Speech by Jonathan Oxley, CEO, UKRN at the fourth joint UKRN/LTIIA seminar on UK infrastructure regulation.

Intro

Good morning everyone and welcome. First up, I'd like to thank Stephen Tobin and Pinsent Mason for hosting this event. Without your support we would not be able to bring together the array of investors, regulators, government and consumer representatives that have gathered here today.

There are lots of expert and insightful speakers to follow, so I'll use my opening remarks to provide a bit of context for these discussions. I particularly want to highlight the sheer scale of the investment challenge facing the UK. We need to mobilise huge amounts of capital to meet the challenges of climate change, population growth and digital transformation.

But at the same time I'm conscious that we need to respond to the renewed focus in the public realm on protecting existing consumers, particularly the vulnerable.

We shouldn't shy away from confronting and tacking this potentially tricky trade-off, as the ability to raise capital and the legitimacy of our sectors are at stake.

I'll talk about some of the regulatory responses to these challenges; and touch on some of the UKRN cross-regulatory work being done on these issues.

The investment challenge

So what are the investment challenges?

We need to invest in our energy infrastructure to secure the transition towards a lower carbon sector and maximise the potential of renewables.

We need to invest in our water infrastructure to ensure that our water supplies can cope with flood, drought and population expansion, particularly in the already water-stressed south east.

We need to invest in expanding access to digital infrastructure. The government has already put in place legislation to create a new Universal Service Obligation giving almost everyone the right to a 10 Mbps broadband connection. The Government also want 5G mobile technology deployed to the majority of the country by 2027, while our new PM has thrown down the gauntlet to industry to deliver nationwide coverage of full fibre by 2025.

We need to invest in our roads, rail and aviation infrastructure to ensure it can continue to get people where they need to be regardless of the weather and can respond to the demands of population growth. New transport infrastructure projects such as the expansion of Heathrow, HS2 and Crossrail 2 will require sustained, long-term investment.

And as our population expands new projects, whether those are big-vision projects such as the Oxford Cambridge corridor or smaller developments on brown-field sites across the country, will also require investment to ensure they have access to water, energy, telecoms and transport that they need.

These ambitions will require us to be flexible, so that we are able to adjust and respond to circumstances as they change. They will also require huge investment across our sectors, which will require raising capital worldwide. Continuing to encourage private investment in UK infrastructure is challenging, particularly given the current uncertainty. It will mean regulators must look to the long term to ensure returns are sufficient to attract investment, while also ensuring they are perceived to be fair by consumers.

This focus can be seen in recent price control decisions, where securing the finaceablity of long-term infrastructure has been prioritised alongside affordable prices and protection for vulnerable consumers.

Ofwat’s PR19 package provides a balance of risk and return with stronger financial incentives to link investor returns to service delivery and lower base returns.

Ofgem’s approach to RIIO-2 seeks to achieve a better balance of risk and return than in RIIO-1 and will result in lower bills for consumers.

The CAA has consistently supported expansion at Heathrow Airport because of the potential consumer benefits. This will require significant investment to deliver those benefits and the CAA is developing a regulatory framework that supports delivery of expansion that is both affordable and financeable.

Getting the balance right requires regulators to gather evidence, apply high quality analysis and exercise judgement, often in the face of considerable uncertainty. Learning from each other and working together is therefore crucial, and the UKRN has an important role to play.

We organise events like today, helping to build a shared dialogue and understand the opportunities for and potential barriers to that investment.

We also work together through the UKRN cost of capital network. This brings together experts from across our member regulators, ensuring that our work in this area is aligned where possible and that knowledge and best practice is shared.

We will be publishing our annual cost of capital report in the next couple of days. The report provides a summary of the most recent cost of capital decisions and analysis by each regulator, providing an easily accessible reference document for those interested in our sectors. It also sets out where regulators share a common approach, and where approaches diverge to reflect differences between sectors, regulatory timings and structures.

Affordability and vulnerability

As well as addressing the needs of investors, we must also consider today's consumers. That brings me to the second challenge I want to highlight: affordability and vulnerability

Affordability has been a long-term concern, particularly in those sectors seen as essential services – water, energy and increasingly telecoms.

But affordability is only one part of a broader vulnerability challenge, with a wide range of other circumstances that can reduce the likelihood of consumers getting good outcomes, including mental or physical health problems, disabilities, caring responsibilities or mental distress or bereavement.

There is an increasing consensus that regulators and regulated companies must do more to ensure they are not receiving poorer outcomes because of their vulnerabilities.

As regulators we take this challenge seriously:

- Ofwat's PR19 process has emphasised the importance of affordability and support for consumers in vulnerable circumstances, with companies committing to provide financial assistance to 1.5 million customers by 2025 and to improve quality and reach of priority service registers for vulnerable customers. Draft determinations show bills across England and Wales falling by an average of 12% before inflation between 2020 and 2025.

- In energy Ofgem announced in August a reduction in both the default and pre-payment meter price caps, which will result in a fall in energy bills this winter for around 15 million customers. Ofgem have also just consulted on their consumer vulnerability strategy, which will set out their priorities for protecting gas and electricity consumers in vulnerable situations.

- In telecoms a competitive market ensures innovation is paired with low prices for consumers, and household spend on core telecoms services has been broadly flat in real terms despite very large increases in data usage on both fixed and mobile. Also, last year Ofcom updated its rules to ensure consumers are protected, including placing requirements on communications providers to identify vulnerable consumers to ensure they are treated fairly, and this year established a new set of fairness commitments signed up to by all the major communications providers, including Sky, BT and Vodafone.

- In aviation a highly competitive sector ensures low prices for passengers. The CAA has also put in place an accessibility framework for airports, with updated guidance published in April. Their most recent report shows a significant improvement in the experience of disabled passengers, while stressing that airports need to continue to work hard to improve.

Vulnerability is also an area where consumers benefit from regulators working together. That is why the UKRN has launched a major, cross-sector project on vulnerability, working with our members to learn from each other and identify ways to improve outcomes for these consumers. We have also promoted cross-sector co-operation such as energy and water companies working together to identify vulnerable customers.

Despite these efforts, it is important to recognise that the challenge is a long-term one. Research by the Resolution Foundation[1] projects that typical household incomes after housing costs will be no higher in 2022 than in 2016 Their analysis also indicates that some groups will be worse off. For instance, the typical income for families with children is forecast to fall by 1 per cent between 2016 and 2024.

[1] https://www.resolutionfoundation.org/app/uploads/2019/02/Living-Standards-Outlook-2019.pdf

Regulators will therefore continue to need to work with each other and with regulated companies, consumer groups, government and other stakeholders to ensure that we understand and respond to the needs and experiences of consumers in vulnerable circumstances.

Legitimacy

Getting the balance right between promoting investment and protecting consumers goes to the heart of legitimacy. Debate around how companies are run and financed, and the extent to which they serve the needs of consumers, particularly vulnerable consumers, have raised questions about the legitimacy of the current model.

Our response to the first two challenges I've identified is crucial to the debate about legitimacy. A regulatory framework that balances the needs of current consumers, particularly the most vulnerable, while still delivering investment to meet the needs of future consumers, is the most effective way of buttressing the legitimacy of our sectors.

The role of companies and investors is critical here. Legitimacy is dependent on how companies behave, how consumers perceive that behaviour, and on whether consumers think the return investors and executives receive is fair.

Getting this right means we need to listen to a wide range of voices when we are making our decisions.

Embedding the consumer perspective into our regulatory processes, and into the businesses we regulate, is a key part of this. The challenge panels in water and energy, and the consumer challenge board in aviation introduced by the CAA are important developments, pushing companies to engage with and respond to the priorities and experiences of their consumers in a way that is built in to the regulatory process. Regulators and regulated companies will continue to learn from and build on these processes to help ensure all voices are represented in these debates.

And events like today are important too, bringing together regulators, investors, regulated companies, consumer representatives and others to debate these issues.

I do hope you enjoy today's event and I will now hand over to James Wardlaw, who will be chairing our first panel session.