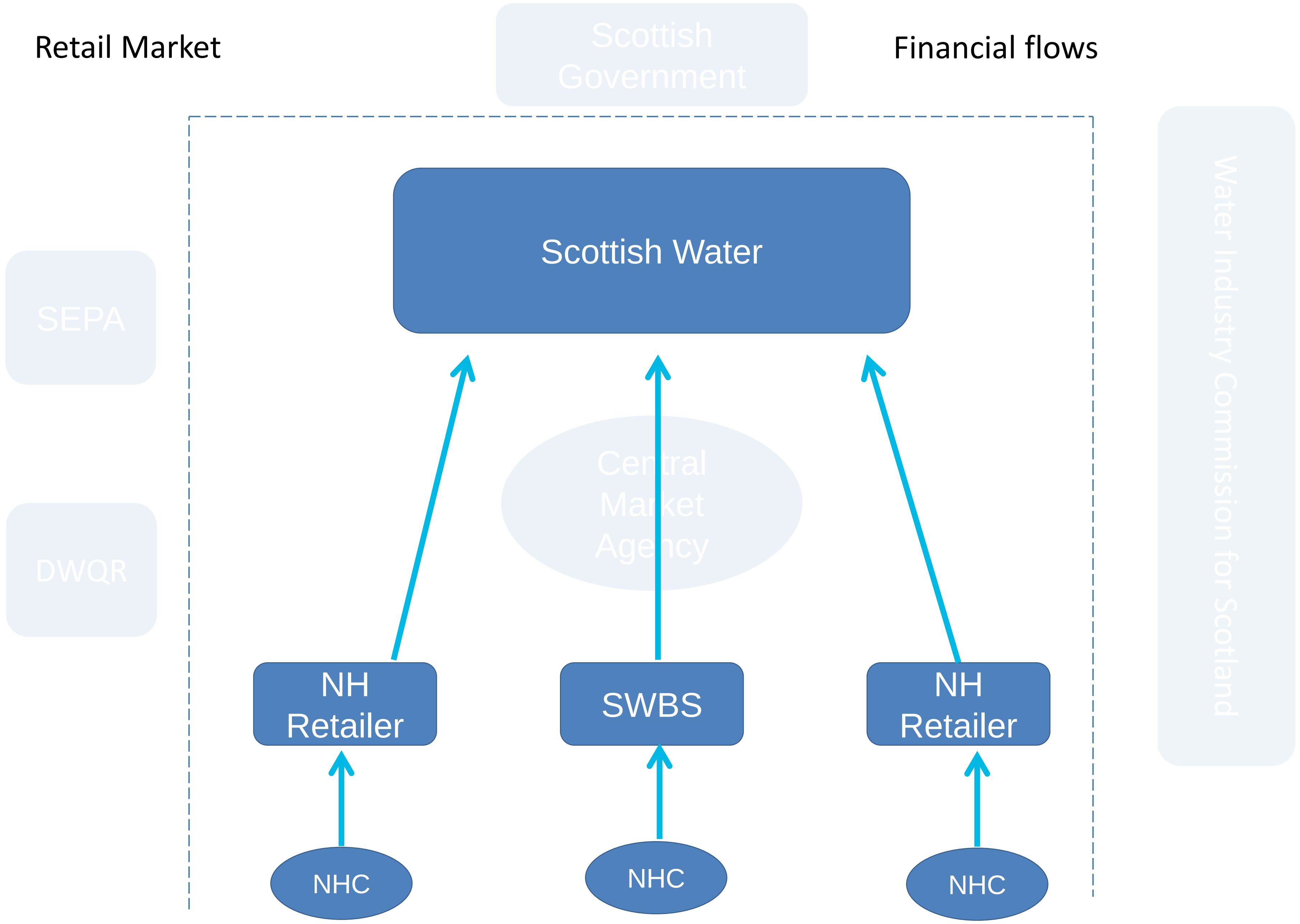
Retail Market

Physical flows



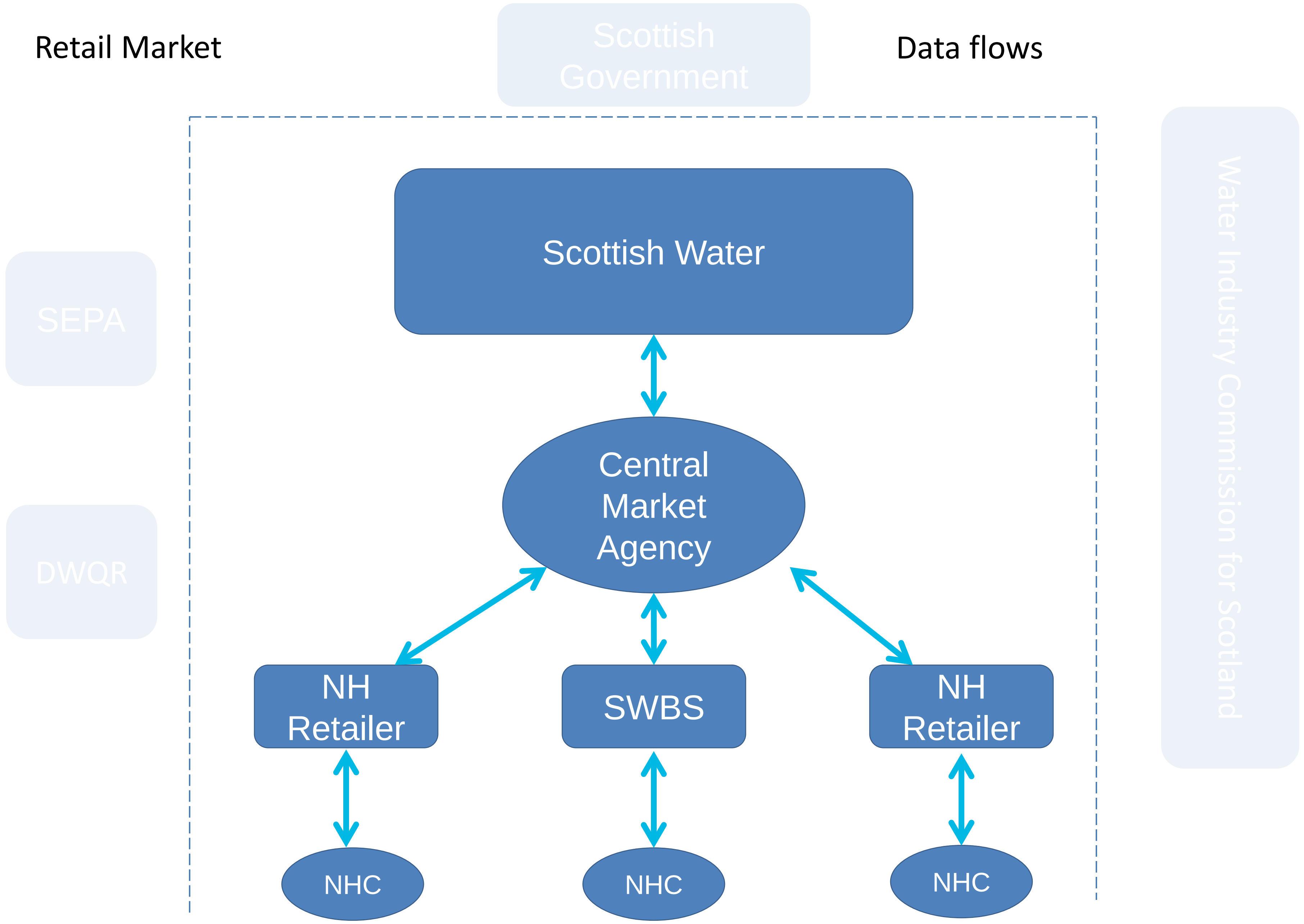
Retail Market

Financial flows



Retail Market

Data flows



Results so far…

- Annual Gross Value c. £375m/$580m
- Estimated net customer saving £138m/$230m ('09/10 prices)
- C. 20% customers switched
- Over 2/3rds of customers have negotiated a better price and/or service
- £37m/$62m over 4 years direct public sector saving*
- Estimated set up costs £22.5m ('09/10 prices), pay back circa 5 years after market opening.

*Source: http://www.watercommission.co.uk/UserFiles/Documents/WICSHouseofCommonsPaper(C).pdf

Lessons Learnt

- It is possible to keep public ownership and control and to secure **equal (or greater) efficiency**.

- It is vital that the public, Ministers and competitors have **trust** in the system. Achieving that continues to depended on:
  - **Transparency** – codification of systems and processes.
  - **Fairness** – demonstrably level playing field, same rules for everyone.
  - **Legitimacy** – Ministerial objectives, customer choice.

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