

International Workshop on Publicly Owned Energy Companies

Session 2: Large Scale Infrastructure and Utilities

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Today Scotland has one publicly owned company....



- Sole provider of water and waste water services to an area the size of a third of the UK.
- Serves 5.22 million customers in 2.5 million households.
- 1.35 billion litres of water/945 million litres of waste water every day.
- 48,480 km of water pipes/49,881 km of sewer pipes.

The structure of the water industry in Scotland has undergone significant consolidation and reform over the past 50 years...

Number of bodies responsible for water and wastewater services in Scotland

Period	Water only	Wastewater only	Combined
Pre-1967	210	234	-
1967 - 1973	13	234	-
1973 - 1994	-	-	12
1994 - 2002	-	-	3
2002 - Present	-	-	1

The history of the water industry in Scotland reflects concerns about local accountability, balanced by achieving economies of scale and scope.

- The reform of local government in 1973 was, in part, driven by a recognition that some services of local government could benefit from economies of scale.
- Water and waste water continued to be managed separately. This suggests that there was no recognition of the potential economies of scope.
- The Scottish water industry was not privatised in 1989 because it was a local government function in Scotland (unlike in England and Wales where independent authorities had been established).
- There was a strong political pressure (which probably still exists today) not to privatise the industry. (Strathclyde Referendum 97% against on a 70% turnout).
- Three water and sewerage authorities (similar to the 1973 reform in England) were established in 1996.

But this reform did not go far enough: it was, essentially, a compromise between local accountability and economies of scale



- The water authorities had very different populations and geographical areas. The North had more than half the land mass and coast line, but less than 20% of the customers.
- Charges in the North were going to have to increase sharply and would ultimately have been more than double those in the West and East Authorities.

The impact of geography and demographics on costs and the impact on cost recovery were quickly realised....

- Customer charges had historically been amongst the lowest in the United Kingdom.
- Charge setting had been substantially a political decision made feasible because of the (relatively) easy access to cheap Government borrowing.
- However, it also reflected delays in making progress in meeting the environmental standards required by European Union Directives.
- By 1999, the North of Scotland Authority was borrowing to pay the interest on its previous loans.
- The costs of bringing Scotland's water and waste water service into compliance with EU Directives for water quality and the environment were beginning to be understood.
- The relative benefits (in terms of units costs, environmental compliance and levels of service) of privatising the companies in England and Wales were becoming more evident.

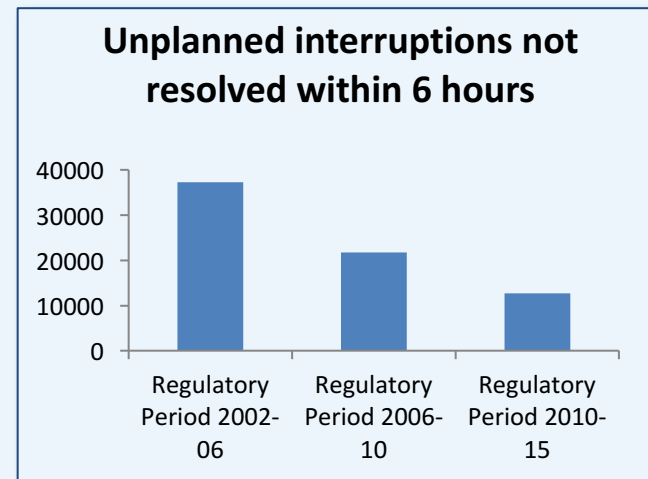
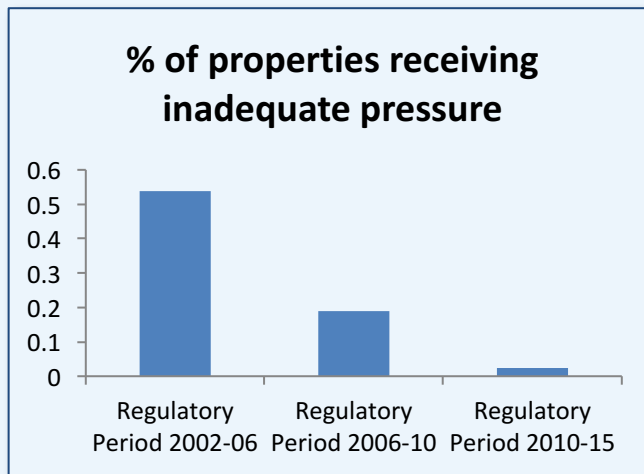
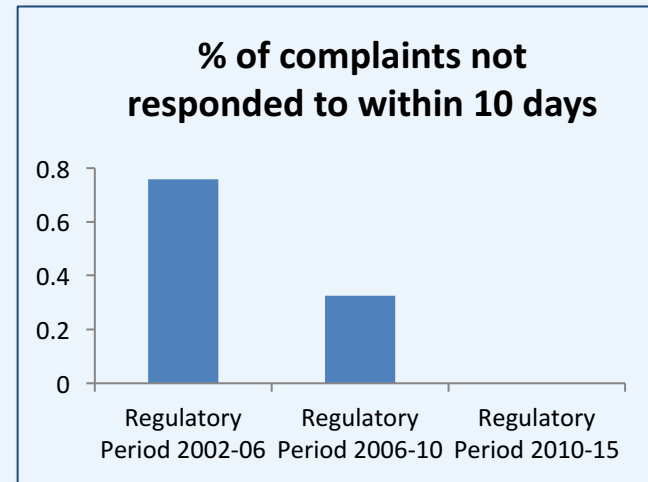
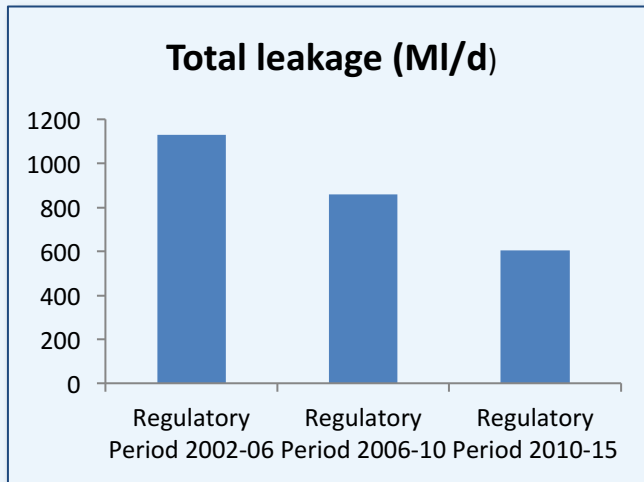
The merger of the three water authorities to create Scottish Water was expected to deliver a number of benefits...

- The scale and scope of efficiency savings that could be achieved by the merger allowed bills to be lower than they would otherwise have been for all customers across Scotland.
- Scottish Water – the merged company – could charge the same price to each household and business (of the same class) in Scotland.
- This substantially depoliticized water charging.
- The immediate harmonization of charges allowed Scottish Water to move on quickly as a single organization.

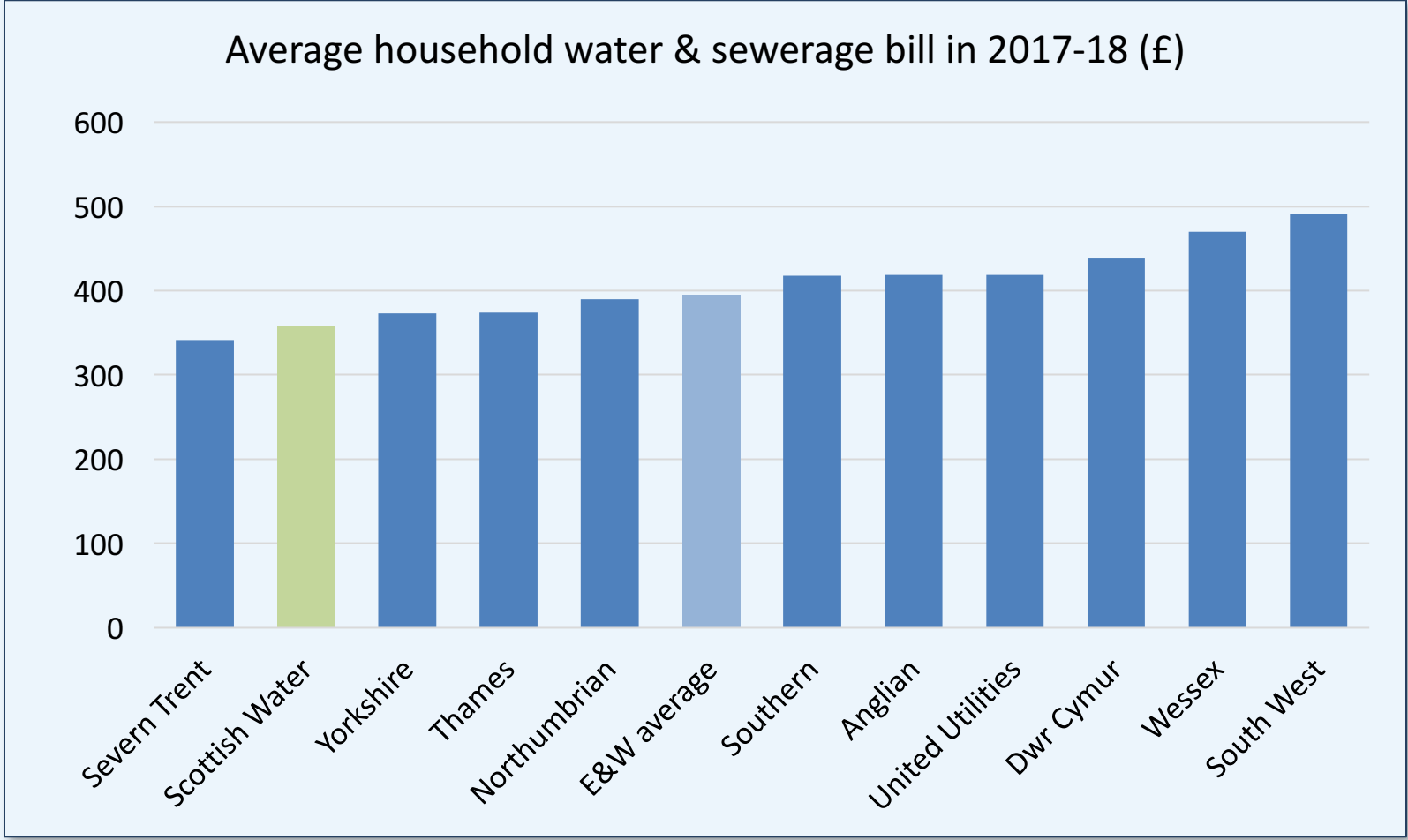
Since 2001-02, Scottish Water has successfully reduced operating expenditure by 40% and average annual household bills are £110+ lower than they would otherwise have been..



This reduction in costs has been achieved whilst improving levels of service to customers and environmental performance



Charges in Scotland compare well with those levied south of the border....



The UK Government has had to pay a subsidy to all household customers in the South West because their bills were so high!

Household bills have decreased in real terms since the creation of Scottish Water. Its publicly owned status means no dividends and cheaper new borrowing....

Total Increase in Household Bills

2002-15 (per connected property, real terms*)	Total increase in household bills
Scottish Water <i>(publicly owned)</i>	-5%
Dwr Cymru <i>(no dividends paid)</i>	11%
Anglian	11%
Severn Trent	13%
England & Wales	19%
Yorkshire	19%
United Utilities	23%
Northumbrian	25%
Southern	25%
Thames	29%
South West	29%
Wessex	36%

*Outturn expenditure inflated using RPI

Low bills are not the result of a lack of investment – quite the contrary...

Average investment per connection per year

2002-15 (£ per connected property, real terms*)	Average annual capital investment
South West (<i>very rural, summer population, coastline</i>)	288
Scottish Water (<i>very rural, coastline</i>)	262
United Utilities (<i>rural, coastline</i>)	260
Dwr Cymru (<i>very rural, coastline</i>)	242
Wessex	241
Southern	223
Thames	214
England & Wales	207
Anglian	180
Yorkshire	177
Northumbrian	172
Severn Trent (<i>no coast line, quite urban</i>)	159

*Outturn expenditure inflated using RPI

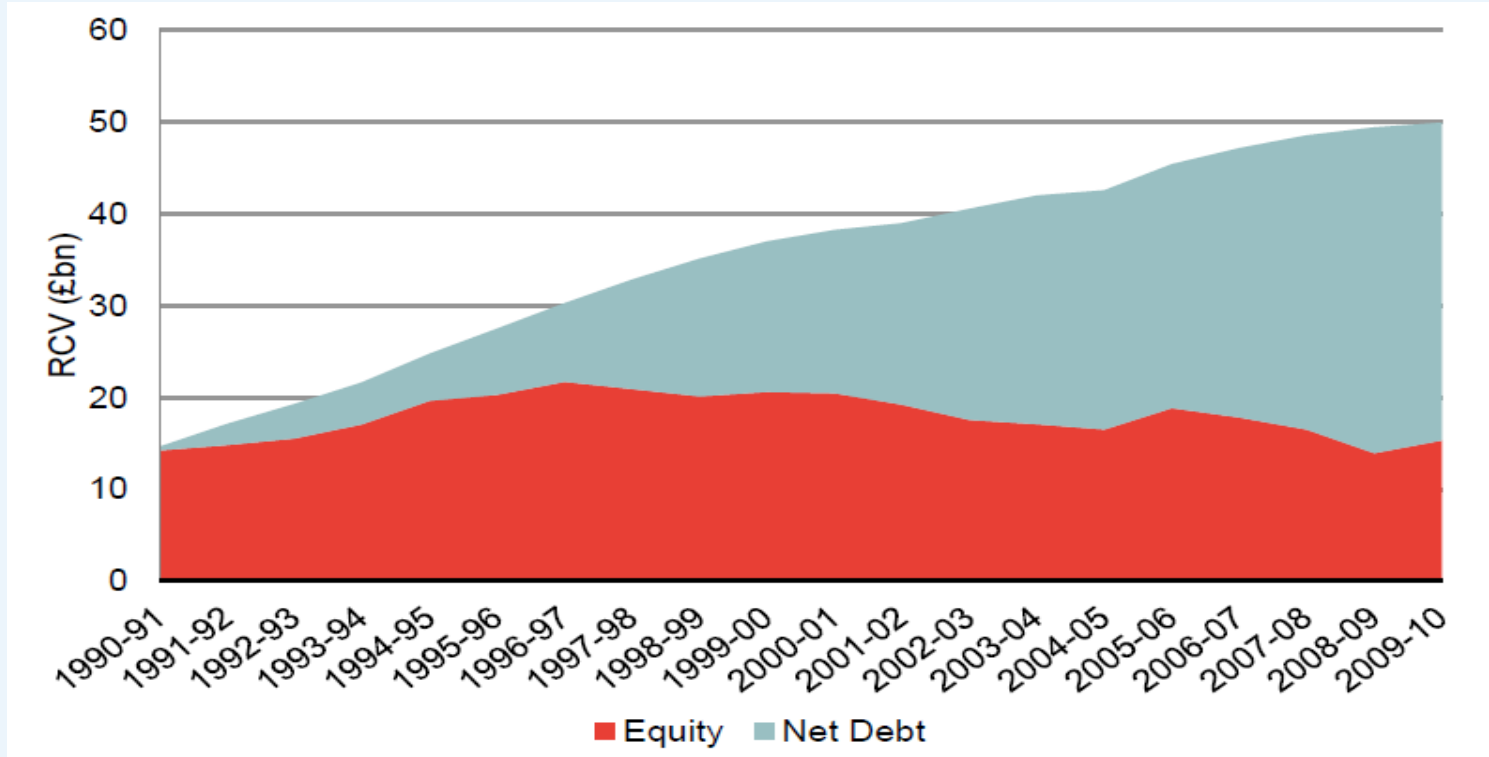
Nor are they the result of excessive borrowing which would simply result in higher future bills...

Average increase in net new debt per connection

2002-15 (£ per connected property, real terms*)	Average annual net new debt 2002-15
Dwr Cymru	49
Scottish Water	51
Severn Trent	75
Northumbrian	78
United Utilities	130
Yorkshire	131
England & Wales	131
South West	145
Wessex <i>(private owner, chose to maximise equity return)</i>	148
Thames <i>(private owner, chose to maximise equity return)</i>	160
Southern <i>(private owner, chose to maximise equity return)</i>	178
Anglian <i>(private owner, chose to maximise equity return)</i>	202

*Outturn expenditure inflated using RPI

Recent concerns about the financing of the companies in England could have been addressed. The pattern of debt and dividends has been clear for some time....



“Contrary to the popular view, the companies have ... marginally cash negative since their privatisation. Debt at March 2008: £29.2 billion, Dividends distributed (1989-2008): £24.1 billion.” This explains why an investor who “reinvested all dividends would have earned.. around 17.5% compound. This compares to the 8 - 9% return that was available to an investor who invested in a FTSE all share index-linked fund over the same period.”

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