

HELM  
TALKS

LECTURE SEVEN

**FINANCIAL RING FENCING,  
LICENCES & SPECIAL  
ADMINISTRATION**

PRESENTED BY

PROFESSOR DIETER HELM CBE

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# AGENDA

**DEFINING WHAT IS AND WHAT IS NOT A UTILITY FUNCTION**

**IDENTIFY THE UTILITY-ONLY LICENCE**

**PERIODIC REVIEWS, COSTS, DIVIDENDS AND PENSIONS BEING USED FOR WIDER CORPORATE ACTIVITIES**

**ENSURING THE LICENCE HOLDER HAS ENOUGH MONEY TO FINANCE ITS FUNCTIONS**

**PREPARING FOR WHAT HAPPENS IF THE UTILITY GOES BUST- THE SPECIAL ADMINISTRATOR**

# THE UTILITY-ONLY LICENCE

## High level outputs – The USO

- clear water, postal and broadband USOs,
- electricity and gas, rail services all have implicit USO

## Networks

- Core infrastructure
- Assets-in-perpetuity

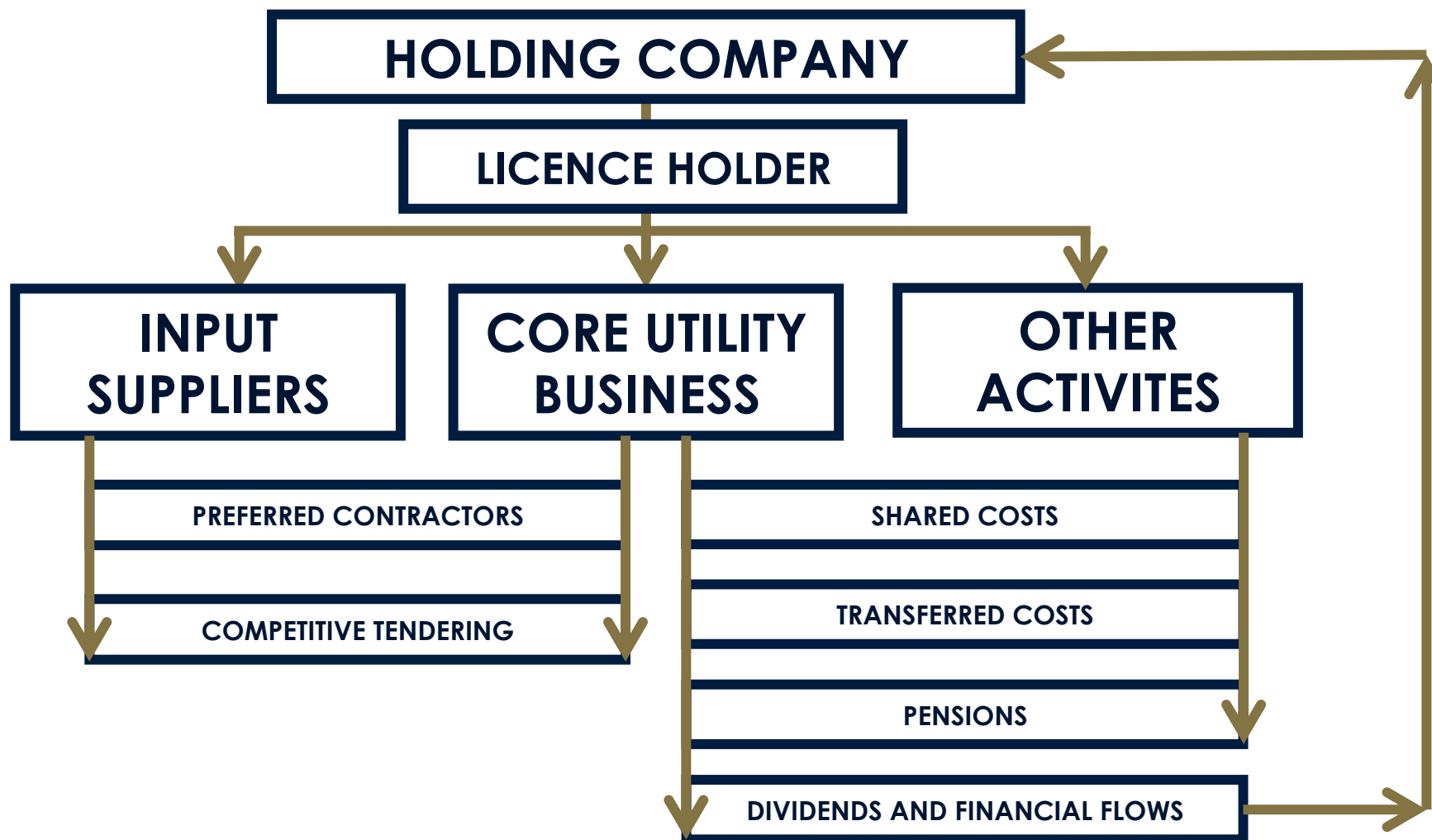
## Supply

- Competitive provision and minimum standards
- Implicit vs. explicit contracts and regulation

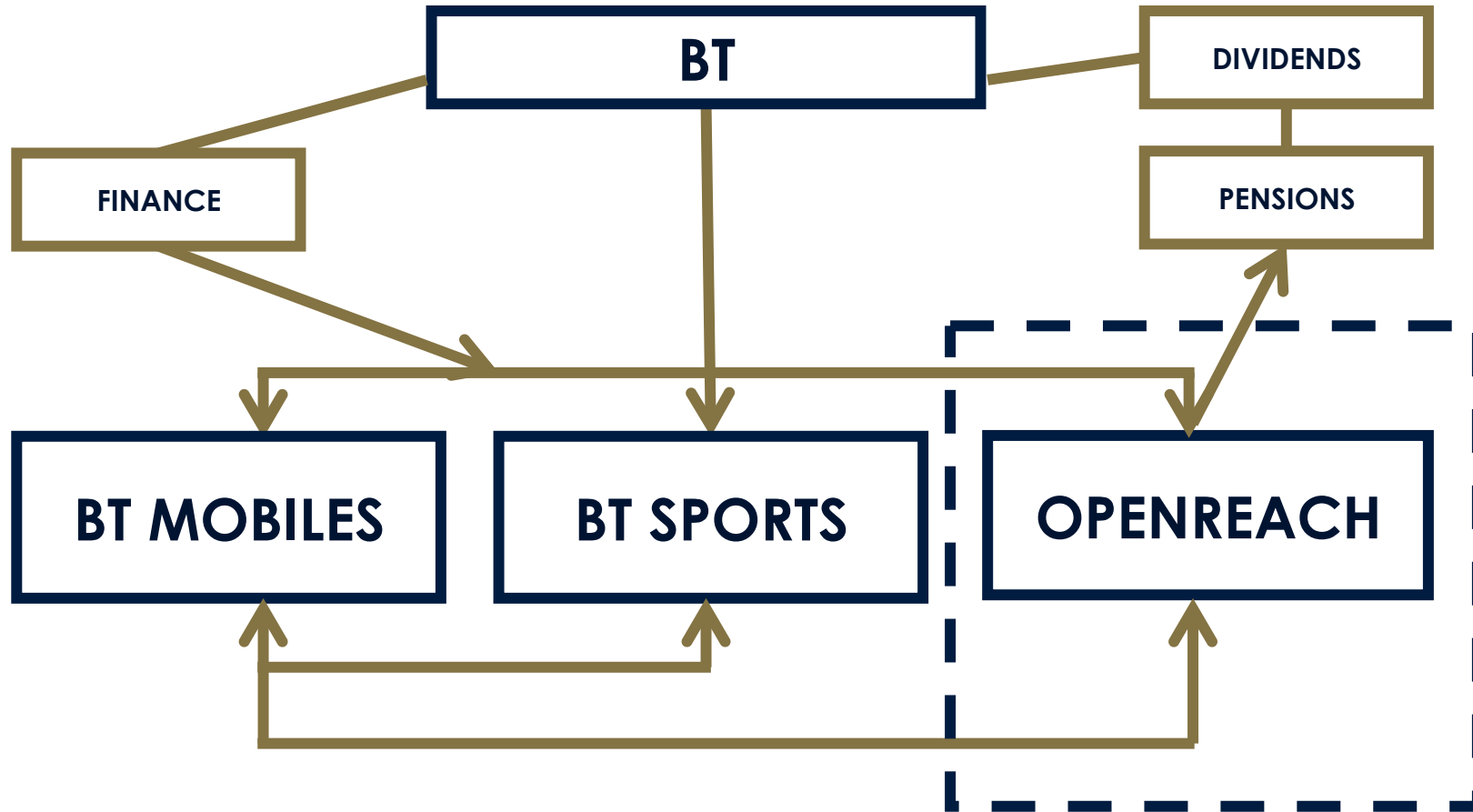
## Input Services

- The competitive business services model
- Constructing out and licence /SO responsibilities
- Ensuring sufficient capacity
- network or generating and supporting plants and institutions

# GAME PLAYING AND THE INCENTIVE TO BLUR THE BOUNDARY



# EXAMPLES



# OTHER EXAMPLES

- Heathrow and Ferrovial
- Water companies and contract services
- SO in energy
- Rail, road and government SO activities

# ENSURING FUNCTIONS CAN BE FINANCED

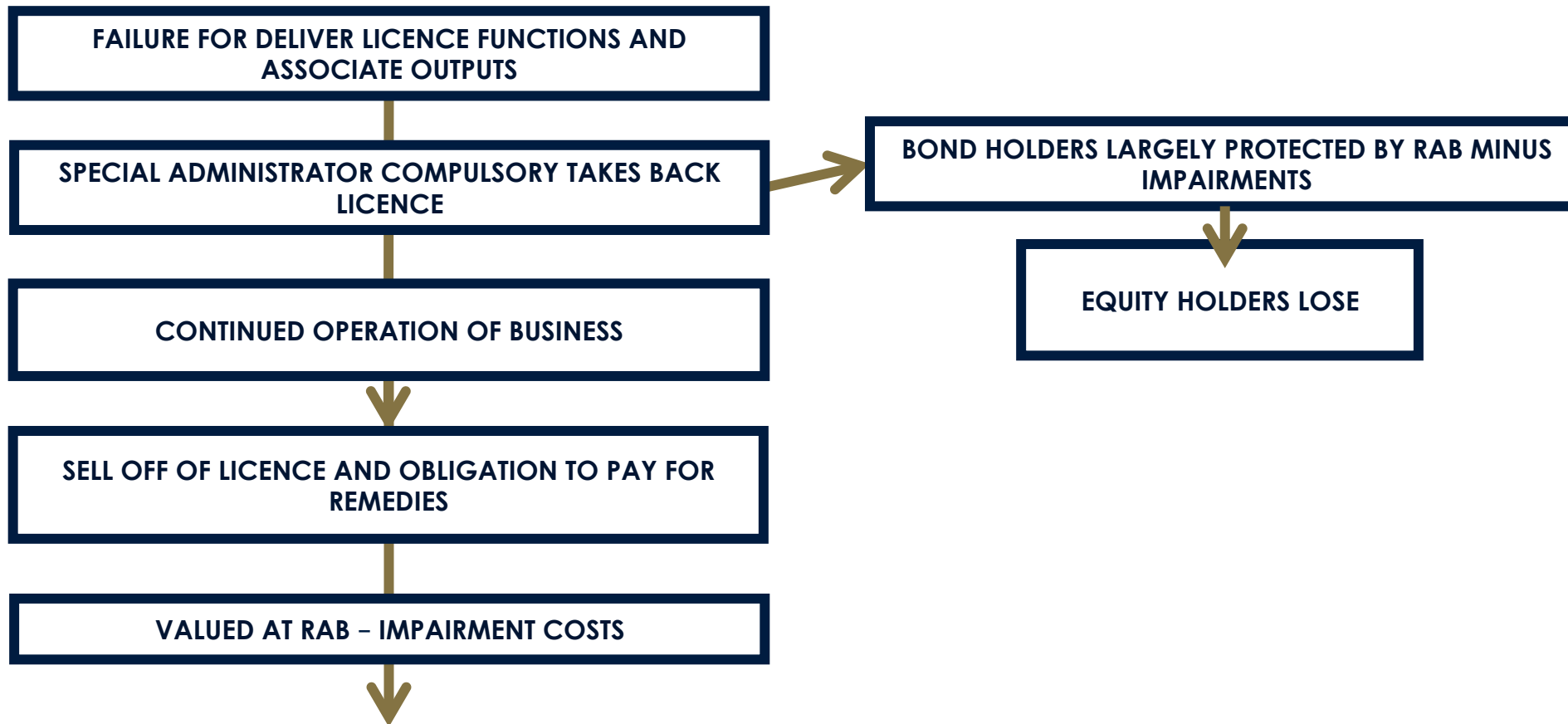
- Duty on directors to certify they can finance functions
- Broader corporate governance and responsibility rules – including non-exec and other special directors
- Financial tests and investment grade rating
- Business plan resilience tests

# THE SPECIAL ADMINISTRATOR

- Step in rights to take over the licence
- $AC < MC$  = ongoing customer revenues allow for financing business
- Sell on the licence



# SPECIAL ADMINISTRATION PROJECTS



# SPECIAL ADMINISTRATOR IN PRACTICE

- Acts as a deterrent
- The Wessex-Enron case
- The Welsh Water case
- Railtrack and administration

# SUMMARY LECTURE SEVEN

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- **Public interest lies with core utility functions in licence, not the rest of the business**
- **Companies with the non-regulated businesses have incentive to exploit utility for benefit of the rest of group**
- **Strong structural case for separation**
- **The state must be in a position to step in**
- **The RAB in the core asset**

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LECTURE RECORDINGS AVAILABLE AT

**DIETERHELM.CO.UK**

THANK YOU

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