

The use of competition and regulatory powers; cross-sectoral cooperation between regulators

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What I'll cover:

- What has economic regulation delivered?
- What happened to regulation 'withering on the vine'?
- Why haven't we seen more market reform and less regulation?
- Major infrastructure investment and consumers' interests
- Are we making enough of cross-sectoral experience?
- How should regulators work together, and with the CMA?

Benefits of economic regulation

The UK's approach to independent economic regulation has

- given investors certainty and confidence
- helped to consumers' experiences for the better, and
- protected taxpayers

Water sector

- £116billion of investment since 1989 – better infrastructure and services to customers at no cost to the taxpayer.

Energy:

- Halving in cost of network charges in 15 years post-privatisation; over next 8 years enables a 50 per cent increase in investment at a lower cost of capital.

Benefits of economic regulation (2)

Communications

- strong competition, innovation and investment
- transformational innovations in now-ubiquitous mobile and broadband services
- Yet average family in UK now spends less on these services than it did a decade ago
- And less than families in other leading developed economies.

Airports

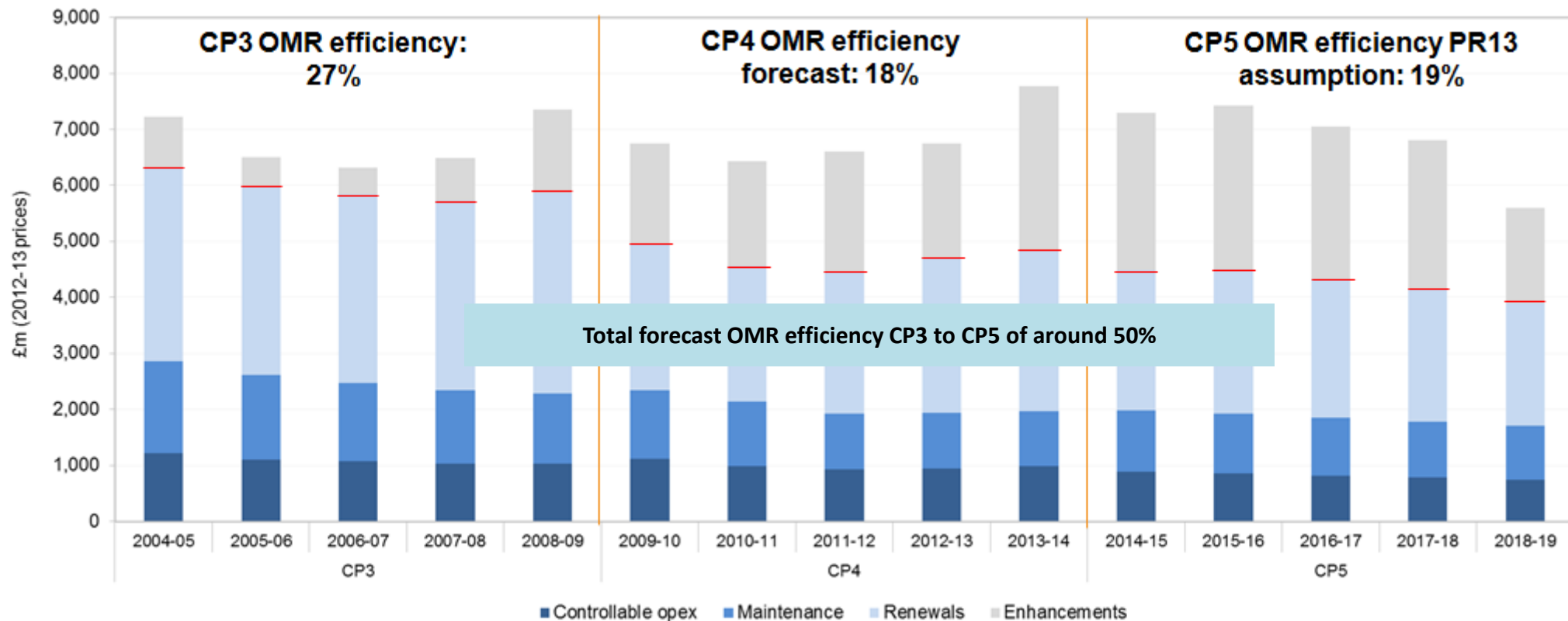
- enormous choice and value for consumers by supporting competition and regional airport expansion
- underpinned £11bn of investment in world class facilities during the last decade

Benefits of economic regulation (3)

Rail: 40 per cent reduction in ongoing cost of infrastructure over the last decade; 18 per cent in next 5 years

- near-record punctuality and stretching targets
- sustained growth in demand and near-record levels of customer satisfaction

Reducing Network Rail's 'day-to-day' costs frees up Government resources for enhancing the network:

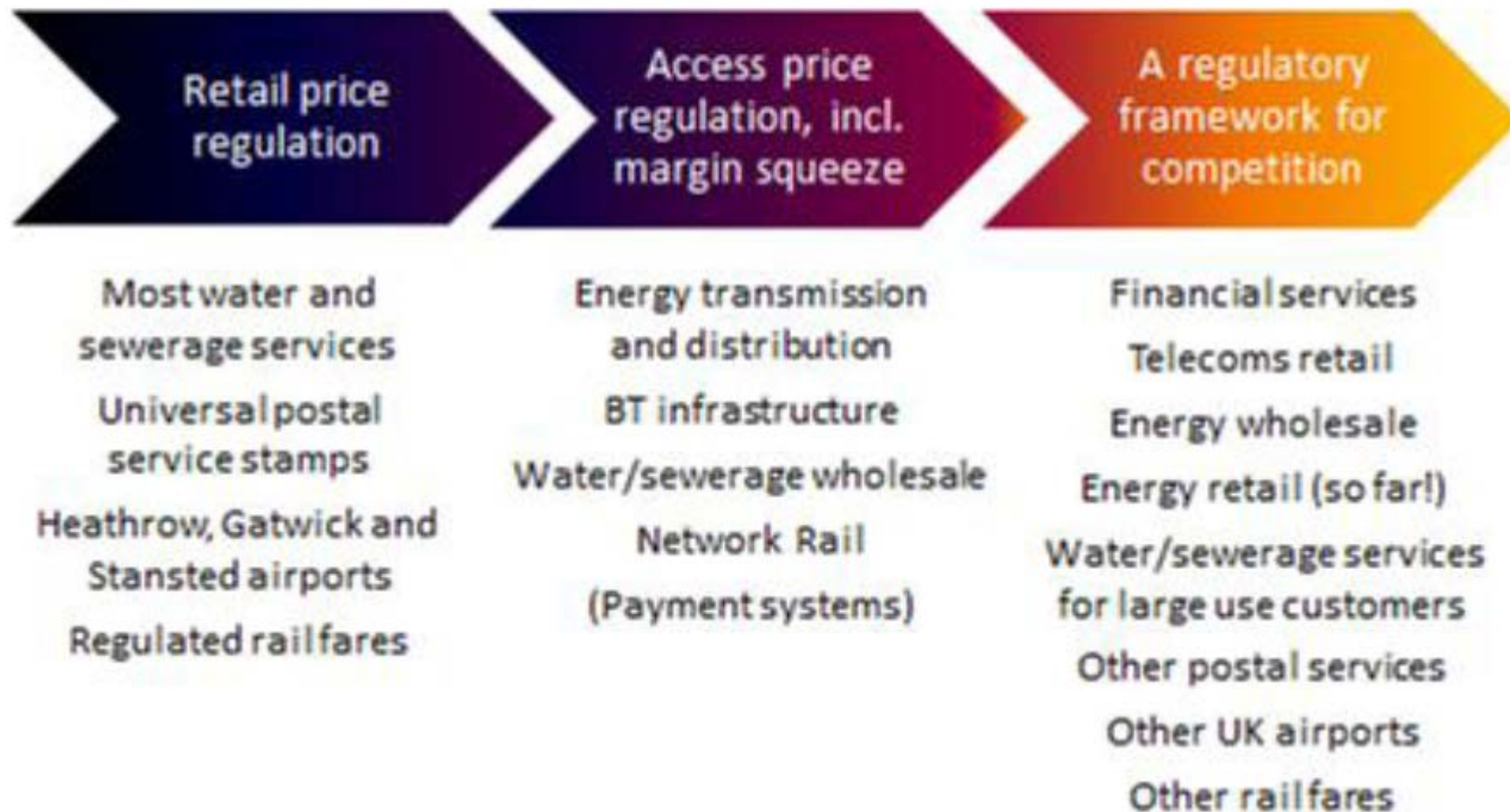




- ❖ **Privatisation:** Was to change managerial incentives to focus on profit-maximisation.
- ❖ **Regulation:** Was to ensure, in the absence of competition, that those profit-maximising incentives drove benefits for productivity and consumers.
- ❖ **Competition:** Was to be the beautiful butterfly that could thereafter be left to work its magic for productivity and consumers alike.



Regulation: A changing focus



Why have some sectors retained price cap or other aspects of ex-ante economic regulation?

- Use of competition powers too difficult?
- Cosiness or capture?
- Regulators distracted, or focusing on the wrong things?
- Not willing to use competition powers?
- Ex ante powers / tools yield faster benefits?
- Evidence weaker on structural change?
- Role of government?

None of the above tells the whole story



Concerns about UK's infrastructure and its ability to support economic growth

Sector	Evolution of performance	
	Change 2005 to 2012	Change 2010 to 2012
Major Roads	↑ Improved	↑ Improved
Rail	↑ Improved	↑ Improved
Airports	↔ Stable	↑ Improved
Ports	↓ Declined	↓ Declined
Electricity	↔ Stable	↔ Stable
Gas	↑ Improved	↑ Improved
Communications	↑ Improved	↑ Improved
Waste	↑ Improved	↔ Stable
Flood Risk Management	↑ Improved	↔ Stable

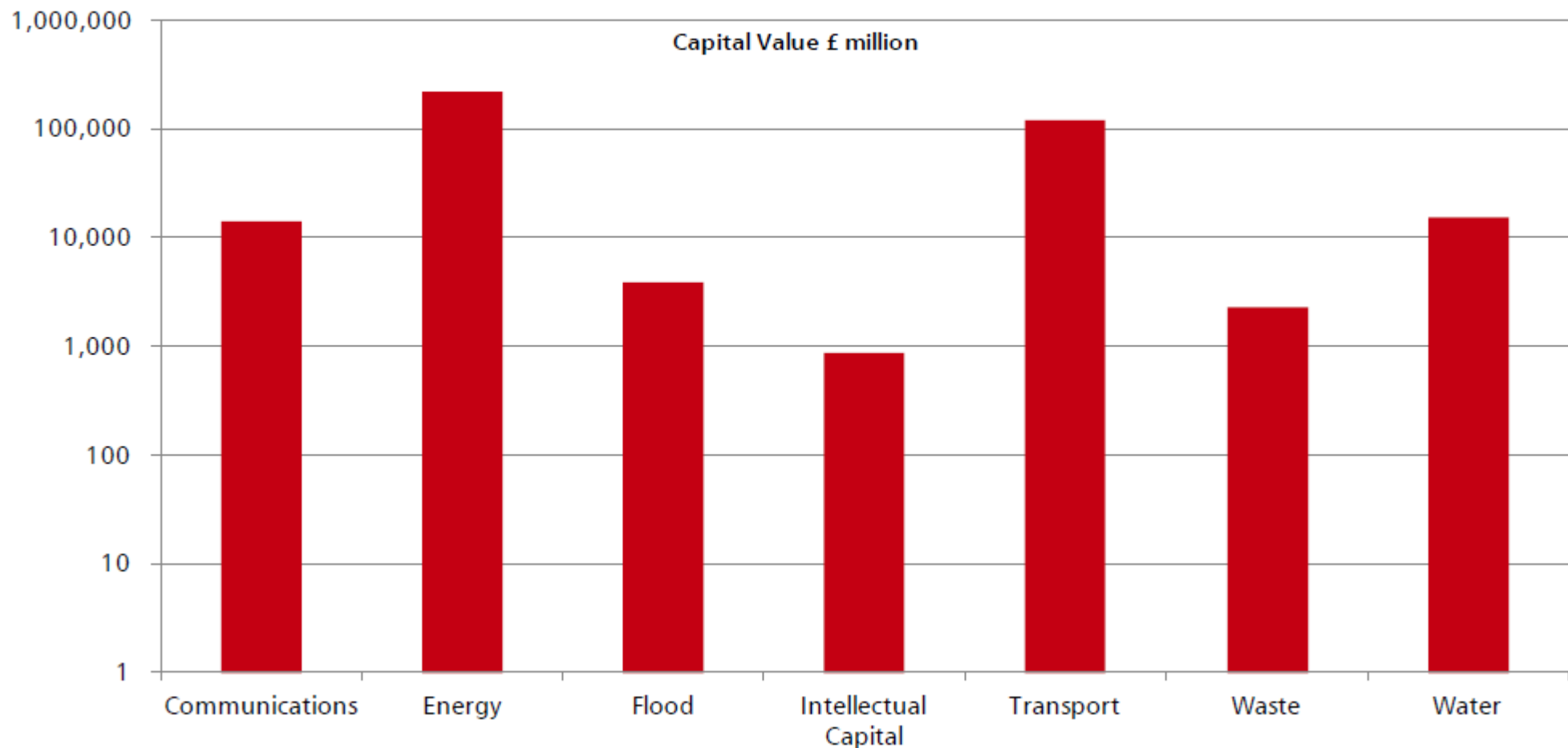
^a The Performance Indicators on which this table is based can be found in Annex B

^b +/- five points on the performance index is classified as stable



Future infrastructure delivery

Pipeline value by sector

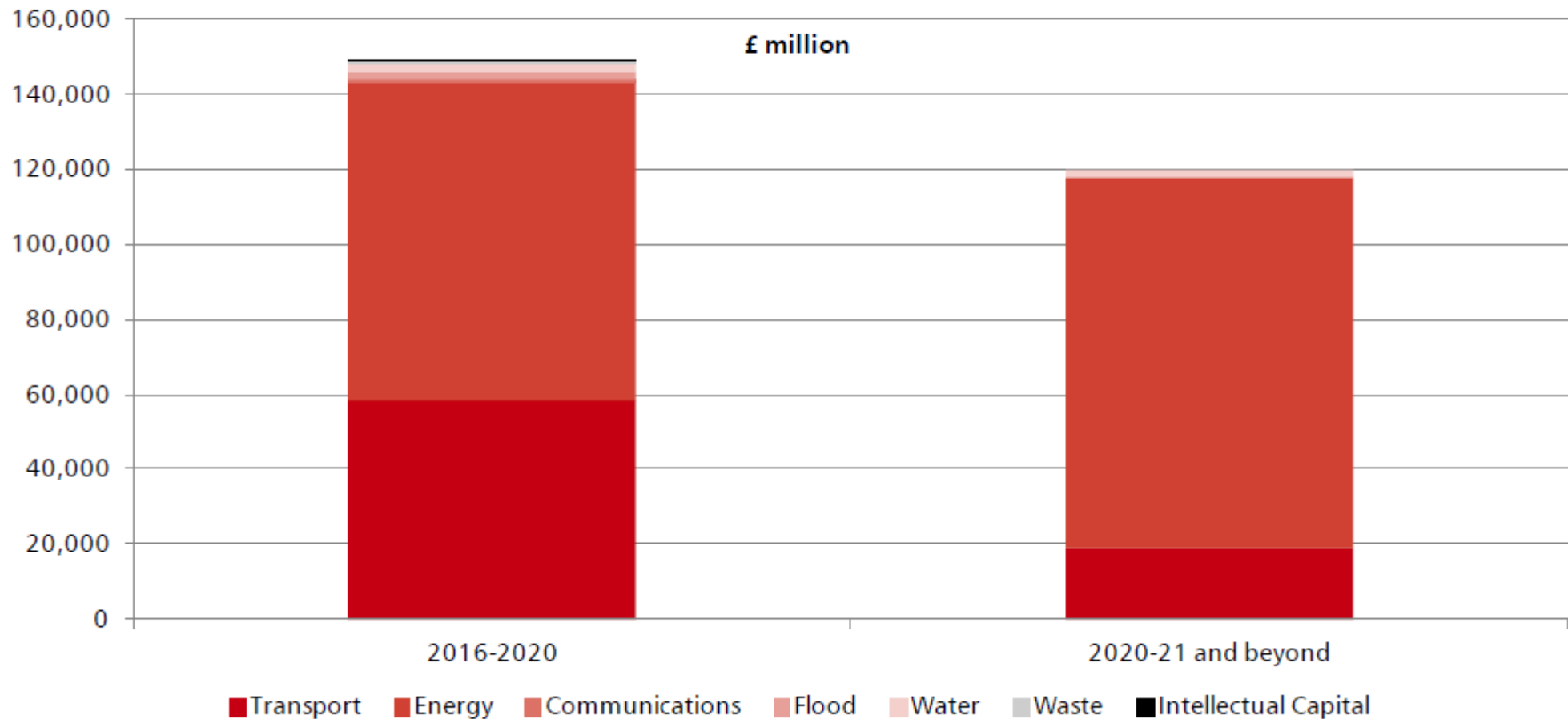


Source: HM Treasury Major Infrastructure Tracking Unit, in HM Treasury: National infrastructure Plan, December 2013



Future infrastructure delivery

Pipeline capital investment 2016-17 onwards



Source: HM Treasury Major Infrastructure Tracking Unit, in HM Treasury: National infrastructure Plan, December 2013



Future infrastructure delivery: role of regulation in major projects/programmes

Airport capacity (Davies review)

High speed rail

- HS2
- Electrification

Electricity generation

- low-carbon generation,
- Contracts for Difference
- transmission

Superfast broadband

Thames Tideway

Beyond regulated sectors:
flood risk management; strategic roads network; waste management

UK Competition Network (UKCN)

- UKCN includes the UK's economic regulators and the CMA
- commitment to close and regular working over competition issues
- we are working together to ensure consistent and effective use of competition powers across all sectors to
 - prevent anti-competitive behaviour, and
 - open up markets to greater competition for the benefit of UK consumers and businesses.
- Focus on:
 - strategic dialogue
 - enhancing capabilities
 - advocacy
 - enforcement cooperation
 - sharing best practice
 - annual concurrency report



UK Regulators' Network : the nine UK economic regulators working together





UKRN – a new commitment to effective cooperation

UKRN is a vehicle to improve coordination across regulated sectors	<ul style="list-style-type: none">– High level strategic objectives set by CEOs– Focus on consistency, efficiency and improvement of regulation– Commitment to fund and support joint working– Ambitious programme of work on areas of cross-sectoral importance
	<p>Welcomed in Budget Report 2014:</p> <p>‘The government is committed to the UK’s system of independent economic regulation, which is widely considered to be one of the best in the world. The government welcomes the creation of the UK Regulators’ Network (UKRN).’</p>



UKRN priority projects

Priority projects: commitment to focus on consumer concerns & investor confidence

Explaining and making best use of economic regulation

Helping to raise understanding of what independent economic regulation can achieve, when it works best, and how we can improve

Cross-sector infrastructure

Provide regulatory solutions to support multi-sector infrastructure investment

Consumer engagement and switching

Approaches to engagement and switching across sectors

Affordability

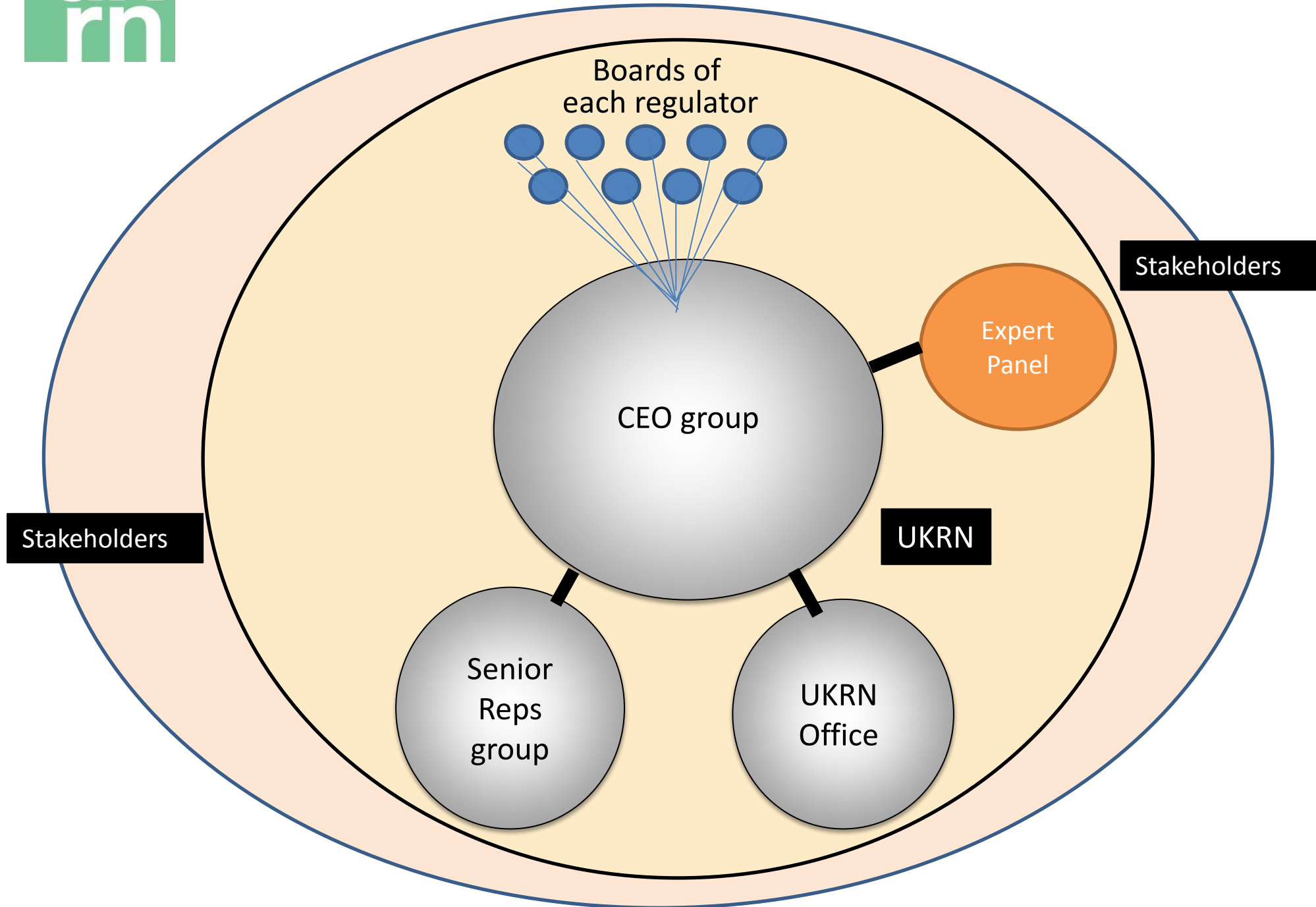
Identify affordability pressures for consumers and establish scope for possible solutions

Network resilience and cybersecurity

Tools and approaches to mitigate risks from cross-sector threats and dependencies



UKRN Structure





UKRN project delivery

