

# Role of regulation in facilitating efficient investment

An external, investors perspective

23 April 2015

## Investors perceive regulatory risk is rising internationally

### **Principal reasons:**

- Spanish Solar
- Gassled
- Italian Solar
- French Motorways
- Victoria East-West Link

No evidence yet of differential pricing of regulated vs unregulated assets

# What do investors mean by regulatory risk?

## **Tariff changes**

- Forward looking with notice/consultation
- Forward looking with short notice
- Borderline retroactive
- Retroactive

## **Taxes**

- Changes in income and capital taxes
- Limits on interest deductibility
- Windfall profits taxes
- Taxes on gross revenues not linked to profits

## **Market design changes**

Investors tend to conflate political and regulatory risk

# What are investors doing about regulatory risk?

*“Regulation is not the attraction per se. The Monopoly is. Regulation is what comes with it”*

- Investors appreciate that infrastructure is inextricably linked with government and regulation
- Two industry associations set up in recent months:

## **Global Infrastructure Investors Association (GIIA)**

Founding members so far:

- Alinda Capital Partners
- Allianz Capital Partners
- Antin Infrastructure Partners
- APG Asset Management
- Arcus Infrastructure Partners
- Brookfield Infrastructure
- CPP Investment Board
- Deutsche Asset & Wealth Management
- EISER Infrastructure Partners
- Global Infrastructure Partners
- Goldman Sachs Infrastructure Partners
- IFC Asset Management Company
- IFM Investors
- Morgan Stanley Infrastructure
- Ontario Teachers' Pension Plan
- PGGM
- Prudential/InfraCapital
- PSP Investments
- 3i Investment

## **Long Term Infrastructure Investors Association (LTIIA)**

Founding members:

- Allianz Global Investors
- Amundi Asset Management
- Development Bank of Japan Inc
- Campbell Lutyens
- European Bank for Reconstruction and Development (EBRD)
- InfraRed Capital Partners Limited
- Infravia Capital Partners
- MACIF
- Marguerite Adviser SA
- Meridiam
- OFI Asset Management
- Skandia Mutual Life Insurance Company Ltd.

Historic propensity to engage with regulators through investee companies

# Investors' Limitations

Fundamental distinction between **Funding** and **Financing**

- **Financing** is not the problem now (it was in 2008–2011)
- **Funding** most certainly is
  - Only two sources: consumers or taxpayers

## With investors, what do we need to do better?

- Consistency between regulators
  - Perfectly acceptable for regulators to come up with solutions to problems specific to your industry, but **not** to common issues across regulators
- Explain the roles and the boundaries of each of the major actors
  - Government
  - CMA
  - Regulated companies
  - Regulators
  - Parliament
- 'Get out more' / communicate
  - Putting documents on a website is necessary but not sufficient
- Explain the drive for contestable markets better
- Encourage advocates to speak up about the positive benefits of UK economic regulation

## What is the 'prize'?

- Lower **perceptions** of regulatory risk
- X basis points saving on £Ybn of RAB/RCV = lower customer bills
- Capital investment

# Which parts of UKRN work programme will investors be particularly interested in?

**Focus**

Cost of Capital

**Possibly**

Affordability across sectors

Benefits of regulation

Cross-sector resilience

Engagement and switching

Cross-sector infrastructure

Organisational development

Regulating for quality

# What is the Expert Panel for? What do we do? How can we help?

## From the press release announcing our appointment:

*“The panel will:*

- *Provide a cross-sector voice to UKRN independent of any sectoral interest*
- *Act as critical friend to UKRN, including to identify opportunities for optimal cross-sector working and challenge regulators to deliver on those opportunities*
- *Encourage regulators to ensure that cross-sector outcomes are reflected in decision making for each sector, particularly considering the need both to protect consumers and create a positive environment for efficient investment*
- *Promote an ambitious agenda of joint work”*