

# Implementing competition in Scotland

## Retail/wholesale split

7 June 2012



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# Stepping back

Scotland in 2003/04:

- Labour/Lib Dem coalition in power.
- Scottish Water – publicly owned.

How did we end up with retail competition c.10 years before England?



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# Scottish Executive policy priorities

Comply with EU/UK competition law – but taking advantage of exemptions on grounds of public health or social policy:

- Protect drinking water quality > no common carriage.
  - Keep affordability protection in household charges > no household retail competition.
- must permit retail competition for business customers.

2005 Act:

- Prohibited activities.
- Licensed activities.
- Separation of SW retail activities into separate undertaking.
- No detriment to Scottish Water core functions.



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# Prohibited and licensed activities

Only Scottish Water, or a party acting on our behalf, is authorised to:

- Introduce water into the public water supply system.
- Use the public water supply system to supply water to premises of another.
- Draw sewage from the public sewerage system.
- Use public sewerage system for disposal of sewage from premises of another.

Licensed providers may make arrangements with the occupier of any eligible premises for the:

- supply of water through the public water supply system; and/or
- provision of sewerage or disposal of sewage through public sewerage system.



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# Core principles of retail/wholesale split

Scottish Water provide all services associated with supply/disposal through pipes.

Licensed retailers make arrangements with occupiers of *eligible premises* (customers) for supply of water and waste water services.

Distinction is helpful – but many grey areas at the boundary:

- Who handles customer contacts on asset related matters?
- What about metering – meter ownership and reading?
- How are new supply connections dealt with?



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# Establishing the retail/wholesale split

As legislation became clearer – let's make it work - as wholesaler, retailer, and to avoid problems for customers.

An update on context – c.2004-05:

- Our transformation was becoming visible.
- WICS initiated a regulatory accounting project with Ernst & Young.

Criticality of Ernst & Young project:

Wholesale/retail split was determined by a dispassionate assessment of activities that met the 2005 Act criteria.



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# Where we landed (1)

## Scottish Water, as wholesaler:

- owns network and meter assets.
- approves connections, trade effluent consents, allowances, meter sizes/locations.
- exchanges faulty meters, undertakes connections, disconnections at retailer request.
- notifies retailers of its activities through a portal, e.g. planned and unplanned service interruptions – now using technology to benefit household customers.
- undertakes some customer facing regulatory functions, e.g. byelaws and trade effluent consents.



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## Where we landed (2)

### Retailers:

- handle (nearly) all customer facing activities – meter reading, billing, first point of customer contact etc.
- elect whether follow-up contact with their customers is handled through them or directly by Scottish Water (e.g. arranging appointments).

... but Scottish Water will not turn away calls to its contact centre on public health issues.



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# Where we landed (3)

Scottish Water/retailer obligations defined in:

- Operational code – all service related matters, timescales and KPIs.
- Wholesale services agreement – all financial and commercial arrangements.
- Retailers can contract with Scottish Water for the discharging of certain activities e.g. new connections, disconnections etc.

Some further changes at the retail/wholesale boundary in 2012/13 – connections accreditation in 2012 and metering in 2013.

Even after 4 years, more work is required – particularly on responsibility for new connections.



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