

# 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

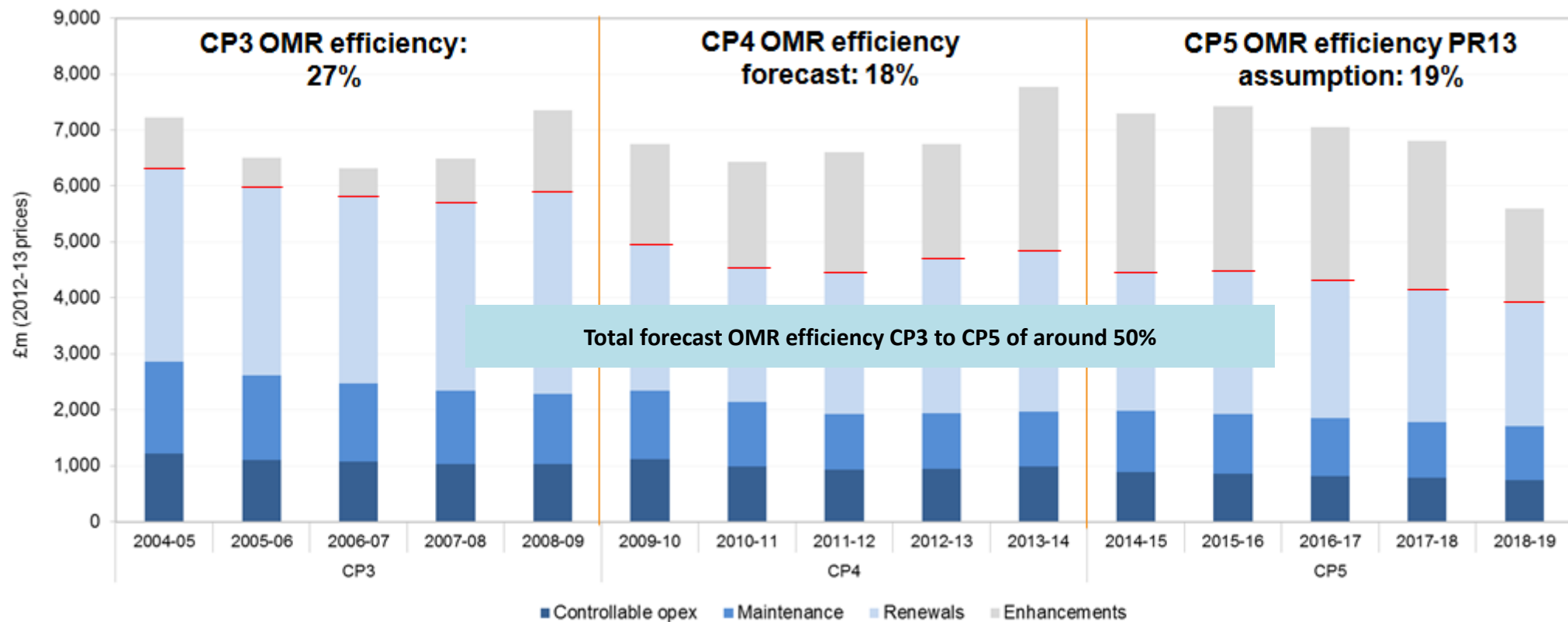
- enormous choice and value for consumers by supporting competition and regional airport expansion
- underpinned £11bn of investment in world class facilities during the last decade

# 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:

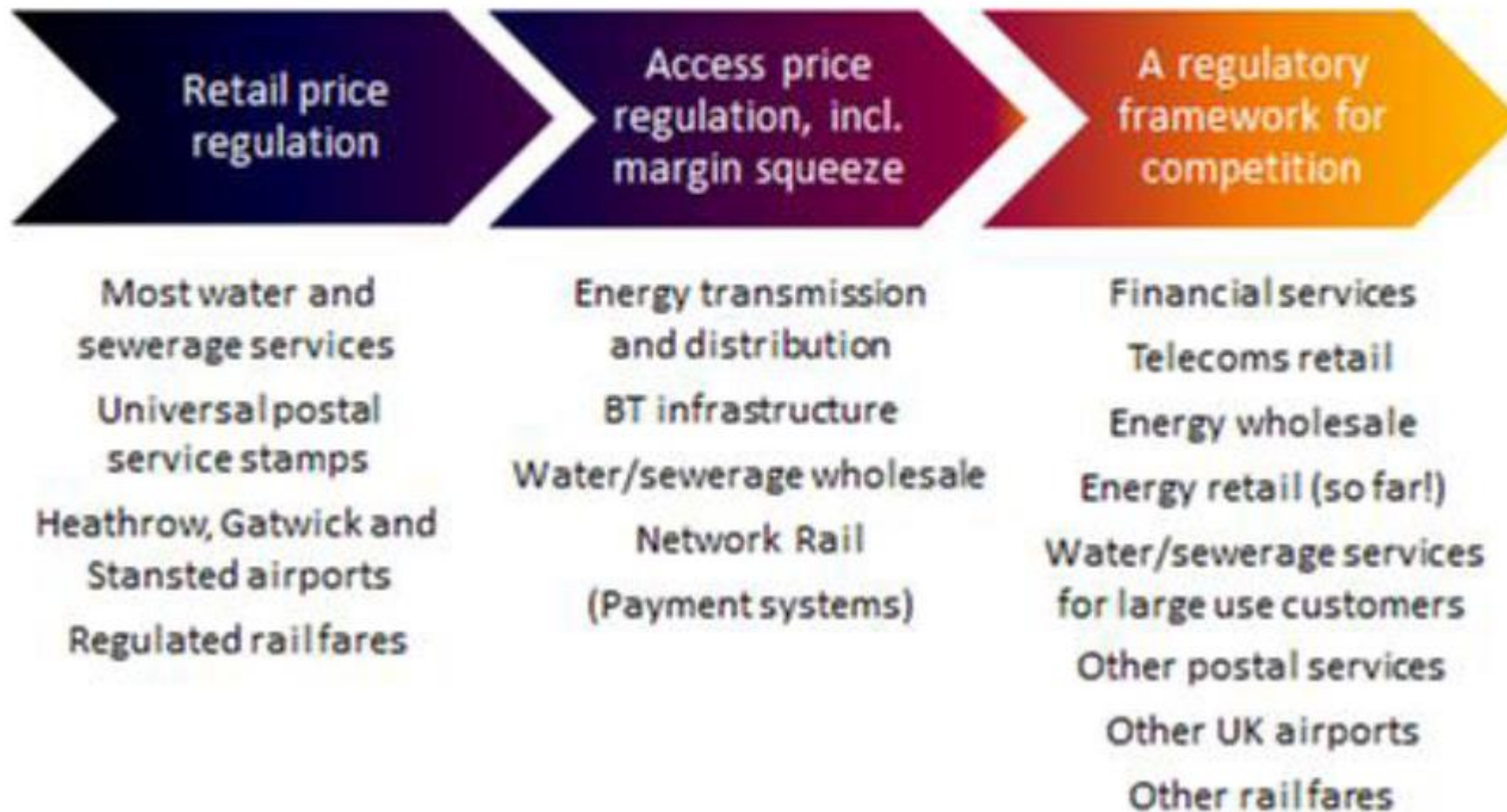




- ❖ **Privatisation:** Was to change managerial incentives to focus on profit-maximisation.
- ❖ **Regulation:** Was to ensure, in the absence of competition, that those profit-maximising incentives drove benefits for productivity and consumers.
- ❖ **Competition:** Was to be the beautiful butterfly that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

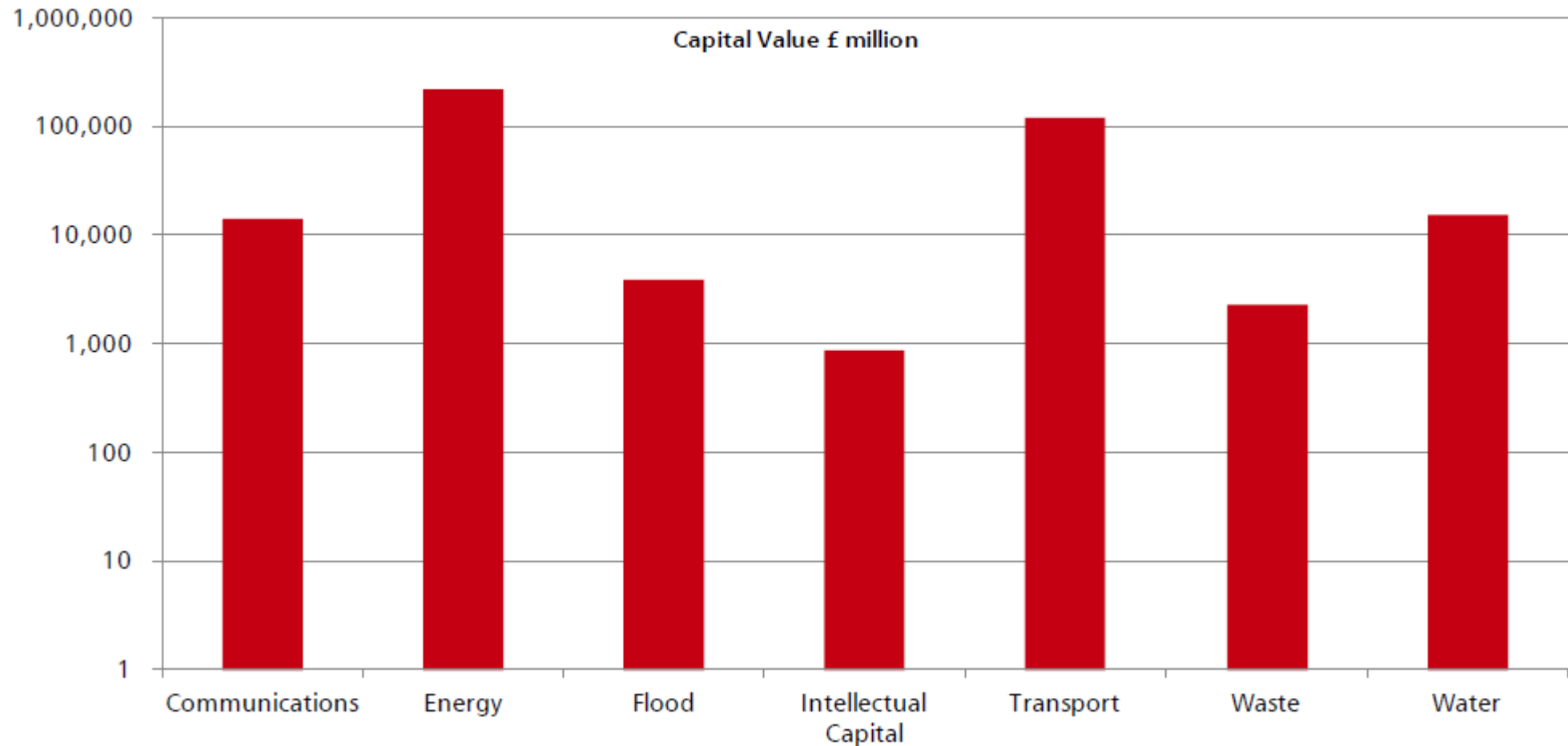
<sup>a</sup> The Performance Indicators on which this table is based can be found in Annex B

<sup>b</sup> +/- five points on the performance index is classified as stable



# Future infrastructure delivery

## Pipeline value by sector

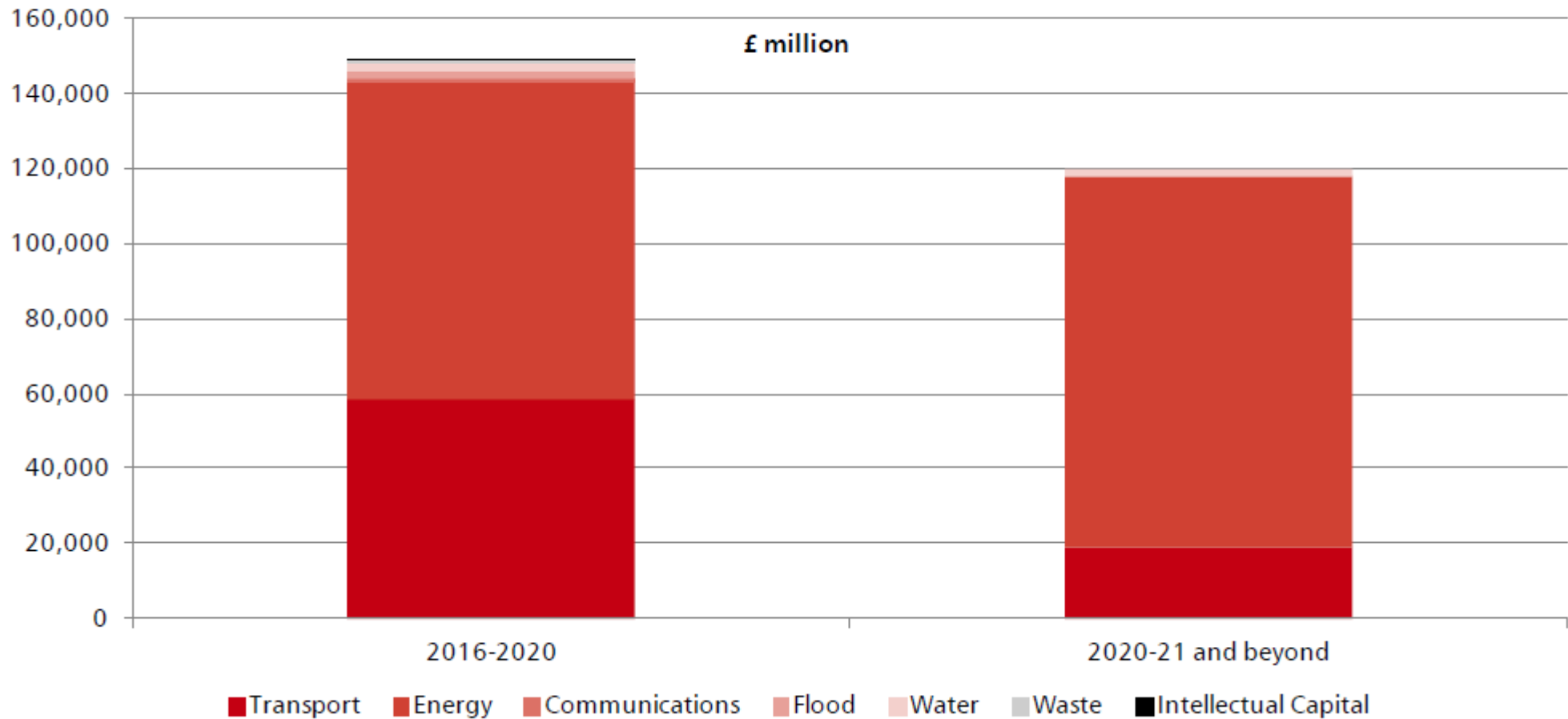


Source: HM Treasury Major Infrastructure Tracking Unit, in HM Treasury: National infrastructure Plan, December 2013



# 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)

Electricity generation

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

High speed rail

- HS2
- Electrification

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

- 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

Welcomed in Budget Report 2014:

‘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).**’



# 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

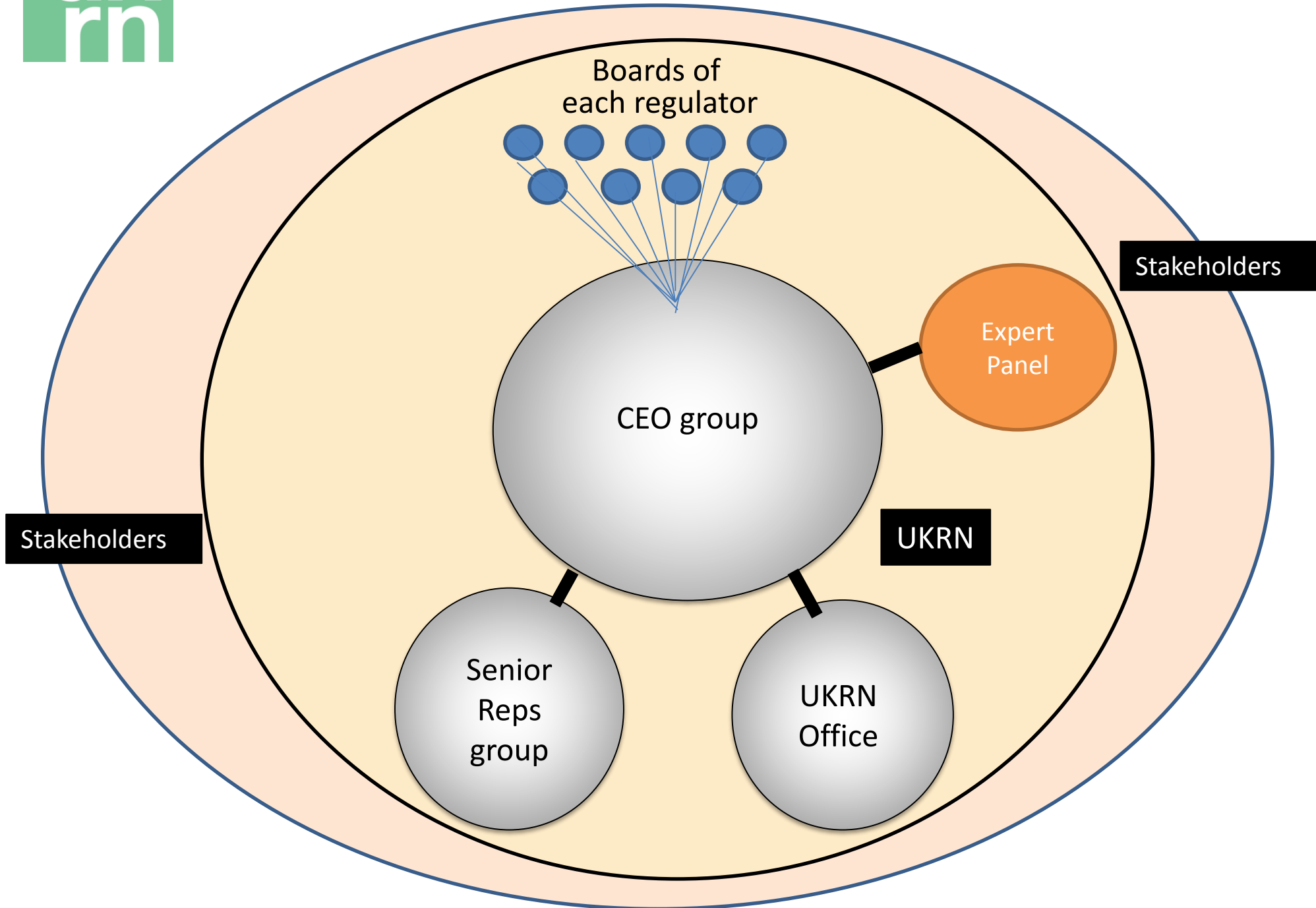
## **Network resilience and cybersecurity**

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





# UKRN Structure





# UKRN project delivery

