

Implementing competition in Scotland

Red flags for the company

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Red flags for Scottish Water

Moving to action – there's a lot to do and not enough time.

Business model - 2005 Act required legal separation:

- Establishing a retail business.
- Establishing a wholesale capability.

Influencing the market design

- Pre market opening - participating in the LFIG.
- Post market opening - proposing market changes.

Data and processes.

Risks and incentives (a few big ones).



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Establishing a retail business

2005 Act required legal separation – no choice – created benefits and drawbacks. Separated 17 months pre market opening.

Recruiting the right leadership capability.

A great deal to do pre-market opening:

- Determining the business strategy.
- Achieving licences.
- Separation of processes.
- Establishing new processes, interfaces and arrangements.
- Staff recruitment and development – beginning the culture change.



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Establishing a wholesale capability

Recruiting the right leadership capability – to create a dedicated wholesale team working with operational staff.

A great deal to do pre-market opening:

- Developing/agreeing the market codes and agreements – particularly the operational code, wholesale services agreement and market code.
- Separation of processes.
- Establishing new processes, interfaces and arrangements.
- Major IT changes.
- Creating a wholesale service desk, wholesale billing, analysis of settlement data, account management of retailers, contract management, portals, compliance.
- Developing a compliance culture across Scottish Water.

Fundamentally, developing new wholesale capability.



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Data and processes

Data and data ownership critical to functioning of market.

Extensive data cleansing before separation and market opening.

Responsibilities for data completeness and quality:

- Capturing all the Supply Point IDs (SPIDs)/the services at each SPID/occupancy status, rateable values etc.
- Market data needs to be structured for wholesale settlement, not retail billing.

Customer switching exposes the data flaws.

Processes and responsibilities need to be agreed for data maintenance.

Criticality of incentives – and willingness to change.



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Risks and incentives (a few big wholesale ones)

Credit risk for the wholesaler – was diversified, now concentrated – addressed through prepayment of wholesale charges.

Completeness of wholesale revenue:

- Are all connected properties in the market (i.e.; as SPIDs)?
- Do all SPIDS have a retailer?
- Are all occupied properties/SPIDs correctly flagged?

Significant complexity – requires constructive engagement by all.

Reputational risk – no longer fully in control.



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The five Red flags – in summary

1. Start early – there's a lot to do.
2. Build a retail capability.
3. Build a wholesale capability.
4. Incentives/penalties to protect credit and revenue risks.
5. Cleanse your data – properties/services/occupancy status, rateable value etc.



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