Pipes and Wires
Report by the Comptroller and Auditor General
HC723 Session 2001-2002: 10 April 2002

By James Morton

Report Overview

• Executive Summary

• Developing the RPI-X Approach

• Benefits to Customers from Regulators

• Dealing with the Risks
Pipes and Wires in the UK Infrastructure

- Essential Service
- Few Substitutes
- Lucrative
- Physical Infrastructure requires significant investment

Monopoly and Independent Regulation

- BT and British Gas - National Monopolies
- Water Companies - Regional Monopolies

- Creation of Independent Economic Regulators
Induced Competition

• Regulators induce competition of supply

• Consumer interests v. Investor interests

• Short term interests v. Long term interests

The RPI-X Approach

• Limit placed on charges to customers

• Level adjusted by movement in the general economy

• Quality rigorously monitored

• Comparisons
Incentives to increase efficiency

• Incentives induced despite monopoly
• Unanticipated Savings kept by companies
• Information revealed to regulators
• Strengthening of incentives

Passing gains onto the customers

• Financial gains passed on through charge regulation
  – immediate price cuts
  – phased reductions
• Additional gains for the customer
  – Efficiency increase across the board
  – Increased reliability
  – Future Capacity Strengthened
Concerns regarding the RPI-X Approach

- Inhibition of investment in the future
- Investment deferment
- Capital v. Operating costs
- Information inadequacy
- Uncertainty for Investors

Conclusions

- Strength of Investment
- Investment in Networks
- Financing Investment
- The process of RPI-X Approach