



RPI Annual Westminster Conference
The purposes and functions of economic regulation

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Overview

- ❑ What is economic regulation?
- ❑ What are the challenges facing economic regulation?
- ❑ How do we meet these challenges?
- ❑ What it means for Ofwat

What is independent economic regulation?

Independent – yes, but not in a vacuum

Economic regulation aligns the interests of **capital**...

... and company management...

... with those of customers

Economic regulation allocates **risk**...

... between investors...

... customers...

... and society more widely

The legitimacy challenge

Independence demands **legitimacy**

Legitimacy demands **accountability**

... for pursuing our **statutory duties** using our **statutory functions**...

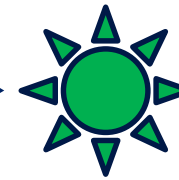
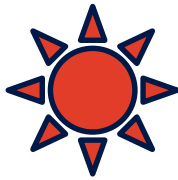
... following the better regulation principles, and **good public administration**

But our legitimacy is also a function of the **legitimacy of the sectors we regulate**...

... if people do not have **trust and confidence** in the provision of these **essential public services**, they will not have **trust and confidence** in the **regulator** (or the regulatory regime)

Pillars of regulation (1)

Ex ante
Prescriptive
Interventionist
One size fits
all
Regulator-
focussed
Administrative



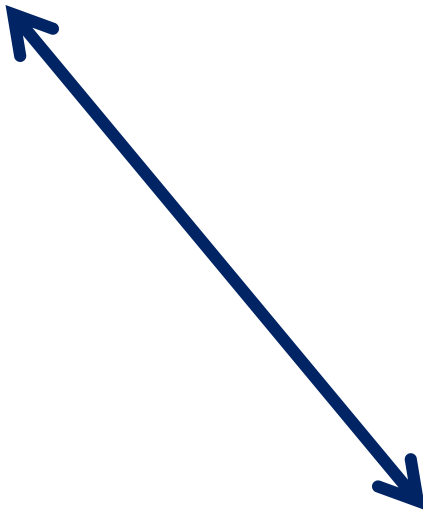
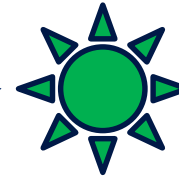
Ex post
Framework-based
Targeted
Variable
Customer-
focussed
Pro-market

Pillars of regulation (2)

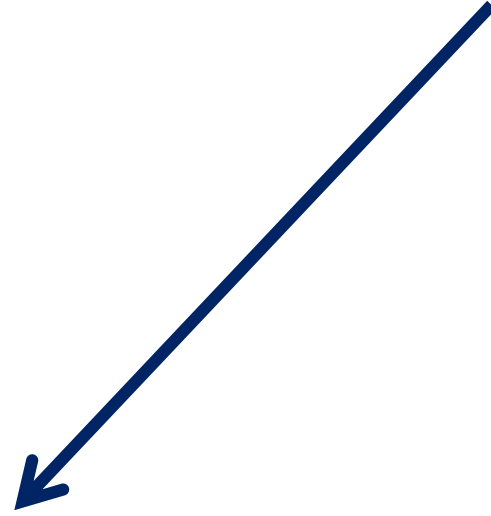
Ex ante
Prescriptive
Interventionist
One size fits all
Regulator-focussed
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Ex post
Framework-based
Targeted
Variable
Customer-focussed
Pro-market



Variable assurance
Market intelligence
Two-way, proactive
stakeholder engagement
Transparency



Trust in water

