



# ECONOMIC REGULATION

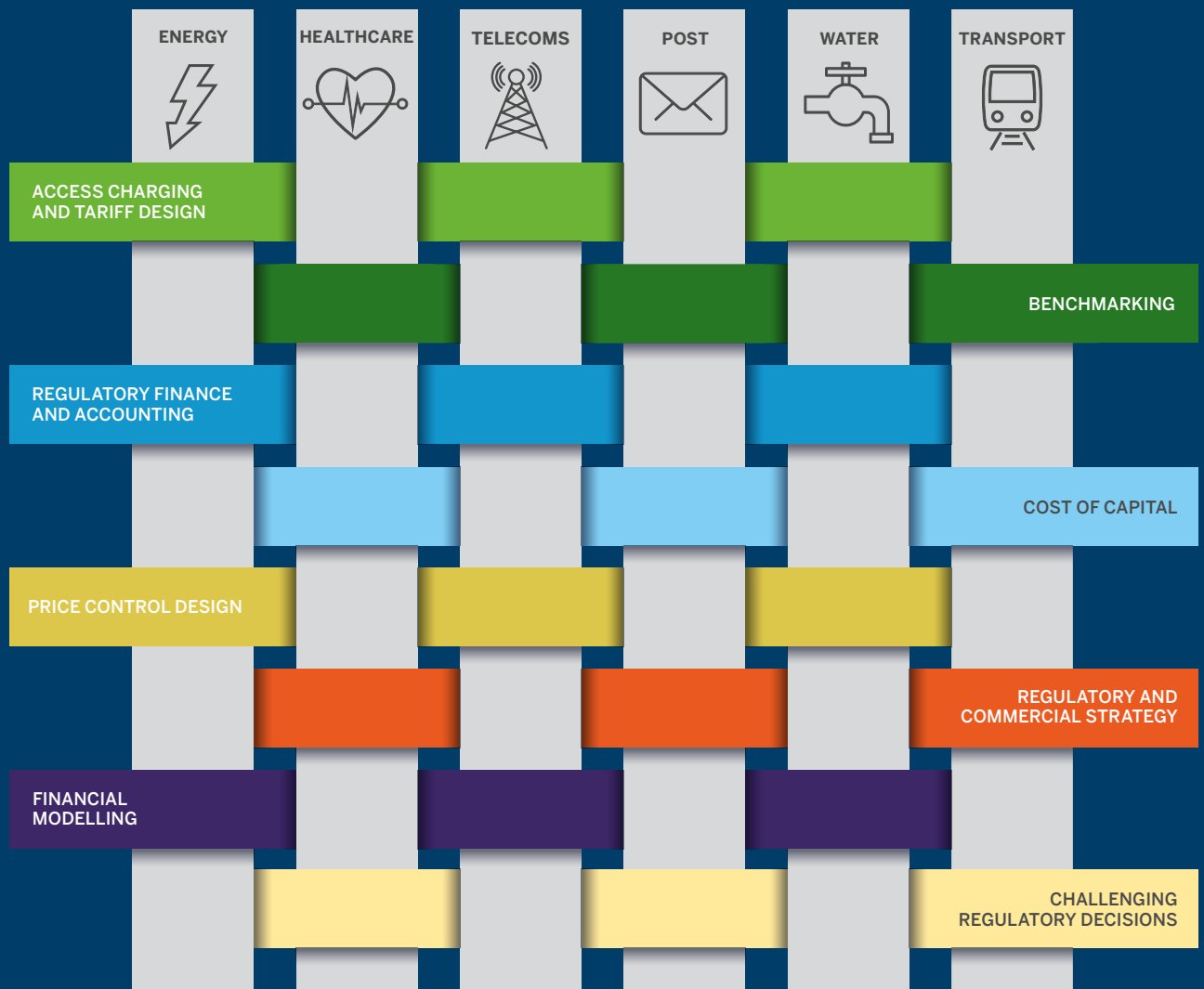
EUROPE, MIDDLE EAST  
AND AFRICA

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EXPERTS WITH IMPACT™



# Our capabilities



# Economic regulation

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FTI Consulting's economic regulation experts advise governments, regulators, companies and their investors in the pursuit of regulatory outcomes that strike a balance between the promotion of efficient investment incentives, competition and continued improvements in service quality. Our advisors combine exceptional technical expertise and academic rigour with extensive sector-specific knowledge, as they advise clients facing complex and fundamental changes in critical infrastructure sectors.

## **ABOUT FTI CONSULTING**

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political, regulatory, reputational and transactional.

Individually, each practice is a leader in its specific field, staffed with experts recognised for the depth of their knowledge and a track record for making an impact. Collectively, FTI Consulting offers a comprehensive suite of services designed to assist clients across the business cycle - from proactive risk management to the ability to respond rapidly to unexpected events and dynamic environments.

## **OUR ECONOMIC REGULATION TEAM**

The economic regulation team is part of FTI Consulting's globally recognised Economic & Financial Consulting practice. Building on our renowned expert witness and competition knowledge, our specialists advise companies and regulators from a wide range of industries.

Our team is made up of a diverse mix of experts: former sector regulators, in-house regulatory economists, engineers, and highly-qualified academics who have conducted pioneering research in their fields. Together with FTI Consulting's experienced economic and financial consultants, contributing many years of sector-specific expertise, the economic regulation team provides unrivalled depth of academic rigour, coupled with breadth of practical experience. More recently, our experts have also been advising clients in sectors that are facing forms of economic regulation for the first time, including the electronic payments sector and the wider digital economy.

# Access charging and tariff design

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The charges levied by regulated companies for infrastructure access services have important implications at the wholesale level and for the end consumer. However, the justification for the level of allowed revenues has typically received more scrutiny than the structure of charges by which the revenue is recovered.

As competition is introduced across the value chain and as regulators seek to eliminate cross-subsidies between different customer categories, the level of regulatory scrutiny increases. FTI Consulting provides advice to companies on the appropriate design and calculation of access prices, charges and tariffs. Regulated companies need to be able to determine whether their charges are appropriate and, if not, how to change them. Our consultants advise companies in this area through a combination of:

- Advice on the appropriate conceptual approach to setting tariffs, such as the definition of cost reflective pricing and on the appropriate methodology for calculating access prices
- Advice on the allocation of costs between activities, customer types and tariff bands based on an understanding of accounting and economic costing principles and methods

- Designing and applying tests to determine whether tariffs are compliant with competition law e.g. margin squeeze tests
- Designing, building and reviewing wholesale and retail tariff models, and
- Advice on tariff structure in the context of commercial strategy

Our experts have extensive knowledge of setting access prices, advising on charging arrangements, and designing tariffs across a range of industry sectors. Members of our team frequently provide expert evidence on charging issues in circumstances where the level and/or structure are the subject of a dispute.

## **Enedis (previously ERDF)**

### **THE CHALLENGE**

In recent years consumers of electricity have started to engage more actively with the distribution system, for example by acting as generators (when owning embedded generation such as solar panels) or as flexibility providers, through demand side response, sometimes reversing the direction of the power flow.

This is creating a new set of challenges for the distribution system operators (DSOs) and raises questions about how to adapt the tariff structure to reflect the new roles of the DSOs and provide appropriate pricing signals which will incentivise consumers to adjust their behaviour.

### **OUR INPUT**

FTI Consulting was engaged in 2015 to advise ERDF on options for a network tariff structure that would help manage consumer behaviour, minimising overall network costs. We reviewed the existing network tariff methodology, academic literature, and precedents from other European countries and, in the context of the review of the tariffs for the next period, made recommendations for the short and the longer term. The key criteria were economic efficiency, methodology robustness, simplicity and transparency, and the ability to address new challenges faced by DSOs with regard to renewable integration and consumer empowerment.

### **THE RESULT**

Our work enabled ERDF to understand how different tariff structures could be used to influence customer behaviour. Our key findings were presented to the French regulator CRE in late 2015. In this context, we organised a conference in Paris, which was attended by academics and industry stakeholders, including senior representatives of the Ministry of Ecology and of CRE, distribution and transmission companies, generators and retailers. Through this work, we provided a key contribution to the ongoing policy debate in France regarding the future regulation of the distribution system.

## **Camden Clinical Commissioning Group (CCG)**

### **THE CHALLENGE**

In partnership with local providers, Camden CCG is implementing an ambitious value-based commissioning programme, designed to improve the quality and efficiency of healthcare across the whole system. As part of this, the CCG is looking to improve the integration of services for patients across Camden and is developing Integrated Practice Units in a number of areas, including diabetes.

To support this programme, Camden CCG requires a new approach to paying for services that incentivises providers to invest in care earlier in the patient pathway and therefore aligns the financial incentives of providers with achieving better outcomes for patients and better value for the CCG.

### **OUR INPUT**

FTI Consulting worked with Camden CCG on the design of a value-based contract for diabetes to underpin the delivery of services by the Integrated Practice Units. We assisted the CCG and local providers in developing a contract covering both community and acute care, with a proportion of payment dependent on progress towards agreed patient outcomes.

Our work involved the application of economic principles, cost modelling and extensive stakeholder engagement to obtain necessary clinical and technical input and to build consensus around our approach.

### **THE RESULT**

We delivered the diabetes contract design and the baseline contract value costing, which have been agreed by all partners. We also assisted Camden CCG to finalise the practical aspects and payment flows between providers and the CSU ahead of the implementation of the diabetes contract in 2015/16.

# Benchmarking

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The assessment of cost efficiency is a critical input to price control determinations; considerable technical expertise is required to produce estimates that are transparent and robust to challenge. Determining the scope for efficiency savings is also an important strategic goal in increasingly competitive markets.

FTI Consulting brings academic rigour and cross-sector expertise to clients seeking to understand the scope for efficiency savings not only as an input to regulated price controls, but also as a means to increase competitiveness. Our team has carried out cost modelling and efficiency benchmarking in a variety of countries and industries, including water, energy, post and telecommunications. We have helped clients with internal and external benchmarking assessments and with setting up programmes for the measurement of efficiency in fast-changing industries.

Our experience covers all aspects of efficiency assessment including:

- Identification of relevant benchmark companies and cost drivers
- Data preparation and assessment, both cross-section and panel
- Unit cost benchmarking
- Functional and financial benchmarking
- Assessment of total factor productivity growth
- Efficiency estimation via econometric modelling (deterministic and stochastic frontier)
- Efficiency estimation with non-parametric techniques
- Assessment of efficiency drivers and best practice



## Network Rail

### THE CHALLENGE

The Office of Rail Regulation (ORR) takes a view on the efficiency of Network Rail's maintenance and renewal costs as an input to determining track access charges. As an input to the current charging framework, the ORR used 'dual efficiency' models that attempted to distinguish between persistent inefficiency at the company level and inefficiency at the sub-company (i.e. at the divisional and/or regional) level.

### OUR INPUT

FTI Consulting was engaged to assist Network Rail in reviewing these models, and to suggest modifications to improve their robustness. Our analysis included a data review, assessing the compatibility of cost measures across countries, the compatibility of cost drivers, the correct specification for labour costs and exchange rates and the statistical properties of the data. We also developed alternative methods using a number of different econometric techniques that considered maintenance and renewal costs together and separately. Finally, we undertook statistical testing on the models and coefficients, analysis of robustness of efficiency estimates to changes in model and specification and countries in the sample.

### RESULT

Our analysis showed that the ORR's models were very sensitive to the definition of the sample, and that the choice of model and dataset had a particularly significant impact on the estimate of efficiency. This led to the conclusion that, at best, the models could be used to identify a range of likely efficiency estimates for Network Rail and that one should benchmark Network Rail costs internally, across its routes, and not internationally. We assisted Network Rail in developing a route-based dataset and we designed econometric benchmarking models to assess this.

## Royal Mail

### THE CHALLENGE

In 2015 Ofcom announced a Fundamental Review of the Regulation (FRR) of Royal Mail, to ensure regulation remains appropriate and sufficient to secure an efficient and financially sustainable provision of the universal service. This review's assessment of Royal Mail's efficiency needed to take account of falling volumes and the influence of strong trade unions on Royal Mail's ability to cut its costs further.

### OUR INPUT

FTI Consulting was engaged to assist Royal Mail in its response to the FRR, including in providing evidence of Royal Mail's efficiency gains. Our analysis included the assessment of (i) company-wide efficiency using PVEO<sup>1</sup>, RUOE<sup>2</sup>, TPF<sup>3</sup> and workload productivity growth measures; and (ii) the cost efficiency of the delivery office and mail centre estates, using a number of different econometric techniques and modelling assumptions.

### RESULT

Our analysis showed that Royal Mail's efficiency had increased considerably, despite the constraints that falling volumes and a heavily unionised workforce have placed on the company's ability to cut costs. On 16 June 2016, Ofcom published its proposals for a future framework for post. It proposed to maintain the existing regulatory framework rather than impose additional efficiency-based adjustments to Royal Mail's prices.

<sup>1</sup>PVEO = Price, Volume, Efficiency, Other

<sup>2</sup>RUOE = Real Unit Operating Expenditure

<sup>3</sup>TFP = Total Factor Productivity

# Regulatory finance and accounting

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The imposition of regulatory financial reporting obligations remains central to many regulatory regimes. Not only is this intended to provide transparency of the financial performance of regulated business units vis-à-vis unregulated parts of the business, but the outputs are also a key consideration in *ex ante* and *ex post* pricing analyses.

FTI Consulting advises companies and regulators on the design, implementation and review of regulatory accounting remedies. Our economic regulation team can assist with every aspect of the process: the initial design of appropriate reporting frameworks, advising clients on the minutiae of specific cost allocation methodologies, and leading initiatives to implement and refine costing systems. We have thorough knowledge of the world's most complex regulatory reporting frameworks, and experience of a range of cost modelling tools and applications.

Our experts have delivered regulatory accounting solutions to businesses in a range of regulated sectors in the UK, Europe, the Middle East and Africa. They work with companies and regulators to undertake internal and external reviews of regulatory accounting methodologies, inputs and results, and advise on best practice techniques to optimise regulatory reporting processes. FTI Consulting's specialists also provide expert witness reports on regulatory accounting topics to tribunals and competition authorities.

Our capabilities cover the full range of regulatory accounting concepts and techniques, including:

- The design of Regulatory Financial Statements (RFS) e.g. in the context of changes to the wider economic regulatory framework
- Accounting separation, both the theory and practice
- Current Cost Accounting (CCA), including Modern Equivalent Asset Value (MEAV) analysis
- Allocation of costs between different business units, price controls and customer segments
- Assessment of the strengths and weaknesses of alternative allocation methodologies and techniques
- Potential uses and limitations of data from regulatory accounts

Our advice is informed by deep theoretical economic and accounting expertise. FTI Consulting's advisors understand that robust regulatory financial information requires robust data collection processes, transparent methodologies and models, quality documentation, and flexible reporting capabilities.





## Anglian Water

### THE CHALLENGE

Anglian Water, one of the largest water and sewerage companies in England, operates in a water-stressed area: due to population growth and climate change, the company faces significant challenges supplying enough water for its customers. Against this background of trying to optimise scarce water resources, Anglian Water was interested to explore the potential for jointly owned, financed and operated assets (such as large reservoirs, ground water storage facilities, water recycling facilities, desalination plants etc.) to meet the needs of a wide range of water users at a lower cost.

### OUR INPUT

FTI Consulting was commissioned by Anglian Water to explore the different ways that these joint entities could be structured e.g. through corporate financing, project financing or joint venture arrangements. Different structures would have different

implications for water users, so our work focused on whether some options could have higher financing costs, or whether different structures might create better incentives for different stakeholders to collaborate to the benefit of all.

### THE RESULT

Our report triggered positive dialogue between stakeholders, and with Ofwat and DEFRA, particularly in relation to how any potential barriers to implementing different structures could be mitigated or removed.

## BT

### THE CHALLENGE

BT faces perhaps the most onerous regulatory financial reporting framework globally, both in terms of complexity and the level of external scrutiny.

FTI Consulting was engaged by BT in the context of Ofcom's review of cost attribution methodologies, following Ofcom's introduction of revised Regulatory Accounting Principles. Ofcom sought to

amend a wide range of the underlying cost attribution methodologies used by BT to attribute costs within and between regulated and unregulated markets.

### OUR INPUT

FTI Consulting was commissioned to prepare a series of reports for BT, including a review of the appropriateness of Ofcom's proposals and the identification of potential alternatives to these.

Informed by our advisors' extensive theoretical and practical understanding of BT's existing methodologies and models, our team analysed Ofcom's proposals, commented on their theoretical robustness, and proposed alternatives, where appropriate, based on detailed analysis of BT's activities and the information available to attribute the associated costs.

### RESULT

Our reports, which are available on Ofcom's website, helped BT persuade Ofcom to amend a number of its cost allocation proposals.

# Cost of capital

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Cost of capital calculations form a critical input to the regulatory process and it is essential that accepted theory, market practice, precedent and innovative thinking are all brought together in a robust and compelling way.

Our regulatory accountants, finance experts and economists have extensive expertise in the calculation of the weighted average cost of capital (WACC) allowed for regulated activities or in the context of competition cases. They have wide-ranging experience of the practical application of theoretical concepts in real world scenarios and a sound understanding of financial markets and of the challenges that arise in estimating the cost of capital in the midst of unpredictable economic and financial conditions.

Our experience covers all aspects of WACC analysis, including:

- Identification and assessment of relevant benchmark companies
- Determining the appropriate time series of market data to use in the calculations
- Assessing the approach to determining notional gearing
- Design and application of financeability tests
- Evaluation of CAPM results against alternative theoretical models including Dividend Growth and Residual Income Models, Fama-French and other multi-factor models

- Arguments for and quantification of small company premium
- Indexation of the cost of debt
- The impact of changes in inflation indices e.g. a switch from RPI to CPI
- Adjustments to the cost of capital in the context of market reviews and tests of excessive profitability

Our team also has significant experience of other aspects of regulatory finance including designing solutions to financeability problems (e.g. taking into account the trade-offs between Pay As You Go (PAYG) ratios, WACC and asset lives), and assessment of returns (e.g. margins) in asset-light parts of the value chain (e.g. retail).





## BT

### THE CHALLENGE

As part of its review of Business Connectivity Markets (BCMR), Ofcom proposed to further disaggregate the cost of capital (WACC) applied to BT lines of business and to reduce the value of the WACC applied to BT's business connectivity services. This would have resulted in BT being required to reduce the prices of these services to reflect the lower permitted return.

### OUR INPUT

FTI Consulting was engaged by BT to review Ofcom's approach and evidence for revising the WACC from previous charge controls and to estimate alternative parameters for calculating the WACC for each of BT's divisions. Our analysis suggested that Ofcom's evidence for further disaggregating the WACC was weak. However, we found that the impact

of this on BT was minimised if Ofcom used appropriate parameter values – such that the relative differences in the WACC applied to each line of business was minimised. We calculated alternative values and evidenced the robustness of these using benchmarks, regulatory precedent and detailed financial analysis.

### RESULT

We provided an expert report to Ofcom detailing our analysis and findings. Whilst Ofcom decided to proceed with further disaggregating the WACC, it revised the parameters in the calculation to more appropriate values.

## Middle Eastern Oil Company

### THE CHALLENGE

A large state-owned vertically integrated oil and chemicals company requested advice on its approach to evaluating

the financial and economic feasibility of investments across all of its operation throughout the world.

### OUR INPUT

FTI Consulting provided advice on how appropriate discount rates should be calculated and applied, and on the social cost of capital which should be applied when considering non-commercial projects undertaken in its home country at the direction of government.

### RESULT

FTI Consulting assisted the client with production of a revised manual for evaluating investment opportunities together with guidance on how this should be updated periodically to reflect current market data.



# Price control **design**

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Historically, the interaction between the regulator and the regulated company has often been reduced to an over-simplistic view that the regulator's role is to balance conflicting and opposing objectives of shareholders and consumers. The fog of asymmetric and imperfect information between the two parties can heighten this sense of conflict which can result in suboptimal allocations of risk and investment incentives.

Partly in recognition of this, regulators have, more recently, aimed to better align the incentives and share the risks more appropriately between customers and shareholders through the use of more innovative approaches to the design of regulatory regimes. Regulators have tailored their approaches according to the circumstances of the sector and the country they oversee. These approaches have included: more targeted incentive schemes relating to the outcomes valued by customers, less prescriptive

approaches to how companies can achieve, and benefit from, efficiency savings, and longer durations of price controls to encourage longer-term planning. FTI Consulting has been at the heart of the development of these new approaches, combining theoretical evaluation of different options with quantitative scenario-based modelling of potential impacts to arrive at optimal price control designs.

## National Grid

### THE CHALLENGE

Ofgem was keen to develop a regulatory regime that incentivised the construction of new interconnectors. The proposed 'cap and floor' approach was designed with the intention of balancing the risks of new interconnector projects between the developer, in this case National Grid and customers. The intention was to protect investors by guaranteeing a minimum rate of return at around the cost of debt and to protect customers by capping the rate of return available to investors at an appropriate level, but many of the details of the regime still needed to be worked out.

### OUR INPUT

We worked closely with our client to develop positions on all aspects of the details of the proposed new approach. For example, we considered on what basis it was reasonable to set the cap and the floor, and how the financial incentives

to encourage its availability should be structured. As part of our work we undertook a detailed review of Ofgem's and National Grid's financial models of the interconnector cap and floor regime.

### THE RESULT

Our engagement allowed National Grid to have an informed, open and honest conversation with Ofgem on the pros and cons of different approaches, including the allocation of risks between National Grid and GB customers in a way that was both fair for customers and yet provided a sufficient return for National Grid over the long run to encourage investment in this critical infrastructure.

## Omani Sector Regulator

### THE CHALLENGE

FTI Consulting was engaged by the Authority for Electricity Regulation in Oman ('AER') to provide financial and

economic advice during the most recent price control review (2013-14) of the five regional electricity distribution and supply businesses (for the 2015-17 period).

### OUR INPUT

We provided support across the full range of economic and financial issues relevant to price controls, including advice on the design of the regulatory framework, efficient cost allowances, cost of capital, financial modelling and incentive mechanisms.

### THE RESULT

Our work culminated in a series of final determinations for the five regulated businesses which struck an appropriate balance between customer affordability and financeability of the companies. Building on the extensive stakeholder engagement we had undertaken across the sector, the final determinations were accepted by the licensees and implemented through licence modifications.

# Regulatory and **commercial strategy**

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Influencing and responding to the regulatory regime is a critical element of corporate strategy for companies operating in regulated infrastructure sectors. Proactive engagement with the authorities as they develop their policy objectives is key to protecting shareholder value.

Our team has extensive experience of advising the executive boards of regulated companies and investors on strategic choices in the context of uncertain regulatory and market outlooks. This experience enables FTI Consulting to support clients in determining tactical and strategic responses to regulatory decisions. Typically, our work has assisted clients assess options and scenarios and to influence regulatory authorities in a variety of contexts including:

- Preparation of robust business plans
- Business transformation to align with regulatory arrangements and incentives
- Development of retail business strategy, including how best to, if at all, compete in the market

- Preparation of market studies, for example, in relation to the size of the market, competitive landscape and available profit margins
- Assessment of strength of case, including analysis of whether and how to appeal price controls

Our strategic war gaming proposition has enabled us work with clients to assess the impact of applying different strategies in a competitive market to help determine the best approach to adopt. We have used these tools with clients facing impending change, who want to determine initial strategic responses, to stress-test pre-determined scenarios, and even to assess when a strategy requires fundamental review.



## European Transmission Operator (TSO)

### THE CHALLENGE

Our client, a major investor-operator of high voltage electricity infrastructure, was keen to invest in new lines in order to grow its business. The national energy regulatory body, whose authority was required to approve the regulatory framework, had concerns which were resulting in delays to key approvals for the TSO.

### OUR INPUT

We developed an enhanced negotiating strategy to help our client deliver its time-critical approvals, including providing supporting evidence to justify regulatory and economic positions adopted by the client. We also supported the client in developing fact-based evidence to make the wider case for greater electricity transmission within the country concerned to a broad range of stakeholders including government, industry groups and consumer bodies.

### RESULT

The outputs from our work were presented to the energy regulator allowing key aspects of the regulatory settlement to be resolved. A public position paper was also developed and published, and was well received by a range of senior stakeholders.

## Royal Mail

### THE CHALLENGE

The postal regulator Ofcom had published a consultation on the fundamental review of the regulation of Royal Mail, the incumbent postal operator, following the withdrawal of the only credible competitor in delivery services. At the outset, the client faced a real risk that the regulator would introduce stricter regulations and wider price controls.

### OUR INPUT

We worked with the client to develop the key arguments to include in its response to the regulator's consultation. Together, we

were able to demonstrate that there was no requirement for further regulation. The declining trend in the letter industry, and the competition in retail letters and parcels provided sufficient incentives to constrain price increases and improve efficiency. We then supported Royal Mail on the drafting of the consultation, producing a number of independent reports for submission to the regulator. These incorporated analysis of the market's competitive constraints, a review of the merit of potential regulatory options, a presentation of the key financeability measures to be used by the regulator, and an econometric study to assess the efficiency improvements achieved by the client and the potential for achieving more.

### RESULT

Following Royal Mail's response and the submission of our reports, Ofcom decided not to introduce further regulation and to leave Royal Mail with the same level of commercial freedom. Several of the arguments we made in our reports were accepted by the regulator to justify its decision not to intervene.

# Financial modelling

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Sophisticated and robust financial modelling is at the heart of many regulatory processes; small changes to assumptions can cause sub-optimal outcomes and minor errors in preparation can increase the chance of successful challenge.

FTI Consulting has considerable experience of designing, building, reviewing and auditing financial models in the context of price controls, strategic option analysis and transactions. The analysis required to model infrastructure networks is highly complex and the level of transparency and scrutiny involved imposes additional demands on the modelling process. As such, economic regulation requires an uncompromising approach to model design, build, test and documentation.

FTI Consulting's financial modelling experts are well used to the outputs of their analysis being subject to the highest level of scrutiny, including extensive public consultation and cross-examination. This requires the highest level of modelling best practice, and robust quality assurance and testing practices.

Our financial modelling expertise, based on state-of-the-art model design and build, can be brought to bear in support of a broad range of regulatory and commercial issues, including:

- Price controls, including modelling options for the form, structure, and duration of the price control as well as the level of allowed revenues or charges and the implications of these for financeability
- Assessment of strategic and regulatory options e.g. different types of regulatory frameworks (or the introduction of competition) in different parts of the value chain, the impact on charges of alternative approaches to the allocation of costs or the effect of adopting alternative approaches to the valuation or recovery of fixed assets
- Scenario modelling, including assessment of value at risk from possible future regulatory and commercial scenarios
- Regulatory due diligence and the valuation of regulated businesses for the purposes of transaction, financial reporting or taxation



## Liverpool Clinical Commissioning Group (CCG)

### THE CHALLENGE

Liverpool Clinical Commissioning Group, the body in charge of commissioning most types of healthcare in the city (and, in particular, hospital care) launched the 'Healthy Liverpool' programme in 2014, with the aim of improving health outcomes and ensuring the clinical and financial sustainability of healthcare provision in the city. However, the CCG had no clear understanding of how future changes in activity might affect financial pressures, and no tools to estimate the system-wide impact of a range of scenarios.

### OUR INPUT

We were engaged by Liverpool CCG to provide economic modelling support as part of the Healthy Liverpool programme. In particular, we developed an integrated economic model of the local health economy, to aid decision-making and to act as a central tool for understanding and articulating the key factors affecting both Liverpool CCG expenditure and provider finances over a 10-year forecast period (including, in particular, changes in the pattern of demand). We engaged with programme stakeholders to form a consensus and agree a 'core' demand growth scenario and developed patient segmentation around clinically-

driven 'patient groups' which allowed for in-depth analyses of patient need by geographical area, age, etc. In the latter stages of the project, we worked with clinicians and other stakeholders to estimate the impact of increased community and primary care investment. We also engaged extensively with local providers to understand their activity, cost and revenue structures, allowing the model to reflect, for example, economies of scale arising from service consolidation.

### THE RESULT

After an extensive handover process involving staff workshops, the model is now being used by the CCG as a means of exploring service configuration options and understanding the financial impacts of changes in demand. The model has been used, in particular, to inform nationally-mandated planning inputs.

## Northern Ireland Authority for Utility Regulation

### THE CHALLENGE

Robust financial modelling is an essential part of the price control process and any error risks undermining confidence in the regulatory process. Regulators' models can be subjected to intense scrutiny by regulated businesses and their customers as even small errors in

unit prices can have a significant financial impact on firms. Regulators are therefore increasingly looking for independent assurance that their models are robust.

### OUR INPUT

FTI Consulting was commissioned by the Northern Ireland Authority for Utility Regulation (NIAUR) to audit the financial model for Northern Ireland Water's price control. Our work involved providing advice to NIAUR on a range of financial, tariff and tax modelling issues, as well conducting a detailed model audit to ensure it was fit for purpose.

Our standardised in-house audit methodology applies a combination of a detailed bottom-up formula-by-formula cell-by-cell audit of the model's calculations and a top-down series of sensitivities and stress tests to ensure that the model produced sensible forecasts under a range of different input scenarios.

A model audit log was maintained throughout, recording all the issues identified and raised with NIAUR, their responses, agreed changes and a record that we had confirmed the changes had been made.

### THE RESULT

We concluded that the final version of the model was fit for purpose, and issued a model audit opinion which was published by NIAUR as part of their final determination.



# Challenging regulatory decisions

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Even the most lengthy evidence-based regulatory consultations can lead to determinations that have conceptual or practical flaws. Given the highly material strategic and financial implications of such decisions, and the potential impact on shareholder value, there is considerable precedent for regulatory appeals and disputes. Successful outcomes require high levels of expertise as well as the ability to articulate complex arguments such that robust decisions can be taken by the relevant appellate bodies.

FTI Consulting, in conjunction with its subsidiary Compass Lexecon, is a leading provider of services to law firms and regulated companies in the context of appeals of sector regulators' decisions to appellate bodies, such as the UK Competition and Markets Authority (CMA). The team has also had experience of working on appeals of regulatory decisions in other jurisdictions.

Our work typically involves assisting companies assess the strengths and weaknesses of its position and to shape their arguments to be as influential as possible with the appellate

body, having due regard to whether this is a specialist agency such as the CMA or a court which may have limited experience of regulatory law and financial economics.

When undertaking this work we draw on the experience of our team, which includes staff who previously worked for regulatory and competition authorities. Where appropriate, drawing on our range of expertise across all aspects of price controls, we assist companies buttress their arguments with additional supporting evidence.

# Our regulation industry experts



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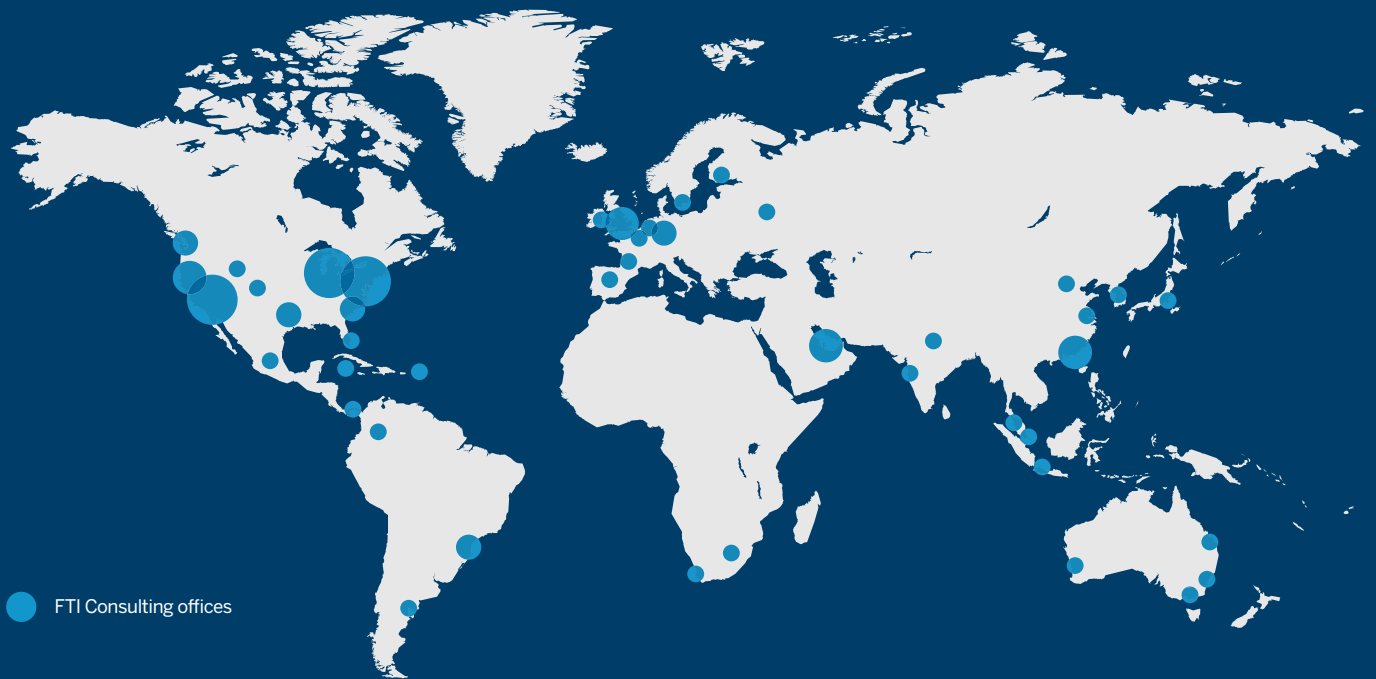
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# About FTI Consulting



Advisor to the  
**world's top 10** bank  
holding companies

Founded in **1982**  
and **\$1.74BLN** equity  
market capitalisation\*

We combine unparalleled  
**expertise** and **industry  
knowledge** to address  
critical challenges  
for clients

With over **4,600**  
employees and offices in  
**30 countries** on six  
continents, our breadth  
and depth extends across  
every major social,  
political and economic  
hub **around the globe**

We are a **global advisory  
firm** that provides multi-  
disciplinary solutions  
to **complex challenges**  
and **opportunities**

**56** of the **Global 100**  
**corporations** are clients

Advisor to **97** of  
the **world's top 100**  
law firms

**Expertise across a range of industries:**  
Real Estate, Energy, Power & Products, Financial  
Institutions & Insurance, Healthcare, Life Science,  
Retail & Consumer and Telecom, Media & Technology

Trusted advisors  
serving clients globally  
with **diverse expertise**  
and **exceptional  
credentials** including  
accountants, economists,  
engineers, former CFOs  
and strategists

\*Total shares outstanding multiplied by the closing share price as of 20 April 2017.



EXPERTS WITH IMPACT™

#### **UNITED KINGDOM**

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#### **About FTI Consulting**

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.

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