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LECTURE EIGHT

THE REGULATORS' DIVERGENT PATHS

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AGENDA

Generic features of networks

Regulatory failures

Regulating competition

Efficiency Costs of regulatory system

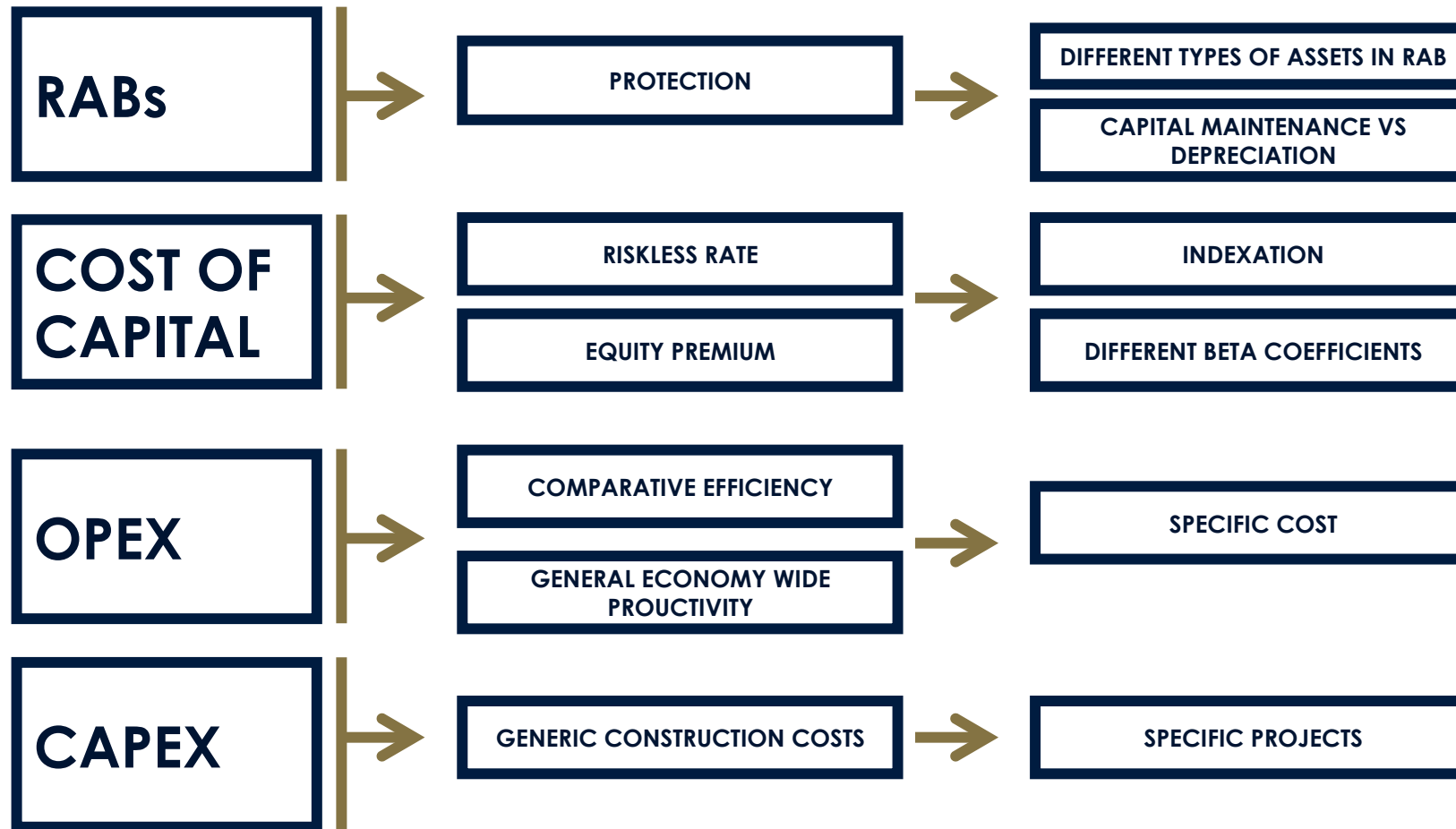
Case for a network regulator

The SO model advantages

GENERIC FEATURES OF NETWORKING



GENERIC BUILDING BLOCKS



REGULATORY FAILURES

THE CLASSIC ISSUES

- Principal agent model
- Capture
- Revolving doors
- Institutional loyalties and empire building

REGULATORY COMPETITION

NOT INVENTED HERE

EXAMPLES

- Indexation or not
- TOTEX or RIIO
- Cost allocations and access terms
- Customer consultation and customer involvements
- Length of periods – 4/5/8 years

COSTS OF REGULATORY SYSTEM

Different costs of capital - the biggest issue so far

- Financial arbitrage and financial misallocation
- Indexation

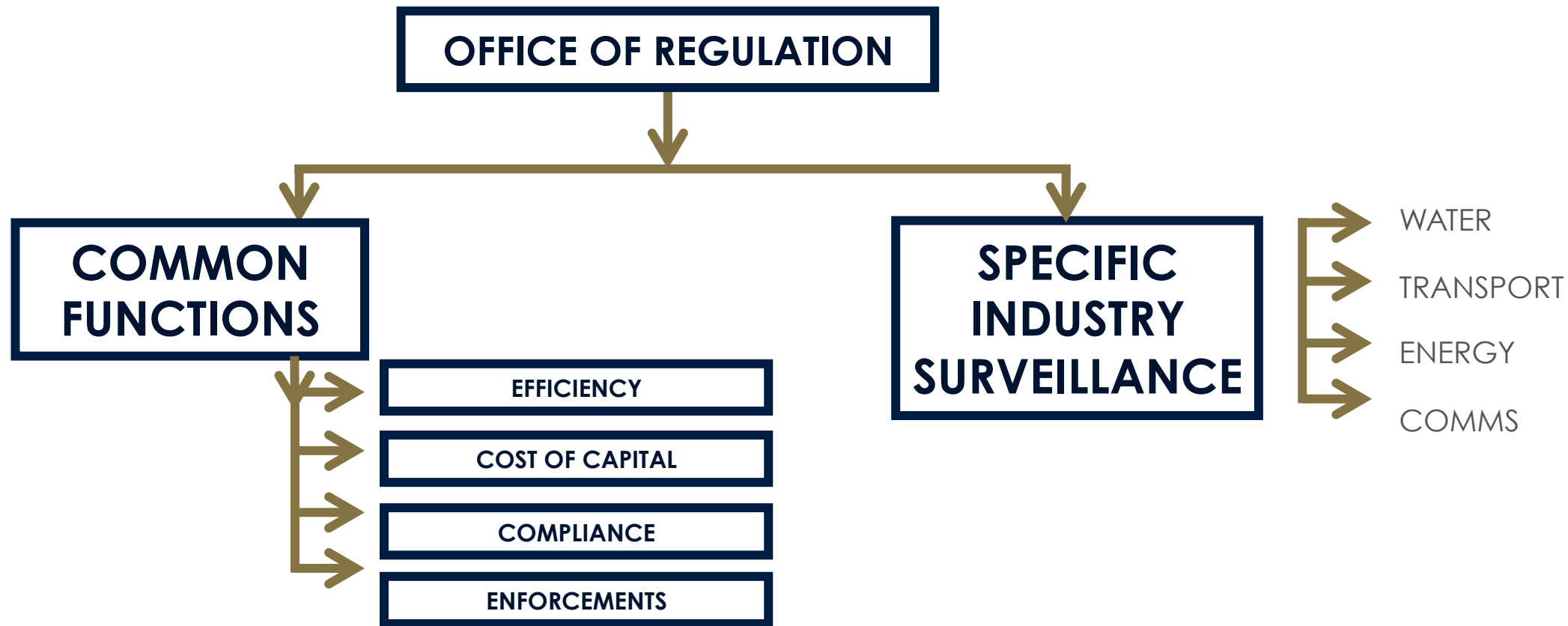
Uncertainties and periodic reviews and the cost of capital

- Share price movements

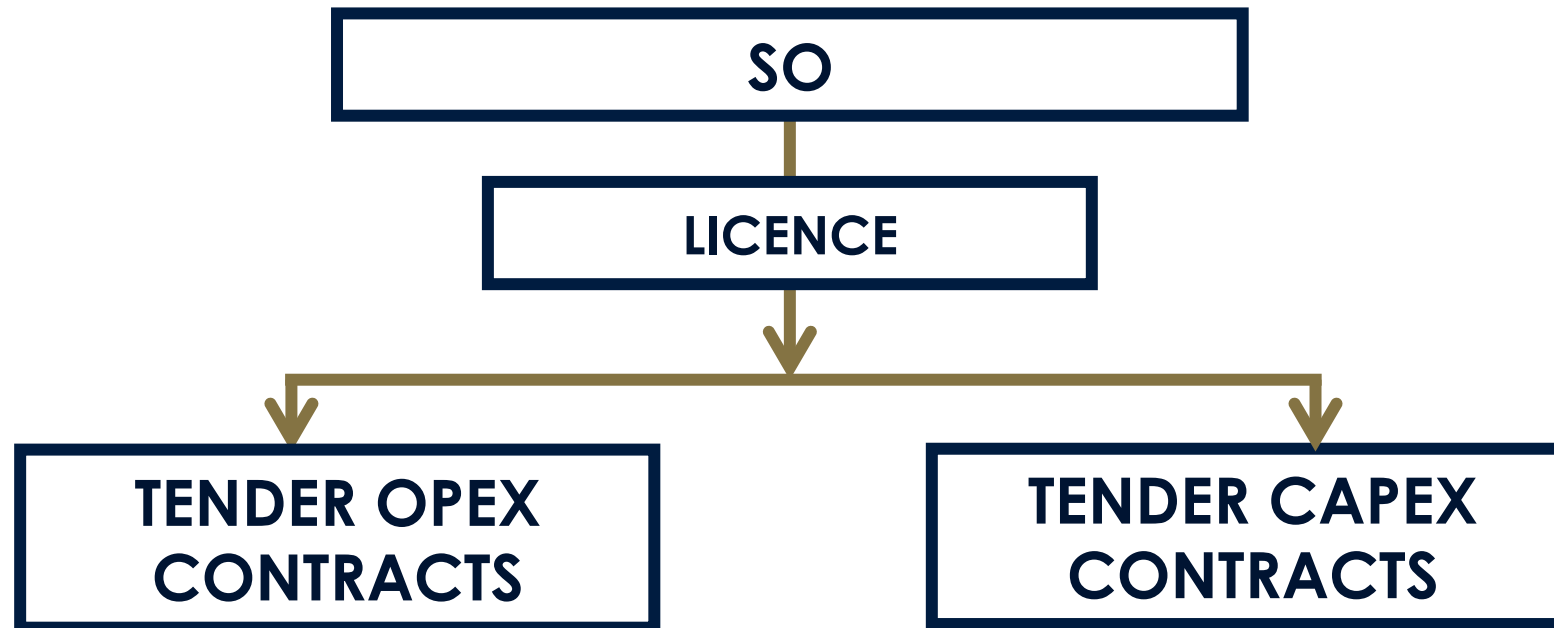
Costs of periodic review

- The regulatory consultants industry
- The costs of the multiple offices

CASE FOR A SINGLE NETWORK REGULATOR



THE SO MODEL ADVANTAGES



SO AND REGULATION

- Cost of capital set on common basis for cost of debt and equity premium
- Split cost of capital applied between RAB & CAPEX
- All RAB debt indexed
- RABs themselves can be traded
- Efficiency determined by competitive markets

SUMMARY LECTURE EIGHT

- **Regulatory failures are significant and growing**
- **Revolving doors and capture serious**
- **Single network regulator would be more efficient**
- **SO model reduces regulatory burden further**

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LECTURE RECORDINGS AVAILABLE AT

DIETERHELM.CO.UK

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