

Strategic priorities and cross-sectoral opportunities for the utilities sectors: open letter to regulators

Government recognises the importance of strong and independent economic regulators that can leverage deep sectoral expertise and use regulation consistently and proportionately to promote a transparent and coherent landscape for businesses, investors, and consumers. This experience and understanding are now more important than ever, as we look to seize the new regulatory opportunities open to the UK following our departure from the EU.

Today the government has set out 5 new regulatory principles, in support of the approach set out in our 'Plan for Growth.' The government will ensure the UK is the best regulated advanced economy in the world, and to seize the opportunities of leaving the EU to deliver a better regulatory settlement for businesses, investors, and consumers. Our job is to use regulation to empower people, in their work, their businesses and their personal lives, and our regulators are key to achieving this by embedding the following new principles: A sovereign approach; leading from the front; proportionality; recognising what works; and setting high standards at home and globally.

These new regulatory principles are focused on promoting growth and innovation, and we want to ensure the critical work of the regulators is aligned with this government's economic strategy. We therefore want to use this opportunity to set out our overarching ambitions for the three major utilities across three outcomes: promoting growth; delivering a fair deal for consumers; and fostering sustainability. We also expect the UK Regulators Network to continue playing a critical role in facilitating greater collaboration across the sectors where appropriate.

To note, this letter is intended to complement existing sector specific guidance to regulators. We have copied Andrea Coscelli to recognise the key role that the CMA have to play in the economic regulation framework.

In the [Plan for Growth](#), the government committed to focus on infrastructure, skills, and innovation to deliver an expanding economy and build back better and greener. We believe that economic regulators are essential to this effort.

Competition

In the [2011 Principles for Economic Regulation](#), the government stated that, in the long run, competitive markets are the best way to deliver services to consumers and provide incentives to invest, improve efficiency and enhance service quality. We stand by this assessment. For the design and delivery of infrastructure, we continue to see competition as the most reliable means of

promoting growth, efficiency, and innovation in the regulated sectors.

We are supportive of you removing new strategic investments from the standard price control process, where appropriate, and opening them up for competition as we believe this enables a stable regulatory environment and gives infrastructure providers the confidence to deliver long-term projects in an innovative and efficient way. For example, Direct Procurement for Customers in the water sector has the potential to create new opportunities for investors, promote innovation, and drive down overall net costs for consumers. In other areas, such as offshore electricity transmission, competition has delivered savings of between £680 million and £1.1 billion over 3 tender rounds (see Cambridge Economic Policy Associates, [Evaluation of OFTO Tender Round 2 and 3 Benefits](#)).

We are grateful for your ongoing efforts to identify opportunities for competition to drive investment, innovation and lower prices for consumers, but believe more could be done. We welcome Ofgem's consultation looking to introduce greater competition in onshore electricity transmission networks and believe Ofcom's formal market review process has proved particularly effective in unlocking competition in their sector. We would like to see Ofwat undertake a similar, high-level, stocktake by Spring 2022, to identify both opportunities and barriers to unlocking more competition in strategic investment. Where appropriate, this will feed into a forthcoming consultation on economic regulation, which we expect to be published in 2022.

Investment and Innovation

Investment plays a vital role in achieving the UK's infrastructure ambitions, with over £13 billion additional investment needed each year across the utilities in order to achieve net zero and increase resilience by 2050 and deploy the latest technology (see National Infrastructure Commission, [Strategic Investment and Public Confidence](#) p.5). You have played an enabling role in the introduction of cutting-edge products and services in your sectors and expect you to continue do so through innovative regulation. We greatly welcome further exploration of regulatory sandboxes to incubate new business models and services, and encourage the facilitation of schemes to harness the power of industry and customer data to improve market outcomes.

In the [National Infrastructure Strategy](#), we committed to maintaining a clear and enduring economic regulatory framework for investors and businesses; one that can support growth by enabling the major investment needed over the decades to come for the benefit of present and future consumers. In turn, it is essential that regulators ensure that efficient and necessary investments and innovation are incentivised by a reasonable return, subject to the normal risks inherent in markets.

We recognise that regulatory independence and the predictability of the price control process is fundamental to maintaining a stable regulatory environment for investment. We also understand that the regulated sectors are different and require distinct approaches; however, we believe that there are areas where greater regulatory consistency could be beneficial in promoting a transparent environment for companies and investors. We therefore expect you

to work together on the common challenges you face in setting the periodic cost of capital. To this end, we welcome the role of the UKRN in facilitating co-operation and increasing consistency via their newly established Weighted Average Cost of Capital (WACC) Taskforce. The government expects the regulators, via the UKRN taskforce, to work towards alignment where clear benefits can be identified. This would include, where appropriate, consistency in three areas with regards to calculation of the WACC:

- where common components of WACC methodologies are not influenced by sector-specific variables, there is a strong case for alignment on methodologies, input data and, ultimately the output used in the WACC calculation itself
- where sectoral circumstances, for example sector-specific financial data, often lead to justified variation in outputs but where there may be greater scope for consistency in methodologies between sectors
- where different sector regulators include components in their WACC methodologies that are not used in other sectors, regulators could examine the case for greater alignment

Delivering a fair deal for consumers

Utilities provide an essential service; therefore regulators must ensure value for money and provide a fair deal for all consumers.

Fairness

The National Infrastructure Strategy committed to taking a long-term approach to investment. Facilitating efficient long-term investment will benefit all consumers through improved services and increased resilience to long-term challenges. Regulators must therefore share the costs of the long-term investment between the consumers of today and tomorrow at a price they can afford. We would like regulators to work together, through the UKRN, to jointly consider effective means to support long-term investment within and across sectors that delivers improved outcomes for consumers overall. You should aim to identify opportunities where the facilitation of greater coordination and investment across sectors could help to minimise costs or improve services across the whole system. This should complement ongoing work within and across regulators to ensure the general affordability of consumer's essential bills.

In relation to costs and service provision, we expect regulators to ensure the provision of transparent information for consumers to boost engagement, shape understanding and enable informed choices. Where appropriate, we support the implementation of Smart Data Schemes that provide innovative services for consumers, saving them time, money and effort, with a view to increasing coordination across sectors as schemes develop.

Vulnerable consumers

Providing a fair deal for all consumers must include a particular focus on protecting the vulnerable. In most cases, vulnerable consumers face similar

issues across all sectors including difficulties with accessing sufficient information, finding the best deals, and making payments. We appreciate the attention you have all paid to these issues to date, and trust that you will continue to focus on improving the experience and support available for vulnerable consumers. The UKRN has an important role in facilitating meaningful co-operation between regulators on cross-cutting initiatives, such as improving the use of data to help identify vulnerable consumers, and we welcome the continuation of an ongoing dialogue between companies, regulators, and the government on these issues.

We are grateful to you and all at your respective organisations for your continuing hard work and dedication and look forward to working with you and supporting you in realising this strategic vision over the coming years.

Fostering sustainability

As set out in the Prime Minister's [Ten Point Plan for a Green Industrial Revolution](#), the government is committed to addressing the climate challenge to deliver a greener, more resilient, sustainable path for the future. With consideration of your duties, we see an important task for regulators in supporting this transition, particularly where the market will not, ensuring that companies have certainty to invest strategically, opportunities to innovate are maximised, and overall costs to consumers are commensurate with the interests of both current and future generations.

Resilience

Society and the economy are particularly reliant on utilities infrastructure services effectively dealing with both acute shocks and longer-term challenges such as the impacts of climate change or emerging technology. As demonstrated by the development of the National Resilience Strategy, we are committed to improving long-term resilience across the UK. We encourage you all to consider resilience in decisions to support investment and seek opportunities to test, adapt and transform infrastructure to maintain resilience and security of supply and reduce the risks of security compromises whilst also meeting new challenges, including net zero.

Net zero

In 2019, the UK became the first major economy to implement a legally binding net zero target, committing to meet this by 2050. The [Net Zero Strategy](#) emphasises the importance of a net zero aligned regulatory environment. The government recognises that regulators play a key role in incentivising green innovation and investment and providing clear signals to underpin green public and business choices. To this end, we encourage you to consider the impacts of your decisions on emissions and the environment. To support this, we are asking that you review your regulatory framework for its compatibility with our Net Zero Strategy pathways to 2050 and our interim carbon budgets, reporting back by Summer 2022.

Moreover, as outlined in the [Ten Point Plan for a Green Industrial](#)

[Revolution](#), infrastructure investment is also fundamental to achieving net zero. You will play a critical role in encouraging competition and innovation to secure the new infrastructure investment needed to meet this target, as well as supporting the decarbonisation of existing infrastructure. We encourage the UKRN to play an active role in sharing net zero best practice – including on how to accelerate the deployment of existing technologies and advance the innovation of new ones – promoting a whole-systems approach where appropriate.

Environment

The combined pressures of climate change, urbanisation and population growth are accelerating the decline of biodiversity. The government has committed to halting biodiversity loss by 2030 and expects regulators to challenge companies to take appropriate steps to protect and enhance the natural environment. We support the efforts to extend investment in natural assets and their management, where appropriate, to increase resilience, support environmental protection and better adapt and protect our communities.

Yours sincerely

Rt Hon Kwasi Kwarteng MP
Secretary of State for Business, Energy and Industrial Strategy

Related content and references

1. [Economic regulation policy paper](#)
2. HM Treasury, [Build Back Better: Our Plan for Growth](#) (2021)
3. Department for Business Innovation and Skills, [Principles for Economic Regulation](#) (2011)
4. Cambridge Economic Policy Associates Ltd, [Evaluation of OFT0 Tender Round 2 and 3 Benefits](#) (2016)
5. The National Infrastructure Commission, [Strategic Investment and Public Confidence](#) p.5 (2019)
6. HM Treasury, [The National Infrastructure Strategy](#) (2020)
7. BEIS and 10 Downing Street, [The ten point plan for a green industrial revolution](#) (2020)
8. HM Government, [The Net Zero Strategy: Build Back Greener](#) (2021)
9. Cabinet Office, [Resilience Strategy call for evidence](#), 2021