Scottish Water

- 5.3m people - 2.4m households
- 150,000 business customers
- 95% population connected to mains sewerage
- 98% to mains water
- 1.3 billion litres water delivered per day
• Three regional water authorities

Huge challenge to meet EU Directives

• Time to choose a governance model
Overall 2002-2010

- Service costs have been reduced by 40% over last decade

- Savings around £2.5 billion

- Average annual household bills around £105 lower than they would have been.
2012-13

- Drinking Water Quality – 99.88% samples passed – public supply

- Environmental incidents reduced by 34%

- Leakage reduced by nearly 50% since 2006.
Water Industry in Scotland

Delivery Organisation
Scottish Water

Economic regulation
Water Industry Commission for Scotland

Quality regulation
DWQR
SEPA

Customer Representation
Citizens Advice Scotland
RETAIL COMPETITION

WHOLESALE

RETAILERS

BUSINESS CUSTOMERS
Scottish Ministers must:

‘take such reasonable steps as they consider appropriate for the purpose of ensuring the development of the value of Scotland’s water resources’

Concept of Scotland the Hydro Nation

– ‘a nation which manages its water environment to the best advantage, employing its knowledge and expertise effectively at home and internationally.’
Scotland The Hydro Nation

Respond to global challenges responsibly, promote key water issues and build our reputation as a Hydro Nation

Promote Scotland’s unique contribution in areas such as water technology, governance, management and regulation.
Scotland The Hydro Nation

• **Hydro Nation Forum**, Chaired by Water Minister

• **Hydro Nation Research Programme & Scholars**

• **International Programme**

• **Hydro Nation Water Innovation Service**
Lower carbon footprint = reduced energy costs
Global and local challenges

Rural Provision is one of the key challenges across the globe and we face it here as well.

- Can we tackle the variable quality of private supplies?
- Can we deliver the highest standards at lower cost on the rural public network?
- Should we look to reduce the numbers of private supplies, or are there better private solutions available?
All Activity – SME’s

Scotland the hydro nation - Interactive 3D map
Jon.Rathjen@Scotland.GSI.GOV.UK
Team Leader
Water Industry Team
Scottish Government
GLOBAL WATER - A RESOURCE FOR DEVELOPMENT: OPPORTUNITIES, CHALLENGES AND CONSTRAINTS

www.worldwatercongress.com
5th Meeting of the OECD Water Governance Initiative: Water Governance in the United Kingdom

Edinburgh International Conference Centre, Edinburgh
26 May 2015

Alan D A Sutherland
Water Industry Commission for Scotland

Gordon Downie, Partner
Shepherd and Wedderburn

www.watercommission.co.uk
The OECD defines three principal models for the regulation of water and waste water services. Not surprisingly, the OECD’s ‘English’ model dominates in the UK.

<table>
<thead>
<tr>
<th>England &amp; Wales</th>
<th>Scotland</th>
<th>Northern Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ofwat</td>
<td>Water Industry Commission for Scotland</td>
<td>Utility Regulator of Northern Ireland</td>
</tr>
<tr>
<td>Companies are privatised</td>
<td>Scottish Water is publicly owned</td>
<td>Northern Ireland Water is publicly owned</td>
</tr>
<tr>
<td>Ofwat’s statutory duties are complex and go beyond simple price setting</td>
<td>The Commission has to set charges consistent with the Scottish Government’s Objectives for the water industry and its principles of charging</td>
<td>Statutory duties are closely modeled on Ofwat’s (because NIW was originally to be privatized)</td>
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</tbody>
</table>
How can we make economic regulation as effective as possible?

- How does a regulator address the inevitable asymmetries in information that exist with the regulated company?

- How does a regulator allow for and encourage innovative approaches by the regulated company?

- How does a regulator ensure that customers’ interests are properly reflected in the trade-offs that have been made in the price-setting process?
How does a regulator address the inevitable asymmetries in information that exist with the regulated company?

• By creating change

• By asking broader questions

• By challenging the regulated company with reference to other sectors or customer experiences
How does a regulator allow for and encourage innovative approaches by the regulated company?

- By avoiding change!
- By open dialogue
- Focusing on cash, not total expenditure
How does a regulator ensure that the customers’ interests are properly reflected in the trade-offs that have been made in the price-setting process?

- Competition where possible

- Involving customers, where it is not....
There are perhaps three key conclusions that can be drawn from the UK experience

Conclusion 1
• Clarity in the governance arrangements and in the respective roles of the different organizations is critical

Conclusion 2
• The mixed economy was vital in getting Scotland established on the right path
• But the profit incentive does not necessarily seem to be correlated with better performance, environmental compliance or innovation
• Rather it is reputation that seems to drive managements

Conclusion 3
• Customer engagement, both in deciding how to make the best of the current arrangements and also to help policy makers achieve better outcomes, is likely to become increasingly important.
• The Holy Grail is to achieve a water company that responds to its customers as if it could lose them…