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# Investment opportunities in UK infrastructure

How economic regulation improves investor confidence, in the interests of consumers

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**Richard Price<sup>1</sup>**

**Launch of 'UK Regulated Infrastructure: An investor guide'**

**KPMG/UKRN launch at the Institute of Directors**

**London, 11 December 2014**

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Today we mark the launch of the UKRN's guide for existing and prospective investors in the UK's regulated infrastructure.<sup>2</sup> The guide has been produced for the UKRN by KPMG, working closely with the regulators. I am grateful to both the KPMG and UKRN teams for getting this guide into great shape, so that it is an accessible overview for those who want to know more about how UK infrastructure is regulated.

There are big opportunities for investors in the UK. By making the UK's approach to economic regulation easier to understand for investors, we help improve regulated businesses' access to capital, so that consumers get a better deal.

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1 Chief Executive, Office of Rail Regulation; and Chair, UK Regulators' Network.  
1 Kemble Street, London, WC2B 4AN.  
[www.orr.gov.uk](http://www.orr.gov.uk) [www.ukrn.org.uk](http://www.ukrn.org.uk) @ukregulators

2 'UK Regulated Infrastructure: An investor guide' can be accessed at the UKRN website here: [http://www.ukrn.org.uk/?page\\_id=182](http://www.ukrn.org.uk/?page_id=182)

## About the UK Regulators' Network

This is a significant event for us because it signals a determination on the part of the UK's economic regulators to work together much more effectively on issues of common strategic interest.

Earlier this year regulators in the UK made a new commitment to collaboration. This involves not only the core economic regulators for the 'network industries', such as Ofwat, Ofgem, Ofcom, the CAA and ORR but also other sector regulators such as the FCA and Monitor.<sup>3</sup> This is important because there are common strands through our work in areas such as consumer empowerment and choice. Notwithstanding three decades of experience of economic regulation in the UK, the work of each sectoral regulator has tended to remain distinct and highly sectorally-focussed - and has been viewed externally as lacking a certain 'joined-up-ness'.

The UK's regulators have always shared information and experiences with each other on a relatively informal basis. But we had no firm basis for sustained effort at collaborating on issues of common strategic interest. So the commitments we made back in March, as Chief Executives and through our

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<sup>3</sup> UKRN's members are independent bodies established in statute with a range of duties including economic regulation, consumer protection and competition law. UKRN members are: the Civil Aviation Authority (CAA); the Financial Conduct Authority (FCA) and the Payment Systems Regulator (PSR); the Office of Communications (Ofcom); the Office of Gas and Electricity Markets (Ofgem); the Water Services Regulation Authority (Ofwat); the Office of Rail Regulation (ORR); the Northern Ireland Authority for Utility Regulation (Utility Regulator). The Water Industry Commission for Scotland (WICS) is a contributing member which generally participates in projects as an observer; Monitor, the sector regulator for health, participates in the network and its projects as appropriate; and the Legal Services Board (LSB), responsible for the regulation of lawyers in England and Wales, is an observer member.

entire organisations, give us for the first time really sound foundations for working much more effectively with each other.

This allows us to tackle areas of joint interest, areas where by working together we can do things better or more efficiently and where a collective voice is more powerful than many individual voices. As in everything we do, we expect to deliver better value for consumers, whether that's through improving the investment climate, improving our own performance and efficiency or helping consumers to make our markets more effective and competitive.

## UKRN's key areas of work

Earlier this year we set out a programme of work, setting out our first steps in that spirit of collaboration. I am personally very excited about the projects we are undertaking in our first year.

For example, in the area of consumer engagement and switching we will shortly be producing a report looking across sectors at barriers which make it harder for consumers to get the best deals for their needs, and the work that's been done in different sectors to tackle them.

We're also doing work in the areas of cross-sector resilience, affordability and on the cost of capital.

Elsewhere we are making sure that the benefits of economic regulation are properly understood by the public and by policymakers - including improving stability for efficient investment in long-term assets and creating incentives which align the interests of investors and consumers.

This is an important area to which all of us – regulators, investors and consumer groups – need to keep alive. With major investment programmes in the UK investment pipeline, selecting the most efficient means of attracting investment and ensuring the benefits flow for consumers, has a profound

effect on costs, bills, service quality and ultimately on productivity and growth for decades to come.

The history of independent economic regulation in the UK shows that it is an important vehicle for achieving these objectives. And with this in mind I know that government is very supportive of our work to make the most of independent regulation.

Over and above our work programme, a great benefit in our first year is that the UKRN has brought the regulators much closer together, got us thinking about where we can work jointly, and has given us new perspectives on the work we are all involved in on a day to day basis. We think this is good for us, good for you and – which is the point - most definitely good for consumers.

## Investors matter

So where do investors fit into all this? One of the objectives which we set out in our public statements back in March was to work together to improve the environment for efficient investment in the UK's infrastructure. The strengths of our regimes are recognised: stability, predictability, tried and tested regulatory structures. A track record of behaviour that has given investors the confidence to put hundreds of billions of pounds into UK essential infrastructure - in the order of £500bn since privatisation.

So while our number one priority is to deliver the right outcomes for consumers, we recognise that the investment community stands at the centre of the framework that delivers those outcomes. And we also recognise that in a world in which there are increasing opportunities for investment, anyone with an interest in delivering efficient financing has to recognise that they cannot take investors for granted, no matter how strong their track record. We need to do everything they can to ensure that investors properly understand

how regulatory and investment regimes work, in order to help investors to understand where new opportunities lie.

None of this means that we regulators are going soft: certainly not. But as a group of regulators, outside the confined spaces of a price control process, we feel it gives us the opportunity for a different kind of dialogue with investors. And that's why we're here today, following this morning's publication of the investor guide.

## The investor guide to UK regulated infrastructure

So, what's the guide all about? As I've said, one of the clear opportunities in coming together in the regulators network was to take a new perspective on our regimes and how they are viewed by investors. So rather than speak individually, we wanted

- to communicate to investors about regulated infrastructure as a single asset class;
- to put infrastructure investment in their historical context; and
- to be clear about the investment needs for the future.

Given the scale of the UK's major investment requirements, we're sure that investors will appreciate the opportunities it creates for them. The guide aims to help investors to navigate across our sectors and seek out similar opportunities in adjacent sectors, perhaps with more focus on similarities of commercial structure and asset class than on the difference between water pipelines and electricity cables and runways.

Then there are those investors who are relatively new to the UK and our system of economic regulation. While we truly believe that our regulatory regimes offer a clear framework, resulting in good outcomes for consumers as well as a stable environment for investment, we can also appreciate that three

decades of development can make for a fair degree of complexity. This is a situation in which terminology is taken for granted by some, but acts as a barrier to understanding for others; and where approaches are second-nature to those who have experienced them over many years, but are completely new to others.

And so the guide is intended to be a contribution to ensuring that all investors have the information they need to make sense of our regulated utilities and how we as regulators go about our work.

## Regulatory independence

Perhaps more than anything else, what many investors struggle with is understanding regulators' relationship with Government.

As I said, Government has been very supportive of what we are doing. Indeed, it is timely that our publication follows hot on the heels on the excellent National Infrastructure Plan, which continues to develop year-on-year to providing ever more clarity about the overall infrastructure landscape in the UK.<sup>4</sup>

Through the UKRN we have very good relationships with the Treasury and the Department of Business, Innovation and Skills (BIS). And each individual regulator works closely with the relevant Government departments, such as DEFRA for water, and DCMS for communications, and the Department for Transport for rail and aviation. And we know that UK Trade and Investment does an excellent job working overseas to explain the benefits of investing in the UK, including in the industries that we regulate.

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<sup>4</sup> HM Treasury: National Infrastructure Plan (December 2014)  
<https://www.gov.uk/government/publications/national-infrastructure-plan-2014>

But working closely together, having strong relationships and sharing common aims does not prevent us as regulators from being independent in our actions.

That independence is set out in statute, defining our objectives in a way that is kept separate from the day-to-day pressures of politics. We consider the long-term needs of consumers in our sectors, and by extension the investment that is needed to deliver good-value, high-quality services.

Regulatory independence gives predictability to investors by providing a framework which also has sufficient flexibility for operational decisions to be made without political intervention. Statute sets out the decisions which are for the independent regulator in each sector – and consequently which are not – and governments of all political shades have shown that they understand the value of independent decision-making which gives stability and confidence to regulated sectors.

To take the example of regulation in my sector, the railways, our five-year periodic reviews for Network Rail and HS1 provide a sufficiently flexible framework to ensure that whole-life costs can be considered for long-term assets – in the case of HS1 giving confidence to private long-term investors. We regulate monopoly businesses, therefore it is essential that consumers are protected in markets where normal commercial pressures are not brought to bear.

As regulators we focus on the direction and consumer benefits from our own sectors. In producing this guide, we wanted to take a step back from the detail and to make sure we present a clear overview which is accessible to investors – and have worked in collaboration with KPMG to achieve this. We wanted to draw on the combination of our own understanding of the regimes we oversee with the expertise of a provider of advice to investors in these sectors. That is why we engaged KPMG to work with us on this, and they've done an excellent job.

## Engagement between regulators and investors

For us the guide represents the start of a process of engagement which we feel we need to have with investors on a more enduring basis. As I've said before, rather than simply coming together during price control processes, with the formation of UKRN there is an opportunity for a more sustained and consistent relationship. This should help both parties understand each other better.

Starting with the publication of this guide, we intend to engage more effectively with investors; we would like to understand your views on the role of regulation, and how it can work well for investors. And throughout, helping you to understand how we regulate to achieve our underlying goal: delivering the best outcomes for consumers.

### **Richard Price**

Chief Executive, Office of Rail Regulation,  
and Chair, UK Regulators' Network