

# **THE DAVID HUME INSTITUTE**



## **Regulation and Competition in the Water Industry in Scotland: Some Lessons from Experience**

**David Simpson**

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The David Hume Institute  
26 Forth Street  
Edinburgh EH1 3LH

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<sup>1</sup> The author had the good fortune to have had a ringside seat from 2003 onwards at many of the events discussed in this paper. His interpretation of these events is necessarily subjective; other well-placed observers may have different views. I am grateful to Charles Coulthard, Gordon Hughes, Alan Sutherland and Ian Tait for their very helpful comments.

## Foreword

It has been a long haul, but worthy of all the effort. These latest research papers mark the final stage in our series of four ‘conversations’ on issues related to possible constitutional change in Scotland. We are most grateful to the ESRC for providing support for this venture; and to Professor Charlie Jeffery and colleagues at the Department for Government at the University of Edinburgh for being our partners in the venture. Along the way we have had a great deal of support from many people, including a number of DHI Trustees. Their input is much appreciated; and I must also acknowledge the major assistance provided by Catriona Laing and Joan Orr in the DHI office. Catriona has nobly worked with me on organising all the round tables and seminars and Joan has had responsibility for all the publications. The operation would not have been feasible without them.

To remind you all, each ‘conversation’ has followed a similar format. We have sought draft papers from a number of key and informed parties, to be discussed at a private round table. Then the papers have been re-visited and discussed at a full DHI seminar, with a main speaker and contributions to an extended Q&A/discussion session from all authors. Both round table and seminars were held, as is usual for our events, at the Royal Society of Edinburgh in George Street. The papers have been published on our web site just in advance of our seminars. Generally there has also been significant media interest.

The first ‘conversation’ covered issues related to macro-economic policies and financial regulation. Then we moved on to welfare and social security matters before tackling the energy sector – in co-operation with the Scottish Council for Development and Industry. Our final topic, for which we have worked closely with the Scottish Government, has been competition policy and regulation. The papers for this last conversation are now being published.

For conversation 4 the round table was held at the RSE on 8<sup>th</sup> April, ably chaired by DHI Trustee Kyla Brand – who also happens to run the Office for Fair Trading office in Edinburgh but was operating in a personal capacity. (I should also note that for over 8 years I have been a member of the Competition Commission, but my involvement was as DHI Director.) Papers were prepared by Martin Cave and Jon Stern – on the over-arching background and key issues; David Simpson (ex DHI Trustee and ex WICS board member) on the positive experience in the water sector; Iain Osborne based upon his experience as a senior regulator across five different sectors and at the EU, UK and devolved levels; Luis Correia da Silva of OXERA – providing an informed outsider’s view; the Netherlands Authority for Consumers & Markets; and David Saunders the Chief Executive of the Competition Commission specifically on competition matters. We owe a huge debt to them all.

It is my firm view that this set of papers, and the various discussions which have taken place, will be of major assistance to the Scottish Government as it considers the best way forward for competition policy and regulation in the event of a yes vote at the referendum next year; and also in the event of a no vote when there might well be scope for beneficial change and possibly further devolution of responsibilities. The whole series has been a great success and this last venture in particular should be seen as making a major positive and constructive contribution to informed decision-making and policy formation.

Nevertheless it is my eternal duty, while Director, to note that while the DHI welcomes the contribution made to debates of this nature, we have no view and as a charity can have no view on the policies considered. It is now for others to make best use of the fruit of our labours.

Jeremy A Peat  
Director  
David Hume Institute

# **Regulation and Competition in the Water Industry in Scotland: Some Lessons from Experience**

**David Simpson**

## **Introduction**

Looking to the future and the possibility of constitutional reform, what lessons can be learned from the experience of WICS as economic regulator of the water industry in Scotland?

The WICS experience has shown that there does exist an institutional capacity within Scotland to deliver economic regulation in a way that is both effective and innovative. It would be possible to build on this expertise if the Government, either through independence or enhanced devolution, wished to extend its regulatory powers into other sectors.

The present paper begins with an historical sketch of regulatory developments in the water industry in Scotland, followed by a summary of the costs and benefits of autonomous regulation. The paper continues with an assessment of the implications of the WICS experience for regulatory and competition policy in the context of constitutional change.

## **Historical Sketch**

Among the quantifiable highlights of the transformation of the water industry since the inception of regulation are the following:

- Scottish Water's unit operating costs have fallen by around 40%.
- Together with other improvements in efficiency, the effect has been to drive down average bills in relative terms. In 2002 household bills in Scotland were £19 higher than the average bill in England & Wales. By 2012-13 they were around £50 lower than the average bill south of the border.
- Measured levels of customer service have improved markedly. In 2002/3, Scottish Water's OPA score, (a measure of service delivery), was 44% of the average score for companies in England and Wales. In 2010/11, the last year in which direct comparisons can be made; Scottish Water's score was 88% of the England & Wales average. Scottish Water's score has continued to increase over the last two years.
- Leakage has been reduced by over a third and drinking water quality has improved. Environmental compliance at treatment works has significantly increased, while sewer flooding and the incidence of low water pressure have both been reduced. Scottish Water is continuing to improve and is on course to meet its target of achieving upper quartile performance, in terms of the English and Welsh companies, by the end of the current regulatory period in 2015.
- When Scottish Water was formed in 2002 from the merger of the three regional water companies the available cash flows would not have supported debt at the levels that then existed. Improvements in efficiency have reversed this position, so that today Scottish Water is one of the financially strongest water companies in the UK.

Until 1996 the collection, distribution and supply of water and the treatment and disposal of waste water was largely the responsibility of local authorities. The extent to which these responsibilities were met varied from one authority to another. The fact that most of the infrastructure was invisible, together with the long term nature of the assets, meant that it was tempting to minimise expenditure on maintenance and renewal, a temptation that many authorities found impossible to resist. By the late 1980s it had become clear that the costs of bringing water quality and environmental performance up to new EU standards would be formidable. The Urban Waste Water Treatment Directive carried with it quite draconian penalties for non-compliance. It was evident that there would be insufficient public borrowing available for the substantial upgrading required to meet the new treatment standards. Wishing to avoid the odium of tax increases, the British Government of the day decided on privatisation. Such a proposal was deeply unpopular in Scotland, where there is abundant evidence of providential generosity in the supply of water.<sup>2</sup> Responsibility for the management of water and waste water was therefore transferred from local authorities to three new publicly-owned regional companies.

In November 1999 a Water Industry Commissioner was appointed by the Scottish Office to regulate the industry. Two years later he recommended a merger of the three regional water companies, and in April 2002 Scottish Water was formed. Although initially working in an advisory capacity without full powers of determination, the Commissioner's model of operation was based on the practices established earlier by Ofwat in England & Wales. Following an interim period from 2000 to 2002, the first proper regulatory period in Scotland was from 2002 to 2006, and this was succeeded by a second regulatory period from 2006 to 2010. In 2005 the Commissioner's Office was given full determinatory powers and in July of that year was re-branded as The Water Industry Commission for Scotland (WICS), with a board of five non-executive members appointed for their technical rather than their representative qualifications, together with a chief executive. The Water Commissioner became chief executive of WICS<sup>3</sup>.

The history of water regulation in Scotland can be understood as a continuing exercise in persuasion, in which the various decision-makers in the water industry have gradually been persuaded to overcome their atavistic resistance to change<sup>4</sup>. This has required cultural change all round. At first Scottish Water resisted the principle of being regulated. Senior management had to be persuaded that it was in the best interests of their industry that they should co-operate with the regulator. They began to realise that if they exceeded the regulator's expectations a degree of approbation, public as well as private, would be the result. If, on the other hand, they fell short there would be difficulties. To deliver the required changes, Scottish Water had to work closely with its staff and its unions to adopt a partnership approach, and this they did with demonstrable success.

Despite the Government being the owner of the company, senior civil servants initially saw their role as being one of mediator between Scottish Water and WICS. Gradually, as Scottish Water sought to increase its call on public expenditure beyond what had hitherto been considered reasonable, official attitudes changed.

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<sup>2</sup> In March 1994 the then Strathclyde Regional Council held a postal referendum in which 97% of the region's residents voted against the privatisation of water.

<sup>3</sup> Throughout this paper the acronym WICS is used to refer both to the Water Industry Commission and its predecessor body, the Office of the Water Commissioner.

<sup>4</sup> Surely one of the most remarkable achievements of the Water Commissioner was to persuade Lab/Lib Ministers and their senior officials not only to embrace the principle of competition but to embody it in the Water Services Acts of 2003 and 2004.

The decisive moment came in February 2006 when the Government sided with the regulator in rejecting Scottish Water's business plan, triggering the resignation of its Chairman.

Some of these steps in persuasion might not have succeeded had it not been for the good fortune that in the company, in Government and in the regulator, the 'right' people were in the relevant decision-making positions at the right time. At the formation of Scottish Water in 2002, the Scottish water industry was some 13 years behind comparable companies in England and Wales, measured in terms of operating costs and levels of service. Within 6 years Scottish Water had caught up with the pack, and has never looked back. The state-owned company has become that rare bird, a public sector success story.

Over time, WICS has gradually fostered a culture of consensus, epitomised by the Output Management Group<sup>5</sup> (OMG) and, more recently, the Customer Forum, whereby 'stakeholders' work together to achieve agreed outcomes. In a small jurisdiction this makes possible a focus on greater detail, and is frequently more effective than the bureaucratic or legalistic alternative procedures common in larger jurisdictions.

The downside of consensus, however, is that it can slip imperceptibly into regulatory capture. How can the existence of regulatory capture be identified? One way is by comparative benchmarking. But if different jurisdictions collect their data differently how can this be done? An answer may be to require all regulators to collect a minimum amount of data that are comparable, so that comparisons between different jurisdictions could periodically be made at, say, a European level. It is important, therefore, for a future Scottish regulator to be able to retain the capability to engage in comparative benchmarking. Alternatively one could compare underlying trends in costs in the water industry with changes in economy wide factor productivity (TFP).

### **Costs and Benefits of Autonomous Economic Regulation**

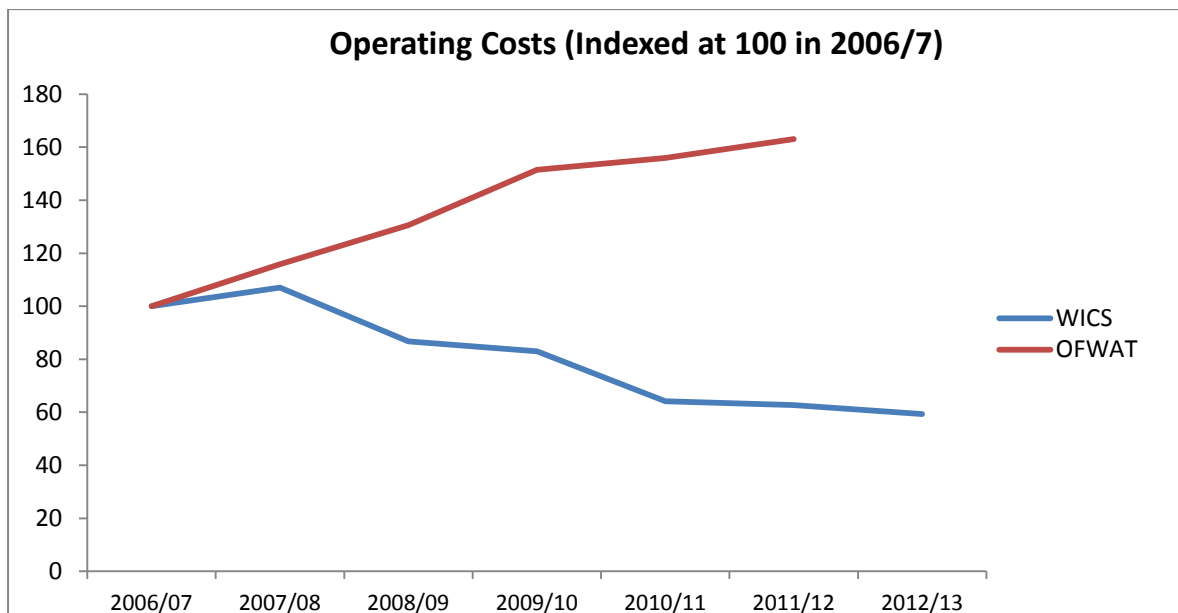
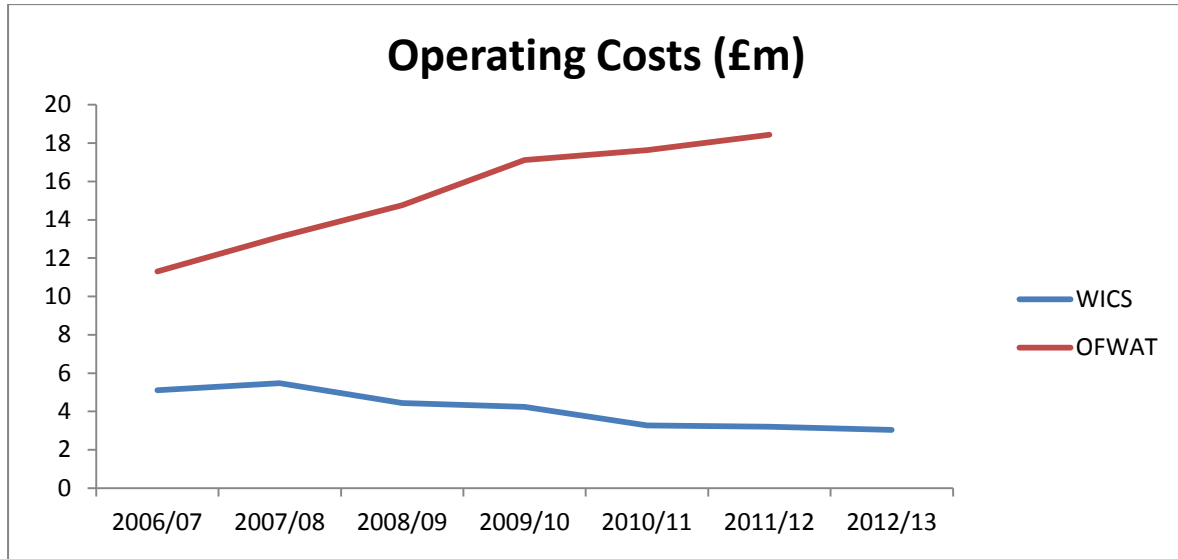
It is not possible to calculate exactly the costs and benefits of the experience of autonomous water regulation. While the operating costs of WICS are well-defined, most of the benefits of its existence are not easily quantifiable. It is tempting to think that the regulatory functions for water would be similar on both sides of the border, but the fact is that WICS's regulatory processes have developed differently over time, producing results (e.g. competition) different from those produced by Ofwat. Indeed one benefit of having had an independent decision-maker was precisely that it evolved over time in a qualitatively different way, the novel experiences leading to the discovery of new ideas with consequent benefit outside Scotland. The nature of these benefits would have been impossible to identify in advance, and are often difficult to measure even with hindsight, since they are the outcome of a learning process.

Above all, it is impossible to disentangle the contribution of WICS to the measurable improvements that have taken place in the Scottish water industry since 1999 from the contributions of Scottish Water, to say nothing of the contributions of other participants. Two episodes, however, may be indicative. In the 2001 and 2005 price reviews WICS asked Scottish Water to deliver its statutory objectives for £2.5 billion less than the company had proposed in its initial Business Plans. Scottish Water accepted those challenges, and as a result average household bills are around £110 a year lower than they might otherwise have been.

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<sup>5</sup> See page 7 below

It is helpful to compare the cost of water regulation in Scotland and in England & Wales in recent years as it serves to illustrate the benefits that can arise in smaller jurisdictions. While costs in England & Wales have risen by 63% in the last five years, in Scotland they have fallen by 37%. In both cases, the number of staff has remained broadly flat. The graphs below indicate these trends.



The average cost of operating WICS appears to be less than the average cost of operating Ofwat. Ofwat had ten times the scope of work that WICS did (based on population), but had twelve times the number of staff.<sup>6</sup>

<sup>6</sup> In 2011/12 the average FTE staff number for WICS was 17, while for Ofwat it was 198. The scope of the functions of WICS and Ofwat are not exactly congruent.



Could Ofwat have been able to accommodate the regulation of Scottish Water within its existing systems at a lower marginal cost? It would have had to develop additional functions to cope with competition, (which it does not yet have), as well as with the capacity to familiarise itself with the detail of local conditions realised, for example, by OMG. Then the consideration of the public ownership of Scottish Water would have required the staffing of a northern outpost tasked with keeping the Scottish Government ‘onside’. Such an office would have had to be more distinctively ‘Scottish’ than, say, Ofgem’s Glasgow office.

What remains undeniable are the significant improvements that have taken place in the water industry in Scotland since regulation began, notably improvements in productivity within Scottish Water, with consequent benefits enjoyed by consumers in the shape of relatively lower prices, better water quality and improved services.

### **Implications for Regulatory and Competition Policy**

Regulatory policy concerns the *objectives* of regulation, and how it should be *organised* and *conducted*. Regulatory objectives can be divided into two categories according to whether they concern the regulation of industries or the regulation of markets, (i.e. competition policy). On the former, it is not enough to say, as so many official documents do, that the purpose of regulation is to promote the interests of consumers or indeed the public interest. Amongst other considerations, this begs the question of the trade-off between the interests of present and future generations of consumers. So far as the latter is concerned, it is customary to say that a competitive market is in the public interest, without spelling out what is meant by a competitive market.

The question of the appropriate organisational structure for a regulatory authority is discussed at some length in some of the other papers so I will confine myself to some very brief remarks. The continuing divergence of policies between Scotland and the Rest of the UK (RUK) that is likely to follow independence or even enhanced devolution suggests a need for the existence of autonomous regulation, not just service agreements with RUK regulators. Whether there should be a single integrated utilities regulator within Scotland will depend largely on how it is done. If it were a truly integrated economic regulator there could be advantages. Able young staff might be stimulated by the opportunity to work on similar problems, e.g. of financial analysis, in slightly different contexts. There would be no advantage if there were just a brass plate on the front door and each utility regulator was located on a separate floor.

There may be a case for putting the regulatory and competition authorities in separate organisations to permit both a ‘competition of ideas’ and the possibility of appeal against the regulatory authority’s decisions. On the other hand, there may be benefits from bringing competition and sector regulatory skills together in a single body to allow a greater focus on overall benefits for consumers and promote a greater use of competition within the sectors<sup>7</sup>.

The rest of the paper will focus on the *conduct* of regulatory policy, i.e. what should a regulatory body try to do, and how should it do it. In 2003 the British Government proposed four principles of good economic regulatory practice<sup>8</sup>.

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<sup>7</sup> The author’s personal preference would be for separate regulatory and competition authorities, with a single regulatory authority responsible for all utilities.

<sup>8</sup> First Report of The Better Regulation Task Force, 2003.

These were accountability, proportionality, consistency, and transparency. On the basis of the WICS experience, four additional principles may be proposed. They are clarity, effectiveness, adaptability, and innovation. We consider each of these in turn.

*Clarity:*

One difference in water regulation between Scotland and England & Wales hitherto is that in Scotland policy and regulation have been more clearly demarcated. After consultation at the beginning of each regulatory period the Government specifies its principles of charging and its investment objectives in a legally binding form, and WICS ensures that these policy objectives are delivered at the lowest reasonable cost. In the early days there was some straying across the boundary between policy-setting and regulation, but this has now ceased. The WICS experience has demonstrated the value of clarity in distinguishing the roles of government, regulator and industry, particularly in a public sector context. This is a principle that may have wider application.

*Effectiveness:*

One of the most important changes introduced by WICS was the replacement of aspirational targets by minimum acceptable levels of performance. This was a novel idea for a public body in Scotland. Hitherto, aspirational targets had been the norm for Government organisations, and typically they had usually fallen short of their targets. It was a new experience for a public body to recognise that it *had* to deliver. Scottish Water's success in this area offers valuable lessons for other areas of public activity.

*Adaptability:*

Every regulator must begin with an analytical framework – the ‘regulatory model’. In the case of WICS it was a modified version of the Ofwat model.

The WICS model of regulation subsequently evolved rather differently from Ofwat's. In future regulatory periods, it may be that the focus in Scotland will continue to shift away from reliance on estimates of WACC and RCV and towards sustainable financial strength and what profit is required to maintain it. Whether under independence or enhanced devolution, it seems likely that Scottish Water will in future be required to seek alternative sources of finance; perhaps from the bond market rather than from government loans. If this is so, there will have to be more emphasis on financial strength so that funds can be raised at lower rates of interest. Both investors and employees share a common interest in corporate stability. It is noticeable that at bond-financed CLGs like Glas Cymru<sup>9</sup> and John Lewis staff profit-sharing schemes are an important feature of the corporate culture. Investors also like transparency. Measurement of corporate performance by cash flow rather than by accounting convention may be an additional aid to transparency.

The regulatory process in the Scottish water industry has proved itself to be adaptable in resolving issues as they have arisen. The resolution of ‘development constraints’, the incentivisation of solutions for smaller water treatment plants, the co-ordination of official responses to the various dimensions of the Water Framework Directive and the establishment of a customer forum are among examples.

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<sup>9</sup> Glas also has a profit-sharing scheme for its customers.

A significant development in the history of water regulation in Scotland was the establishment in 2006 of the Output Management Group (OMG), made up of representatives from the Government, WICS, SEPA, DWQR, and Scottish Water itself. The function of OMG is to ensure that all parties can together monitor Scottish Water's progress in implementing the hundreds of investment projects that in total comprise the agreed capital programme<sup>10</sup>.

Every regulator must start with an analytical framework. But the WICS experience suggests that the initial choice of analytical framework may be less important than that it should be adaptable. In other words, when setting up a new system of regulation it's important to allow for its evolution.

#### *Innovation:*

Sometimes a regulator needs to take the initiative rather than just adapting to changing circumstances. An example of innovation by WICS was its establishment of a competitive market in water for non-household customers. So far as is known, this is the first time the creation of such a market has been attempted anywhere in the world. The objective was to improve the opportunities open to customers in terms of price and quality of service, as well as helping Scottish Water to improve its own performance. From April 2008 businesses and public sector organisations like hospitals and universities have been able to negotiate prices and provision of services with competing retailers who buy their water from the monopoly supplier Scottish Water at a regulated wholesale price. Alternatively, customers can operate as their own supplier. Scottish Water formed a retail subsidiary to compete with the others. The costs and benefits of introducing this limited degree of competition into the water industry in Scotland have been carefully analysed.<sup>11</sup> It was estimated that the NPV of the overall costs and savings, both realised and ongoing at 2010/11, arising from the introduction of retail competition amounted to a net saving to customers of around £ 180 million.

The WICS experience illustrates a wider principle that smaller organisations focused on specific geographic areas have more flexibility to experiment, i.e. to innovate, to make mistakes and then to learn from these mistakes. This attribute can outweigh the diseconomies of small scale.

#### **Choice of Regulatory Model:**

When WICS began its work it started from the Ofwat model of comparative benchmarking and the formula of prices being determined by a notional 'cost of capital' and an equally notional RCV<sup>12</sup>. This was a flawed model, for two reasons.

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<sup>10</sup> WICS has developed for OMG a measure that provides an objective assessment of progress in delivering the capital investment programme. The measure combines information about output performance with information about capital expenditure to produce a single score known as the Overall Measure of Delivery (OMD). This measure can then be compared with the position that Scottish Water forecasts in its Delivery Plans.

<sup>11</sup> 'Retail Competition in Scotland: An audit trail of the costs incurred and the savings achieved', WICS 2011.

<sup>12</sup> It may be argued that the regulatory framework in Scotland was not 'the Ofwat model' because it involved a closer alignment of Government priorities, as established in the Ministerial objectives and principles of charging with the needs of the environment, public health and consumers.

First, it was one in which prices were determined by costs rather than the other way round, and second because outcomes were highly sensitive to the choice of values for the cost of capital, a necessarily arbitrary number.<sup>13</sup> However, WICS has gradually evolved away from this model. Under independence or enhanced devolution the other utilities will start from the regulatory position they are in, which is the existing UK model. It has been suggested that it would be unwise for Scottish regulators to depart from the UK model<sup>14</sup>. In the light of such recent episodes as the awarding of rail franchises and the ‘bungs’ to water customers in the South West of England, to say nothing of the regulation of financial services, this advice might be thought to be less than compelling.

Theoretical deficiencies have also confused UK competition policy. Here, the defects of the model may be attributable to a lingering attachment to the neoclassical model of ‘perfect’ competition which sees competition as a static structure rather than as a dynamic process.<sup>15</sup> There is consequently an insufficient appreciation of the dynamic benefits of competition, e.g. qualitative improvements in process and product, recognised in Research Paper 15 by The Netherlands Authority for Consumers & Markets.<sup>16</sup> Some of these benefits were revealed when WICS introduced competition into the retail part of the water industry in Scotland. Before 2008, Scottish Water did not look very carefully at its retail costs because they were a small part of its total costs. But once its retail subsidiary Business Stream was created and faced the threat of potential competition, it started looking at its costs more closely, in particular the costs of bad debt. As a result of discussions with its customers, new procedures were adopted that resulted in a fall in non-household bad debt costs from 1.6% to 0.7% between 2008 and 2009, a time of deteriorating trading conditions for most customers.

There is currently a trend within regulation in the UK towards what is called ‘customer engagement’, getting regulated companies to discuss their proposals with consumer representatives and persuade them to agree to these proposals. It is one thing to undertake such a process when the customers are themselves businesses with well-defined and often quantifiable needs. It is not quite the same when the customers are households. For them a committee of representatives of ‘the consumer interest’ is unlikely to be a substitute for market competition. For one thing, the search for ‘customer priorities’ may be illusory: consumer preferences are usually diverse.

More importantly, new ideas and new ways of doing things that meet consumer needs are more likely to be revealed by a process of competition. The introduction of competition into the Scottish water industry led to suppliers beginning to tailor their services to meet their customers’ wishes.

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<sup>13</sup> This used not to be the case. The original Littlechild idea was that prices would be set (reasonably but potentially also arbitrarily) and that the company should live within these resources. This worked well and forced a huge step change in efficiency. However companies were successful in challenging the arbitrariness of price setting and forced a move towards bottom-up, cost - based price setting. This also arguably led to regulators challenging policy outcomes with a view to keeping the pressure on suppliers.

<sup>14</sup> One is reminded of Hilaire Belloc’s injunction to ‘Always keep a hold of Nurse/ For fear of meeting something worse’ (Belloc, *Cautionary Tales for Children*, 1907).

<sup>15</sup> The neoclassical model of competition excludes most of the features characteristic of competition in the real world (Hayek, *Individualism and Economic Order*, 1980, p.102).

<sup>16</sup> The same paper mentions the importance that the regulatory authorities in the Netherlands attach to learning from the practices of other member states. By contrast, there is almost no reference to the European dimension in most of the papers emanating from the UK. So the UK perspective on regulatory policy seems to be both backward-facing and inward-looking.

Instead of supplying water only they began to supply on-site water management services. In some cases, contracts were won by suppliers who offered the better service to the customer rather than the lowest cost. As a result of competition, water ceased to be a commodity.

Other opportunities of learning from experience can come from having a diversity of delivery systems as well as from a diversity of regulatory systems. The water map of Scotland outside the central belt is an archipelago of self-contained water and sewerage systems. There seems no good reason why local authorities should not be able to opt to run their own systems if they so wished<sup>17</sup>. If they chose to contract out the operation of this service, or parts of it, this might help to identify local variations in the wholesale price of water<sup>18</sup>. The regulation of such diverse arrangements need not be excessively expensive.

### **Future Development of the Water Industry in Scotland**

We should not forget that the Scottish water industry is not wholly congruent with the activities of Scottish Water. Although Scottish Water enjoys a statutory monopoly of the wholesale supply of water, there are significant water-bottling and other retailing activities that are in private ownership. In order to consider the possible future of the water industry, we need to raise our view of the industry from a static picture of a utility, where much the same activities are repeated year after year, to that of a normal industry, changing, diversifying and growing like any other. Three years ago the Government published a consultation paper on the future of the industry in which it expressed the aspiration that the natural resource of water, which appears to be both abundant and of good quality in Scotland, should be developed for the benefit of the community.<sup>19</sup> The tried and tested way of doing that is by allowing private enterprise to do the developing, and then taxing the rents that subsequently arise<sup>20</sup>. It is one of the consequences of surrendering our sovereignty three hundred years ago that the enormous tax revenues that accrue annually from the natural resource rents generated today by the whisky and oil industries are transferred outside the country. It would be surely be only prudent for a Government to make sure that we don't make the same mistake again.

The privately-owned water-bottling companies claim that the high costs of transport mean that their profits are low, so there are no rents to be taxed. Even if this were true today, it may no longer be true in the future if water prices rise. More importantly, there is scope right now for branding some Scottish bottled water as being of premium quality, thus creating taxable rents.

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<sup>17</sup> The possibility of extending competition to households is limited by the extent of social cross – subsidies and urban/rural cross-subsidies.

<sup>18</sup> In view of the significant regional variations in prices that would be likely to be revealed, this information, although valuable for public policy, would be politically sensitive.

<sup>19</sup> *Building a Hydro Nation*, Scottish Government Consultation Paper, December 2010.

<sup>20</sup> The consultation paper suggests that Scottish Water should have a 'leadership role' in the future development of the water industry in Scotland. But Scottish Water is a monopoly. Monopolies, whether public or private, are not noted for being innovative, whether in production or in marketing. Publicly-owned monopolies are even worse, because the profit –seeking that is essential for successful innovation and thus for development is generally frowned upon.

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26 Forth Street, Edinburgh,

EH1 3LH

Tel (0131) 550 3746

Scottish Charity Number SC009579

Email: [enquiries@davidhumeinstitute.com](mailto:enquiries@davidhumeinstitute.com)

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