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Presentation and workshop for the India-UK Water Security Capability Exchange Initiative

Water Regulation and Governance

By

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www.watercommission.co.uk

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- 1100-1110hrs Introductions and Scene Setting Overview
- 1110-1140hrs Legal and Governance Framework in Scotland
Fiona Parker
- 1140-1210hrs The Legitimate Role of Economic Regulation in Scotland
Alan Sutherland
- 1210-1245hrs Facilitated Discussion with Workshop Participants
- Close



Introductions and Scene Setting



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*To explain our experiences and explore how they might help meet **your challenges***

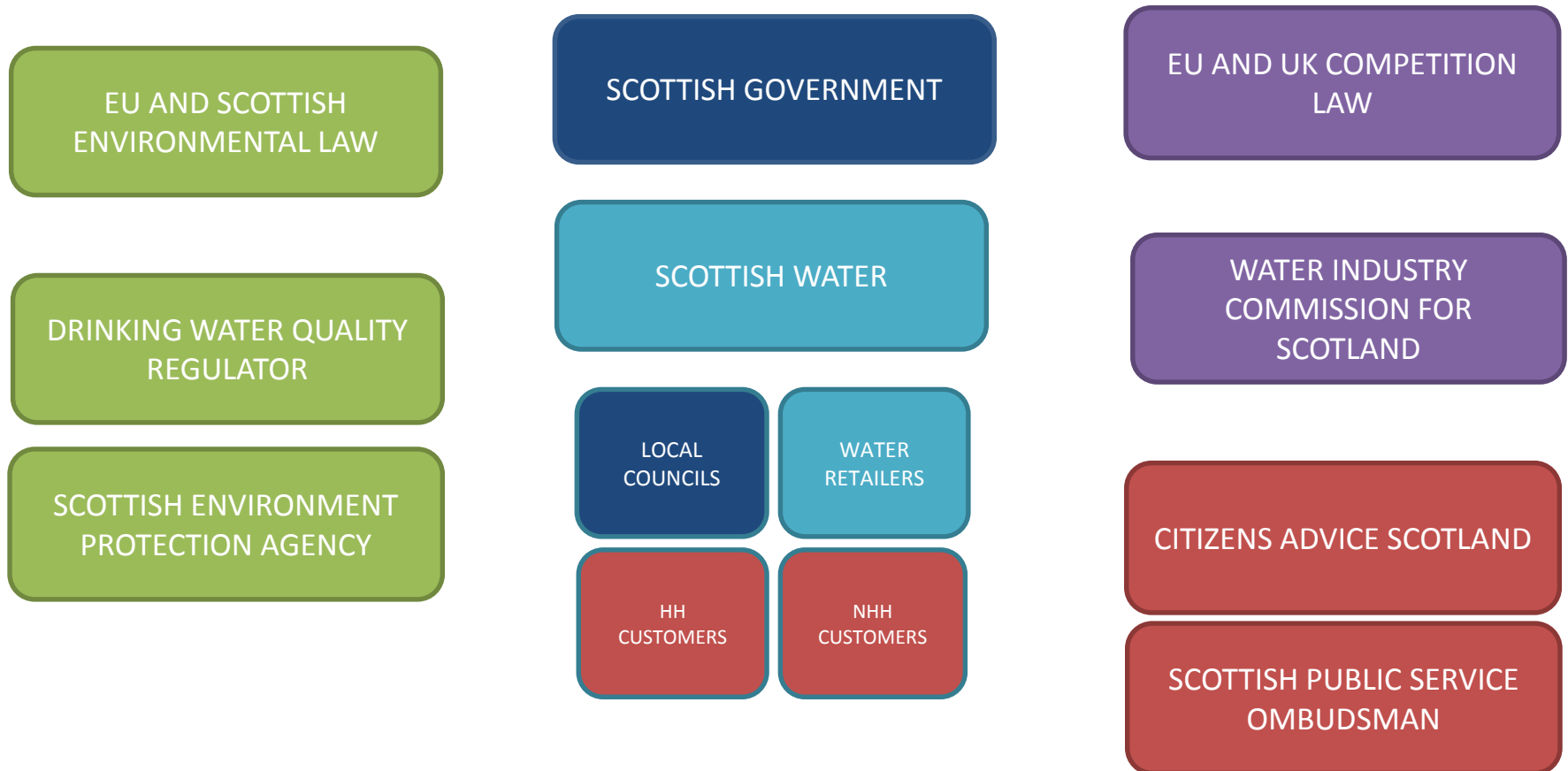
Key questions: How can regulation help make trade-offs **and** secure legitimacy and funding in the water and sewerage sector?



Overview of Legal and Governance Framework in Scotland



Water and sewerage industry – Key actors





Water and sewerage industry - key economic interactions

Key:

Ownership



Sets charging policy



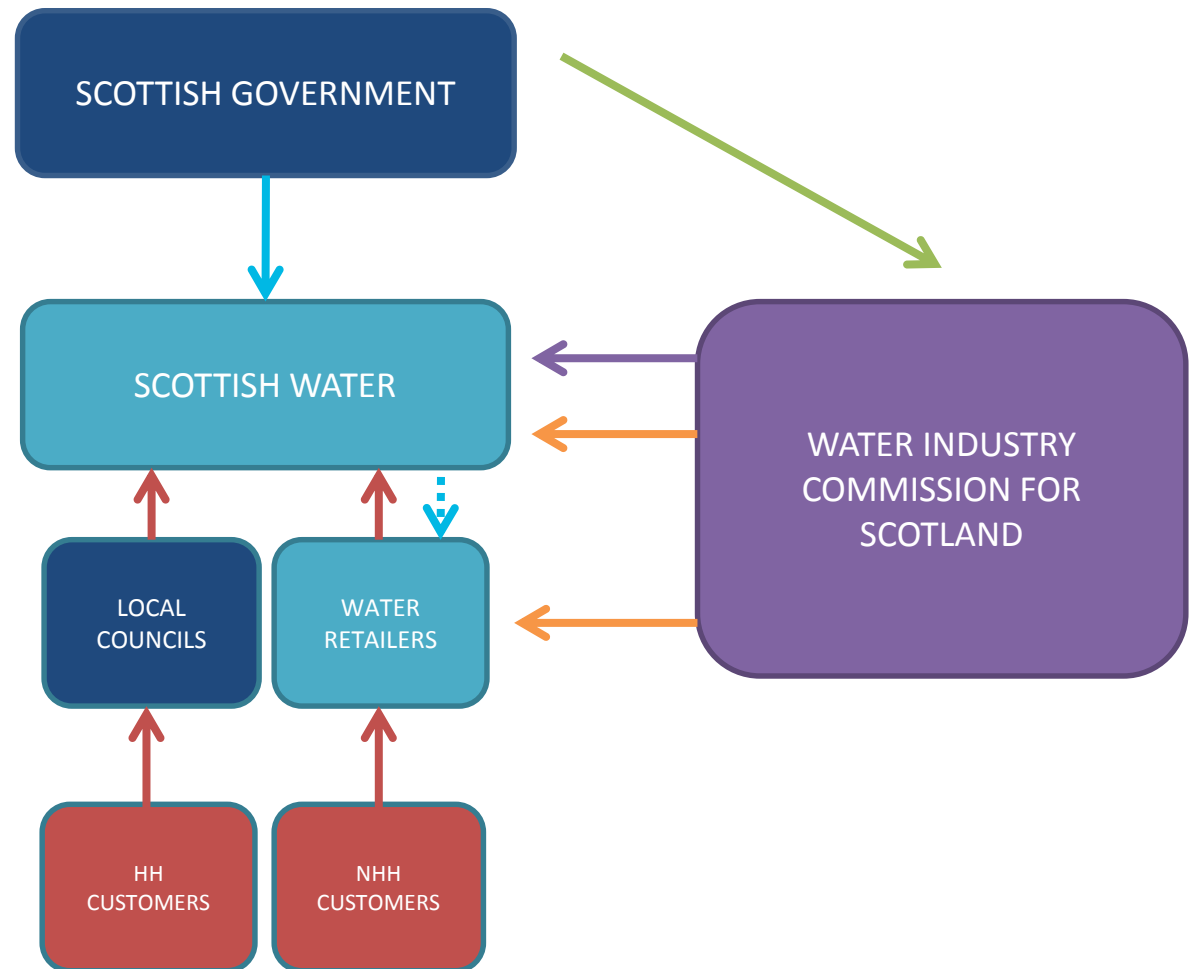
Sets charges



Collects payments

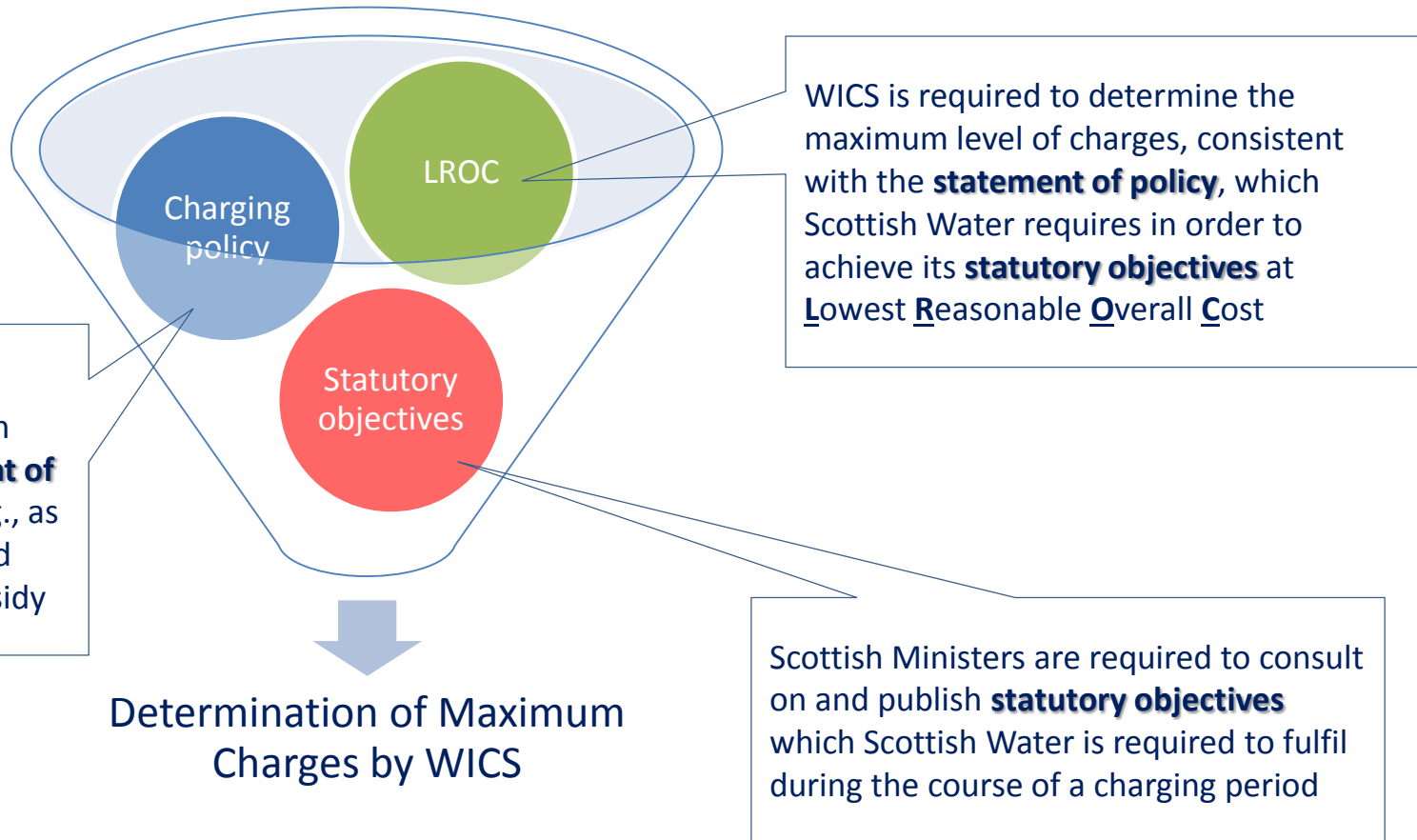


Other conduct regulation





Key duties under Water Industry (Scotland) Act 2002





The Strategic Review of Charges (SRC) process

Scottish Government

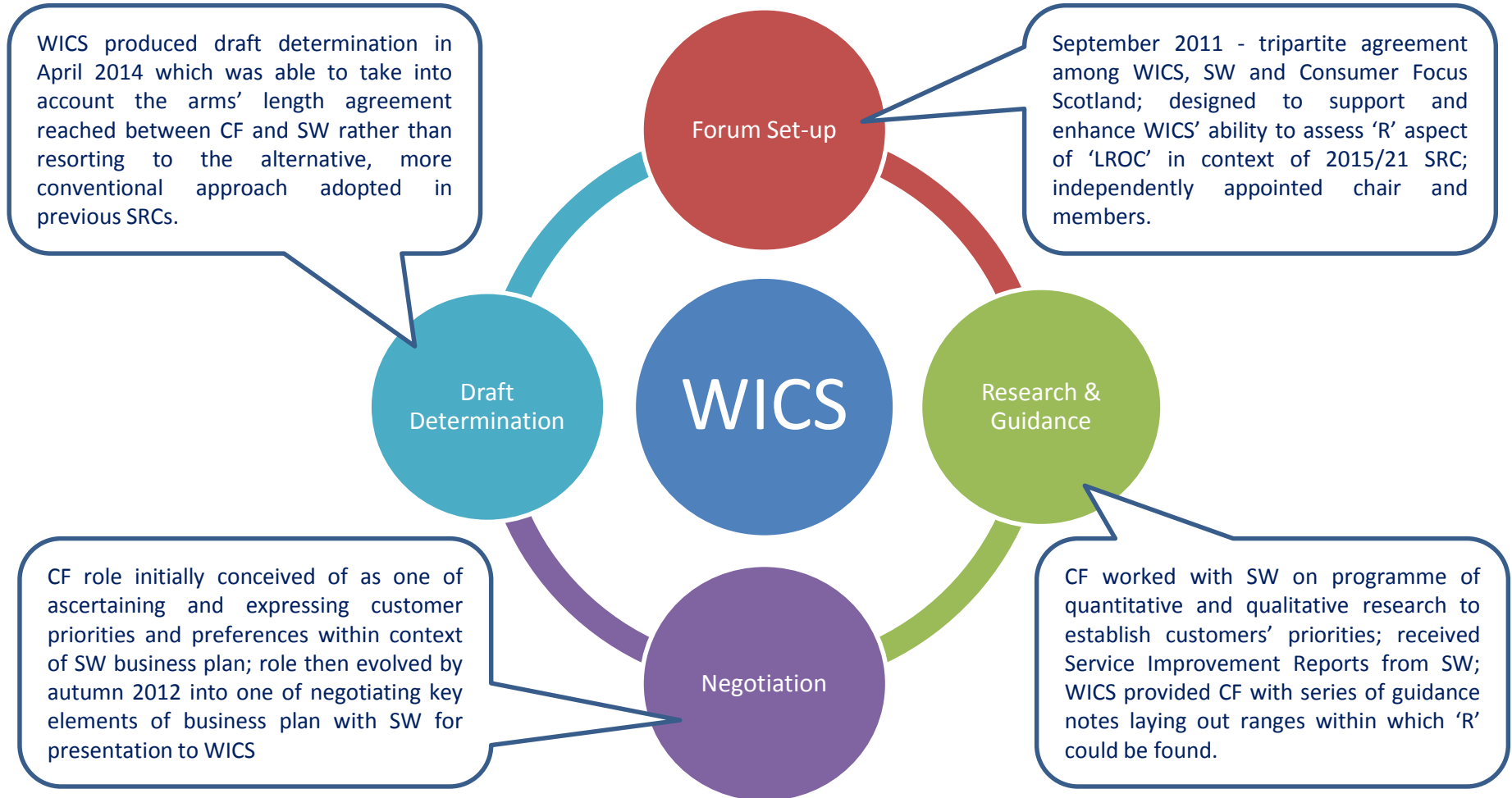
Initiates the SRC process; confirms charging period for purposes of WICS determination; consults on its proposals for SW's statutory objectives and on its statement of policy for charges

WICS

Develops its methodology for conducting the SRC consistent with its statutory duties and prepares and consults on its determination of SW's maximum charges (on LROC basis) in respect of the charging period

Scottish Water

Prepares business plan for forthcoming charging period in response to proposed statutory objectives and WICS methodology and submits to WICS for scrutiny as part of its determination of maximum SW charges





Recap / some statistics

Independent, incentive based regulation within a public ownership model and a clearly defined public policy framework

Innovative approach to contestability (featuring retail competition for non-household customers) and customer engagement (direct negotiation)

Since 2001-2, Scottish Water's operating expenditure down by 40% in real terms; leakage cut; customer service & environmental compliance up

Sustained levels of SW capital investment (£590m p.a. over 12yrs), sound financial position and second lowest avg. HH bills in GB (£339 p.a.)



The Legitimate Role of Economic Regulation in Scotland



The Legitimate Role of Economic Regulation in Scotland



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.

England & Wales	Scotland	Northern Ireland
Ofwat	Water Industry Commission for Scotland	Utility Regulator of Northern Ireland
Companies are privatised	Scottish Water is publicly owned	Northern Ireland Water is publicly owned
Ofwat’s statutory duties are complex and go beyond simple price setting	The Commission has to set charges consistent with the Scottish Government’s Objectives for the water industry and its principles of charging	Statutory duties are closely modeled on Ofwat’s (because NIW was originally to be privatized)



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...



Facilitated Discussion with Workshop Participants



Two discussion groups.....

Group 1:

- Making trade-offs

How do you balance demands for quality improvements with the costs of making those improvements?

Are there any particular aspects of the Scottish experience that you could adapt to help make those trade-offs?

Group 2:

- Securing legitimacy and funding

What are the main political and financing challenges facing your water and sewerage sector?

Are there any particular aspects of the Scottish experience that could help meet those challenges?



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