

UK experience since 2003 and outlook

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The British utility regulation model: beyond competition and incentive regulation?
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The starting point

μPractice, which is evolving rapidly, continues to outstrip theory (*David Newbery*)

But don't forget ...

μPractical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist (*J M Keynes*)

μAnd we have not had true RPI-X for a long time (if ever!)

Where were we in 2003? Challenges...

- Challenges to the model
- The 1997 review: questioning legitimacy
 - domestic v industrial gains
 - 'fat cats'
 - transparency of procedures
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A reminder

- μ “There will always be good reasons for retaining regulation ... Because we are explicit about having multiple objectives, it is very unlikely that one policy instrument – a price cap for instance – will be sufficient ... Regulation must remain ever-alert and ever-changing.” (*Dan Corry*)
- μ Arguments about ‘failure to give reasons’ really a disagreement about relevant outputs?
- μ Impossibility of distinguishing ‘policy’ and ‘delivery’

...and implications

- μ Need to accept that the key utility networks are inevitably public-private partnerships, and that regulation has multiple objectives
- μ Implications:
 - μ political involvement in determining outputs and objectives
 - μ

Development of the RAB model

- RIIIO
- But was this a fundamental change?
- Main difference is 8 year review periods plus more emphasis on uncertainty mechanisms
- Will it survive 8 years?
- Lessons of the PPP

Focus on competition

- Competition the best way of promoting customer interest?
- But can conflict with effective price control approaches
- ... and not all Ministers believe in it!
- Was the reliance on SLC right for 'public services'?
 - NHS; integrated public transport etc

Extension of the model

- Greater consistency
 - CAA
- New 'utilities'
 - Highways Agency
- A more effective basis for raising finance
 - nuclear power

Financing

- The emergence of IUK and the NIP
- Originally a strategic framework to remove political risk
- ...
- ... but now mainly about new sources of finance
- Is that really a problem? Do regulators need do more than get the cost of capital (more or less) right?
- Does that argue more for regulators being more transparent and collaborative than for Government to intervene?

Role and structure of regulators

- Continuing skirmishes over boundary between policy and implementation
 - energy
 - water
 - rail (despite HLOS and SoFA)
 - communications
- Numerous reviews (including by IUK) but no clear blueprint
- CMA an opportunity?
- Prospects for UK Regulation Network

What about the next ten years?

- Continuing development of price review procedures
- But main issue will be relationship between regulators and Government
- Three possible outcomes:
 - regulators collaborate to reclaim lost ground (with support from strong CMA)
 - regulators become 'agents' of Government except on narrow technical issues (cf the Highways Agency 'monitor')
 - continuing muddle
- What happens if the lights go out?