

The UK is governed by many regulators, but none of them impress customers, say Martin Blaxall and Rob Sheldon

Reference to the “UK model” of regulation is commonplace. It is therefore a reasonable assumption that our regulatory bodies are national organisations that cover the whole of England, Scotland, Wales and Northern Ireland. Indeed, some are. The Postal Services Commission (Postcomm) has the task of making sure licensed postal operators meet the needs of customers from one end of the UK to the other. Likewise the Office of Communications (Ofcom), which assumed its powers at the end of 2003 when it replaced five different regulatory bodies including Oftel, the country’s first economic regulator. Also operating throughout the UK is the Civil Aviation Authority (CAA), whose activities include economic regulation, air space policy, safety regulation and consumer protection.

But in other industries the position is very different.

In the energy sector, Ofgem regulates in Great Britain. Ofgem was itself the result of a merger, between the gas industry regulator (Ofgas) and the electricity industry regulator (Offer). At the time of energy market liberalisation in Northern Ireland, there was no natural gas industry and the electricity system was isolated from the rest of the UK (and the Republic of Ireland). Therefore a separate regulator was established specifically to deal with electricity in the province (Ofreg).

Since then a natural gas industry has been developed and electricity interconnectors have been built to Scotland and the Republic of Ireland. An all-island market for electricity is also being created that is jointly regulated by Ofreg and the republic’s Commission for Energy Regulation (CER). Ofreg has since metamorphosed into the Northern Ireland Authority for Utility Regulation (NIAUR) and its remit expanded to include the water industry too. Indeed, it is the only body in the UK to have responsibility for both energy and water regulation.

Elsewhere in the UK, the Office of Water Services, now the Water Services Regulation Authority (Ofwat) was established in 1989 at the time of the privatisation of the water and sewerage industry and it regulates the companies that were established in England and Wales. In Scotland, the water industry remains in public ownership and there have been different regulatory arrangements. A Water Industry Commissioner for Scotland was appointed in 1999 after devolution. In line with other regulators the single post was replaced by a board, the Wics, in July 2005.

Beyond sectoral regulation, there are other major areas of regulation that are relevant to utilities – for example, environment and plan-



Out of sight

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ning controls. Here, the division of responsibilities is broadly similar, with regulation for Northern Ireland and Scotland separate from England and Wales.

There are a number of reasons for this variety of regulatory structures. Most seem to be a typically British and a pragmatic response to the specific circumstances at the time, but some are based on whether the economics of the industries lend themselves to national or regional regulation.

The variety might not routinely matter, but it does when one body takes a directly opposite stance to its equivalents across the border. A current example is the rejection by the

Scottish Executive of any new investment in nuclear power under its devolved powers governing environmental policy. If, as seems probable, such power stations are built in England, then customers in Scotland will benefit from the resulting security of supply yet not have to bear any of the local costs directly.

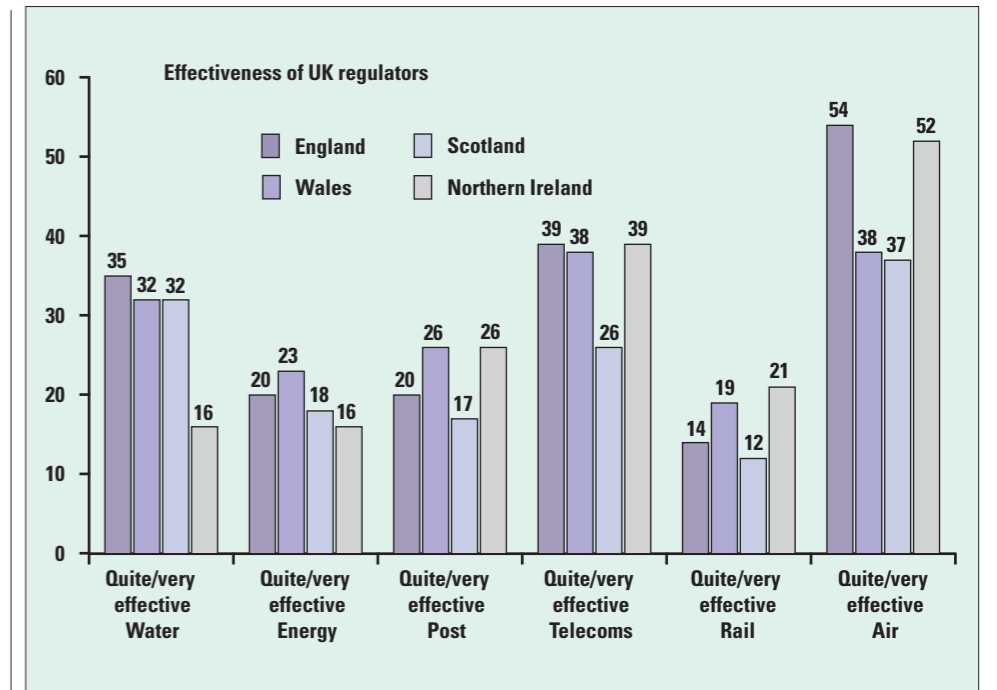
As far as consumer representatives and other consumer bodies are concerned, there is yet more diversity and confusion. Each industry has had different representative bodies over the years. Some were established in the days before privatisation (gas and electricity), some were part of the newly established regulators (Oftel) and yet others were established some time after privatisation. In water, the independent Consumer Council for Water was only established in 2005 when it replaced WaterVoice, which was part of Ofwat. There is now a process of further reform with Energywatch being dissolved and some of its functions being absorbed into an enlarged National Consumer Council.

Those in the regulatory and utility community will no doubt have views about the pros and cons of the differing regimes across the

UK and their relative effectiveness and efficiency. But what of customers? What do they know, how do they feel and what do they think about what is done in their name? Are there differences between the home countries or are other factors more important? These are vital questions, given that one of the main functions of regulators is to act in the interests of customers.

To find out, Accent carried out an online survey of 400 people – 100 in each of England, Wales, Scotland and Northern Ireland. Respondents were selected on the basis of age, gender and socio-economic demographics, with a broadly even spread being achieved across the sample.

Across the UK, most respondents in the survey knew that the following industries had dedicated regulatory bodies: water (80 per cent); energy (80 per cent); telecoms (78 per cent); rail (75 per cent); and airports (60 per cent). However, while most knew there was regulation, people were unlikely to know who those bodies were. In some cases they were very unlikely to know. In England and Wales, *continued overleaf*



continued from previous page

of those who knew there was a regulator, only 42 per cent could name Ofwat; 12 per cent could name Ofgem; 30 per cent could name Ofcom; 1 per cent could name the Office of Rail Regulation; and 4 per cent could name the CAA. There were similar results in Scotland and Northern Ireland, except that nobody was able to name the Wics in Scotland or the NIAUR in Northern Ireland.

There was a variety of opinion as to what regulators were there to do. Most respondents saw the prime purpose of regulators as representing customers (31 per cent), followed by controlling prices (25 per cent), improving company performance (18 per cent) and improving quality of service (16 per cent). Protecting the environment, promoting competition and setting company investment levels were all seen as unimportant (5 per cent, 4 per cent and 1 per cent respectively). Results did not vary greatly across the UK, although those in Wales tended to emphasise the importance of controlling prices.

Whatever their view of what regulators do, customers are, on the whole, not that impressed by how effectively they do it. The chart on page 17 shows that UK regulators are not perceived as being especially effective, the sole exception being the CAA.

Does the regulatory regime require greater public legitimacy?

Indeed, when asked whether they were effective or ineffective, all but aviation and telecoms regulators were thought to be more ineffective than they were effective. This may be driven by consumers' lack of awareness of the regulator, but it may also be to do with how consumers feel they benefit from the existence of regulators or their perception of the effectiveness of the industries themselves.

The apparent ignorance about the regulatory regime in water (see box) and regulators in general may not matter. Customers have benefited from regulation whether they under-

stand how it works or not. But what happens when things change, or go wrong?

Energy prices are as likely to rise in future as they fell when competition was introduced. In the water sector, competition is at various stages of implementation in different markets across much of the UK and views about it are mixed, while in Northern Ireland it has not yet proved possible to issue water bills to domestic customers. Forthcoming price reviews in electricity and water are to take place in a rapidly changing policy environment as climate change starts to have an impact in physical and policy terms.

Does the regulatory regime require greater public legitimacy if it is to take major decisions on behalf of customers? If regulators face a loss of trust from the public, what then for the companies they regulate? How is legitimacy fostered and the interests of customers promoted? How are decisions and trade-offs made? And how is that reflected in regulatory policy and company strategy? Should there be more, local regulators or fewer national "super regulators"? The answers may vary across the UK but the questions will not go away. ■

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Of-what?? What water customers think the industry and their regulators

The survey explored the views of customers about the water industry in detail. When asked about how they benefited from regulation, less than two-thirds (60 per cent) said they felt reassured knowing the water industry is regulated. Just over half (56 per cent) said they felt their interests are protected and less than half (48 per cent) felt they had a voice knowing the water industry is regulated.

The tables summarise the views of customers regarding the regulatory environment in the sector. They vary considerably, not least by the degree to which different bodies are seen as most representing customers' interest – it is Ofwat in England and Wales, the Drinking Water Quality Regulator in Scotland and Northern Ireland Water in the Province.

There may be any number of explanations for these differences – for example, the lack of awareness of water industry bodies in Northern Ireland may well be due to the fact that water is not charged for separately. Yet customers there are two-to-one in favour of competition, as are those in England. Those in Wales are split evenly and those in Scotland are three-to-two against competition. However, on the whole, the very variation in views and their randomness suggests ignorance of the regulatory regime to be a major driver.

Water industry in England and Wales

Respondents who were "quite aware" or "very aware" of the following bodies (%)

Ofwat	42%
Environment Agency	45%
Consumer Council for Water	11%
Drinking Water Inspectorate	19%

● 60 per cent would take a complaint to



their water company

● Ofwat was seen as the body most representing the customer's interest

● In England, 62 per cent believe that introducing competition in the sector would be in their interest (38 per cent did not)

● In Wales, 50 per cent believe that introducing competition in the sector would be in their interest (50 per cent did not)

Water industry in Scotland

Respondents who were "quite aware" or "very aware" of the following bodies (%)

Water Industry Commission	14%
Scottish Environment Protection Agency	35%
Waterwatch Scotland	32%
Drinking Water Quality Regulator	15%

● 40 per cent would take a complaint to their water company

● The Drinking Water Quality Regulator was

seen as most representing the customer's interest

● 42 per cent believe that introducing competition in the sector would be in their interest (58 per cent did not)

Water industry in Northern Ireland

Respondents who were "quite aware" or "very aware" of the following bodies (%)

Utility Regulator	13%
Environment and Heritage Service	21%
Consumer Council	32%
Drinking Water Quality Inspectorate	12%

● 59 per cent would take a complaint to their water company

● Northern Ireland Water was seen as most representing the customer's interest

● In Northern Ireland, 62 per cent believe that introducing competition in the sector would be in their interest (38 per cent did not)