

Role of regulation in facilitating efficient investment

An external, investors perspective

23 April 2015

Investors perceive regulatory risk is rising internationally

Principal reasons:

- Spanish Solar
- Gassled
- Italian Solar
- French Motorways
- Victoria East-West Link

No evidence yet of differential pricing of regulated vs unregulated assets

What do investors mean by regulatory risk?

Tariff changes

- Forward looking with notice/consultation
- Forward looking with short notice
- Borderline retroactive
- Retroactive

Taxes

- Changes in income and capital taxes
- Limits on interest deductibility
- Windfall profits taxes
- Taxes on gross revenues not linked to profits

Market design changes

Investors tend to conflate political and regulatory risk

What are investors doing about regulatory risk?

“Regulation is not the attraction per se. The Monopoly is. Regulation is what comes with it”

- Investors appreciate that infrastructure is inextricably linked with government and regulation
- Two industry associations set up in recent months:

Global Infrastructure Investors Association (GIIA)

Founding members so far:

- Alinda Capital Partners
- Allianz Capital Partners
- Antin Infrastructure Partners
- APG Asset Management
- Arcus Infrastructure Partners
- Brookfield Infrastructure
- CPP Investment Board
- Deutsche Asset & Wealth Management
- EISER Infrastructure Partners
- Global Infrastructure Partners
- Goldman Sachs Infrastructure Partners
- IFC Asset Management Company
- IFM Investors
- Morgan Stanley Infrastructure
- Ontario Teachers' Pension Plan
- PGGM
- Prudential/InfraCapital
- PSP Investments
- 3i Investment

Long Term Infrastructure Investors Association (LTIIA)

Founding members:

- Allianz Global Investors
- Amundi Asset Management
- Development Bank of Japan Inc
- Campbell Lutyens
- European Bank for Reconstruction and Development (EBRD)
- InfraRed Capital Partners Limited
- Infravia Capital Partners
- MACIF
- Marguerite Adviser SA
- Meridiam
- OFI Asset Management
- Skandia Mutual Life Insurance Company Ltd.

Historic propensity to engage with regulators through investee companies

Investors' Limitations

Fundamental distinction between **Funding** and **Financing**

- **Financing** is not the problem now (it was in 2008–2011)
- **Funding** most certainly is
 - Only two sources: consumers or taxpayers

With investors, what do we need to do better?

- Consistency between regulators
 - Perfectly acceptable for regulators to come up with solutions to problems specific to your industry, but **not** to common issues across regulators
- Explain the roles and the boundaries of each of the major actors
 - Government
 - CMA
 - Regulated companies
 - Regulators
 - Parliament
- ‘Get out more’ / communicate
 - Putting documents on a website is necessary but not sufficient
- Explain the drive for contestable markets better
- Encourage advocates to speak up about the positive benefits of UK economic regulation

What is the 'prize'?

- Lower **perceptions** of regulatory risk
- X basis points saving on £Ybn of RAB/RCV = lower customer bills
- Capital investment

Which parts of UKRN work programme will investors be particularly interested in?

Focus

Cost of Capital

Possibly

Affordability across sectors

Benefits of regulation

Cross-sector resilience

Engagement and switching

Cross-sector infrastructure

Organisational development

Regulating for quality

What is the Expert Panel for? What do we do? How can we help?

From the press release announcing our appointment:

“The panel will:

- *Provide a cross-sector voice to UKRN independent of any sectoral interest*
- *Act as critical friend to UKRN, including to identify opportunities for optimal cross-sector working and challenge regulators to deliver on those opportunities*
- *Encourage regulators to ensure that cross-sector outcomes are reflected in decision making for each sector, particularly considering the need both to protect consumers and create a positive environment for efficient investment*
- *Promote an ambitious agenda of joint work”*