Customers lie not only at the heart of regulation but also at the crux of the relationship between the regulator and the regulated operators.

After twenty years of ‘incentive’ utility regulation, the role of customers in the regulatory settlement is receiving new attention. Customers are arguably the ‘raison d’être’ of regulation, with the regulator acting instead of a ‘well-functioning’ market to protect their interests.

Such a model inherently places on the regulator the functions which consumer activity would play within a market. Those functions include in particular the trade-off between quality and price which can be made by consumers when they are able to choose from different menus, either from a variety of providers or from a monopolist.

However regulation is generally applied when there are good reasons for a lack of such choice, a factor which is exacerbated in network industries where quality is determined at the network level (at least locally) and shared between all of its users. Since companies may have an incentive to ‘gold plate’ quality if they are subject to an element of rate of return control, the choice of quality/price trade off may be distorted.

There has been recently increasing interest in how the role of the regulator affects the relationship between regulated undertakings and their customers. One model of regulation places the regulator as a ‘super-consumer’, operating as a surrogate for a competitive market.

More recent proposals on negotiated settlements place the regulator in the background, as a last resort in case the company and its customers cannot agree an outcome directly between themselves.

Some regulators have introduced other specific mechanisms to encourage the involvement of consumers in the regulatory settlement. A traditional economic model of regulation places the regulator as ‘defender’ of the customer through direct intervention in price levels.

This CERRE Expert Workshop will involve expert representatives from the various stakeholders involved, including obviously consumers’ organisations. It will allow participants to discuss the practical experience of the above three approaches to consumer representation in network industries and also to identify the benefits and challenges which each presents.