

The changing role of independent economic regulators in decision-making for major infrastructure projects in the UK

How decisions are, or should be, taken for major infrastructure projects is a recurring area of policy debate. Longstanding differences exist between those who see a prominent role for government in directing, and potentially funding, large-scale infrastructure projects, and those who advocate that government involvement should be limited to ensuring that an appropriate policy and regulatory framework is in place to facilitate such investments by the market where necessary.

The liberalization of key UK utility sectors (e.g.: water, energy, transport, communications) in the 1980s and 1990s largely transferred decisions about infrastructure projects (albeit to varying degrees) to independent economic regulators. A regulator was expected to assess the need for, and efficiency of, projects as part of their oversight of regulated entities when approving forward looking price controls. For example, Ofwat is said to have approved substantial investments in the water sector (estimated at over £160 billion since privatization), while Ofgem was responsible for oversight and review of investments in energy transportation assets.

However, over time the decision-making processes for major infrastructure projects appears to have become more blurred, and central government and other public bodies now appear to be playing a more active role in guiding and influencing the decisions in some sectors. Among the possible reasons contributing to this shift include: the substantial scale of the investments needs; some investments are seen as having wider strategic economic and social importance to the UK; the fact that independent economic regulators are now only one part of a wider set of decision-making bodies which can affect investment decisions (e.g.: environment regulator); the emergence of new institutions with different approaches to decision making (such as the National Infrastructure Commission (NIC)); increasingly important interactions between social and environmental impacts, and concerns about failures associated with a lack of resilience or wide access can create tensions with how economic regulators take decisions about infrastructure.

Against this background, this project will seek to examine who makes the decisions for major infrastructure projects, and in so doing explore the role of central government *vis-à-vis* the independent regulators.

Among its objectives will be to:

- Trace the evolution of the decision-making processes for major infrastructure projects in the regulated sectors over time.
- Provide a detailed account of what has changed; where it has changed (e.g.: what sectors); and how it has changed.
- Identify and discuss the possible consequences of this shift, and the potential ambiguity, in decision-making for large infrastructure projects: Is it creating less

certainty for investors? Does it undermine the independent regulation model to some degree?

- Examine how other objectives of economic regulators – e.g.: affordability – being systematically addressed and reconciled within the new decision-making paradigm?
- Consider how different forecasts for demand and other market and technological changes are taken into account? Are the estimates aligned across government and the independent regulators?
- Explore some of the implications of this new decision-making paradigm in terms of factors such as:
 - Accountability: if investments are made on the basis of a national infrastructure plan, does this mean that the economic regulator should not be held accountable for any stranding or under-utilized investments?
 - Whether there is a need to shift towards more strategic forms of price regulation to capture the longer-term nature of such investments.

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