

# Lattice



## **Private sector investment in infrastructure networks: lessons from UK experience**

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# **Lattice**      **A brief history**



- **Railway development in the 19th century**
- **Nationalisation as a response to under-investment**
- **Privatisation as a response to public sector funding constraints**
- **Regulation since 1984: focus on efficiency; concerns on quality**
- **Investment needs for the 21st century**

# **Lattice**      **A regulatory perspective**



- **Inefficiencies of public provision**
  - choice of outputs
  - X efficiency
  - financing structures
  
- **A focus on outputs**
  
- **Developing the ‘standard utility model’**
  
- **Effective regulation achieves higher quality and lower price**

# **Lattice**      **A private company perspective**



- **Unclear objectives**
  - security of supply in energy
  - frequency v reliability in rail
  - price v environment in water
  
- **Excessive intervention**
  
- **Weakness of Periodic Review process**
  - consistency, predictability, transparency
  
- **High regulatory risk in UK model**

## Successes and failures of the UK model



### Successes

- Access to private capital
- Lower prices
- Clarity on outputs
- Development of competition
- Transparency of process
- Consistency

### Failures

- ... until now
- ... but at cost of quality?
- ... but how to measure?
- ... but at what cost?
- ... but too complex?
- ... or over-personalisation?

**Lattice**

**Has RPI-X worked?**



**LACK OF  
LEGITIMACY?**

# **Lattice      Alternative contracting models**



- **Contracting for services**
  - rail maintenance
  - distribution company operation
  
- **Franchising**
  
- **‘Public/Private Partnerships’/Special Purpose Vehicles**
  
  
- **... but do they solve the regulatory problems?**



- **Stability through constrained discretion**
- **Credibility through maximum transparency**
- **Credibility through pre-commitment**
- **Credibility through sound, long-term policies**
  
- **Transparency, accountability, proportionality, consistency, targeting**

# **Lattice      The need for greater clarity**



- **The role of Government and regulator**
- **Strategic vision: price v quality**
- **Risk/reward balance**
- **Termination of a licence**
- **The role of company management**