

HELM
TALKS

LECTURE FOUR

THE REGULATED ASSET BASE

PRESENTED BY

PROFESSOR DIETER HELM CBE

HELM
TALKS

AGENDA

THE QUESTIONS

TIME INCONSISTENCY

SOLUTIONS – RABs, PFI & CONTRACTS, NATIONALISATION

RISK FREE RABS

TRADEABLE RABS

RAB REVISION RULES

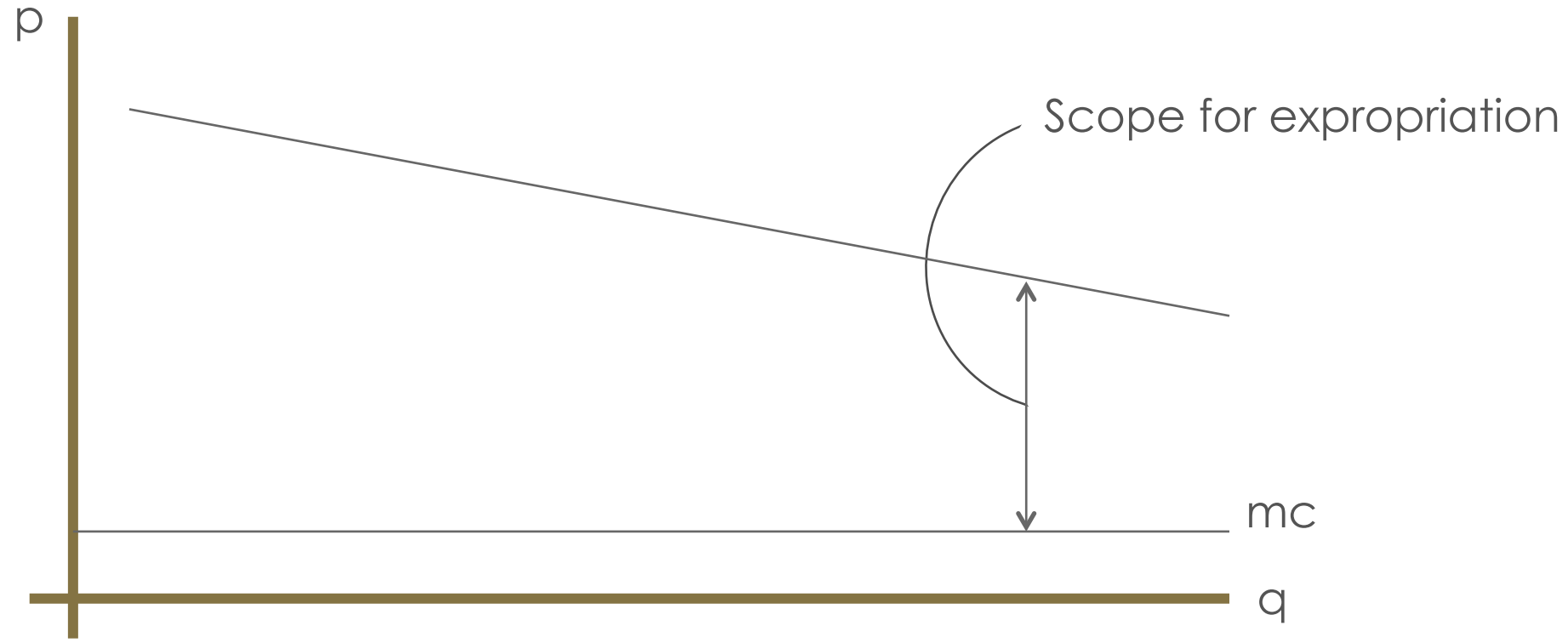
DEPRECIATION, CCA ACCOUNTING AND CAPITAL MAINTENANCE

SUMMARY

THE QUESTIONS

- How to bring forth timely investments?
- How to protect customers from monopoly and market power?
- How to protect investors from political and regulatory exploitations?

TIME INCONSISTENCY



TIME INCONSISTENCY

- Marginal cost pricing will not recover average costs
- Vulnerability to technical change and stranding

- Requires *ex ante* contract and guarantee the investment costs will be recovered

INTERVENTIONS AND SOLUTIONS

RAB



Ex ante commitment to finance functions

PFI AND CONTRACTS



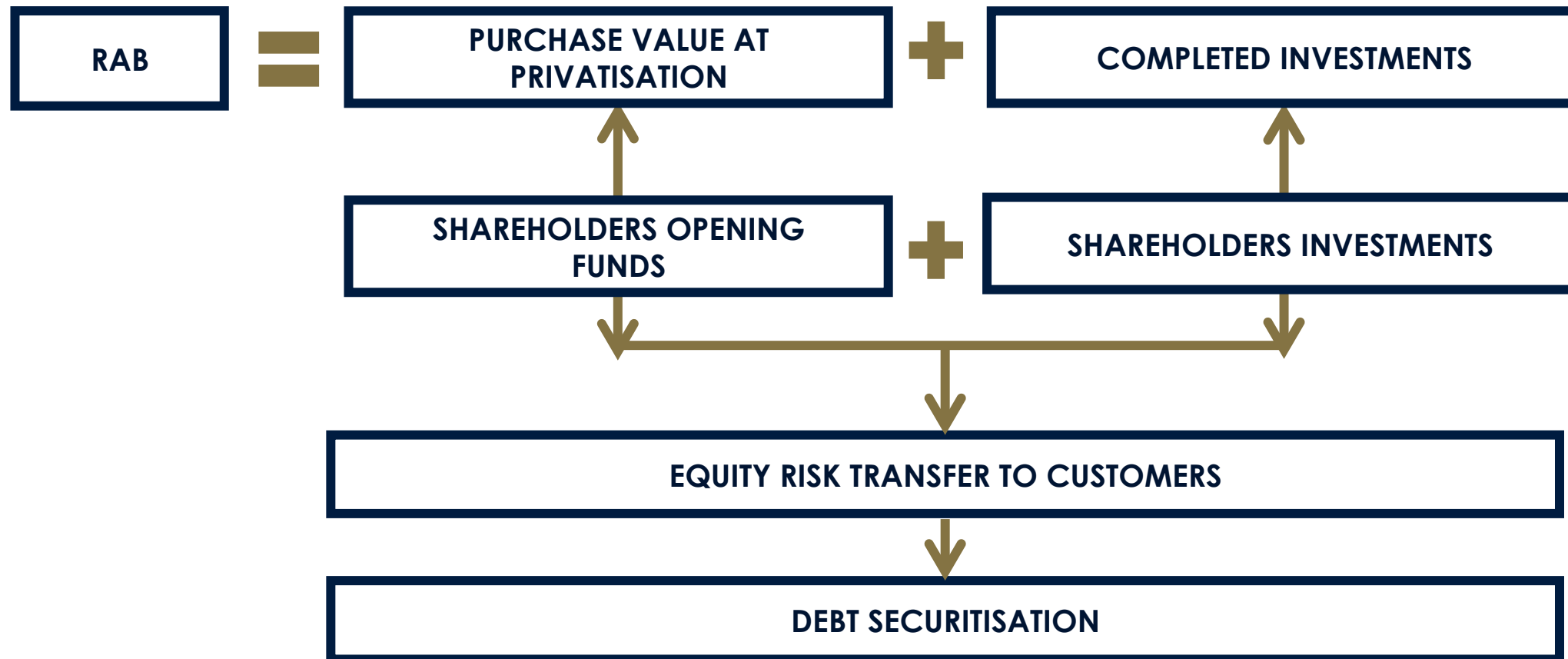
Ex ante commitment to fixed payments

NATIONALISATION

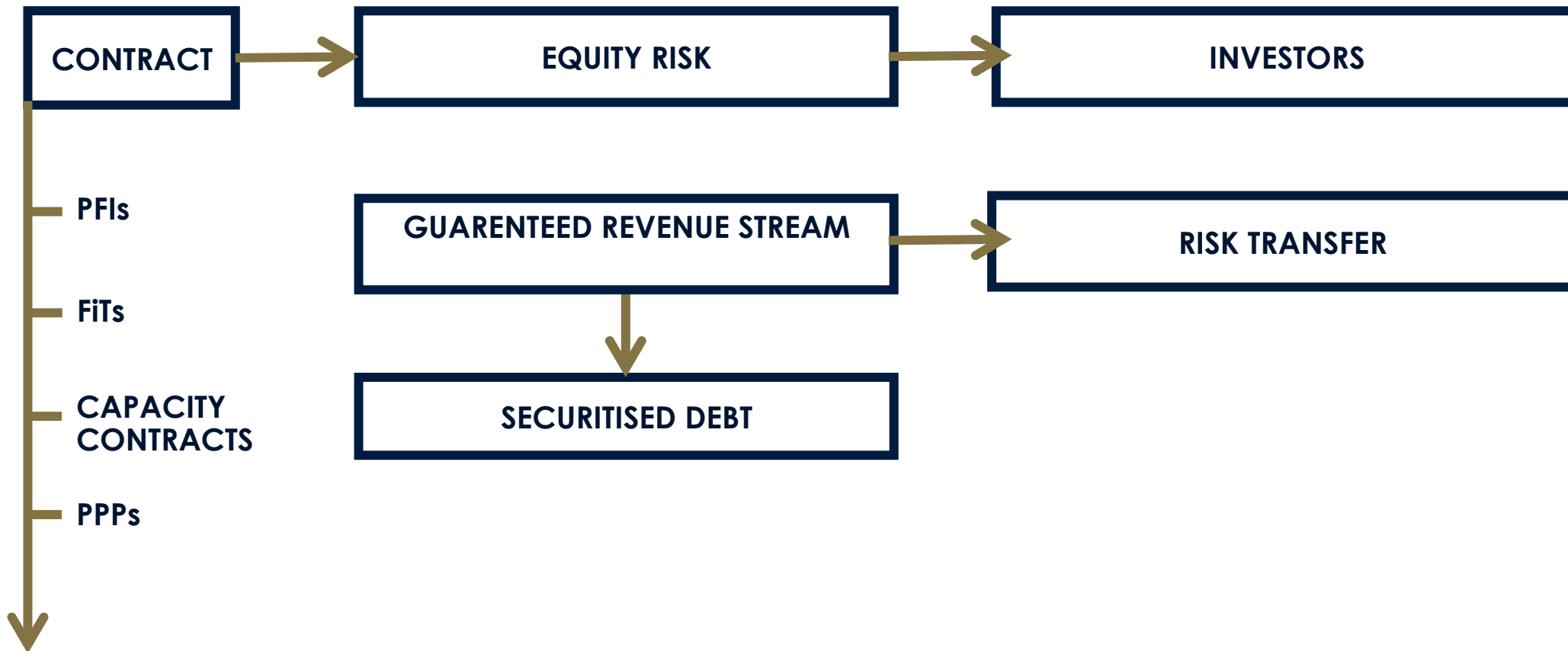


Ex post absorption of costs

RISK FREE RABS



PFI & CONTRACTS

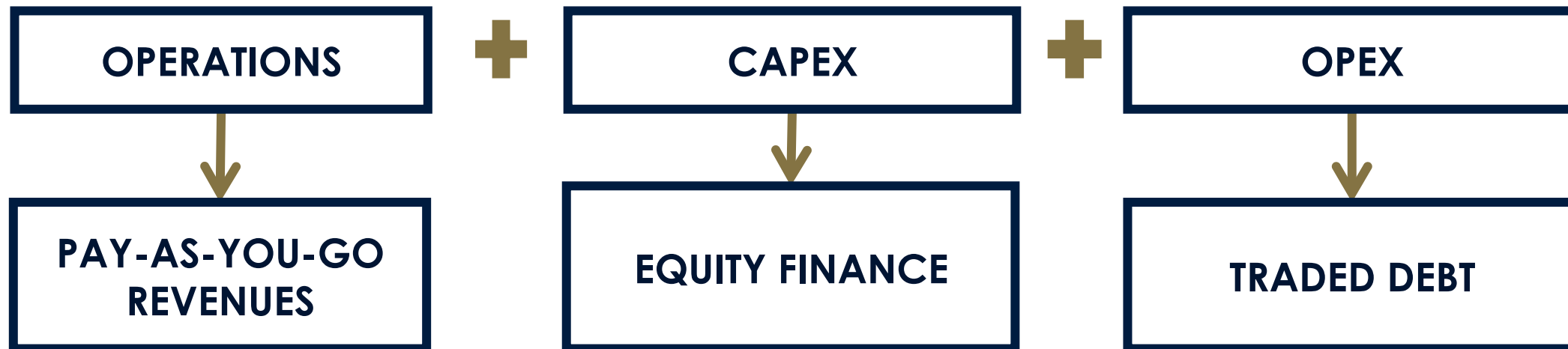


NATIONALISATION



TRADEABLE RABS

- Quoted utility debt
- Quoted RABs
- Splits out RAB cost of capital



RAB REVISION RULES

WITHIN PERIODS

- *Ex ante* competitive bidding for projects
- *Ex post* efficiency audits

MORE THAN ONE PERIOD

- Logging up
- Assets-in-the-course-of-construction SPVs (e.g Thames Tideway)

RAB REVISION RULES

- Assets-in-perpetuity vs. limited lives
- Depreciated assets and depreciated RABs (electricity)
- Capital maintenance
- Modern Equivalent Assets (MEAs) & relative price charges
- Full CCA Accounts (water, rail)

SUMMARY LECTURE FOUR

- **RAB is the core regulatory concept**
- **RABs protect investors from time inconsistency**
- **RABs are theoretically equity risk free, transferring risk to customers**
- **Any regulatory contract is a RAB proxy**
- **RABs could be traded**
- **RABs for core infrastructure should be CCA with capital maintenance**

HELM
TALKS

LECTURE RECORDINGS AVAILABLE AT

DIETERHELM.CO.UK

THANK YOU

HELM
TALKS