



Economic Regulation

EUROPE, MIDDLE EAST & AFRICA



EXPERTS WITH IMPACT™



Electricity



Gas



Telecoms



Payments



Water



Healthcare



Transport

Access Charging and Tariff Design

Benchmarking

Regulatory Finance and Accounting

Cost of Capital

Price Control Design

Market Design

Regulatory and Commercial Strategy

Economic and Financial Modelling

Challenging Regulatory Decisions

Economic Regulation

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 operations and investment incentives, competition and continued investment in assets and service quality.

Our advisors combine exceptional technical expertise and economic rigour with extensive sector-specific knowledge, as they advise clients facing complex and fundamental changes in critical infrastructure sectors.

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 across 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. Within the energy sector in particular we work as a single global energy team, operating out of offices in the UK, France, the US and Australia.

The breadth and depth of our team's experience across a wide range of traditional regulated utilities means that we are also extremely well placed to advise clients in sectors that may be facing forms of economic regulation for the first time, such as the regulation of payment systems, financial services and digital technology platforms.

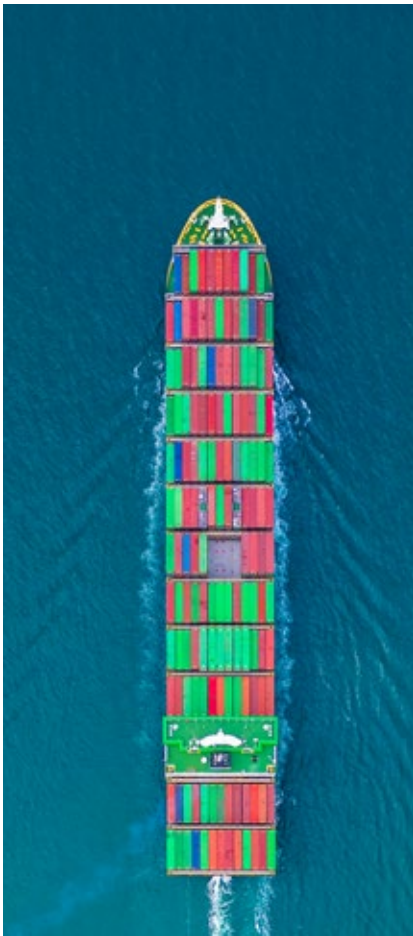
About FTI Consulting

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.

Access Charging & Tariff Design

The charges levied by regulated companies for infrastructure access have important implications at the wholesale level and for the end consumer. However, as the industry evolves and policy objectives change, the approach to determining tariffs often needs to be adapted.



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 still meeting agreed policy objectives and, if not, develop a process for changing the charges, likely in consultation with key stakeholders. 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
- 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 of charges are the subject of a dispute.



CASE STUDY

Civil Aviation Authority (CAA)

THE CHALLENGE

In October 2016, the UK Government selected the Heathrow North-West Runway as the preferred option to expand airport capacity in the South-East of England.

As part of the CAA's continued work into the future economic regulation of airport charges, it wanted to engage in the ongoing debate on the level of 'scarcity rents' at Heathrow, since this potentially has an impact on the future economics of the airport and the next price control.

OUR INPUT

The CAA commissioned FTI Consulting to consider the merits and shortcomings of two reports published by stakeholders on this subject, with the aim of progressing the debate and pointing to future areas of investigation.

We examined the econometric methodology used to quantify scarcity rents, and critically evaluated the underlying economic assumptions behind the conclusions in one report that ticket prices would fall after the expansion. We also considered the argument that competition for capacity implied the non-existence of scarcity rents at Heathrow, concluding it is unlikely that scarcity rents at Heathrow could simply be competed away.

THE RESULT

Our work enabled the CAA to understand the key issues underlying the existence of scarcity rents at Heathrow. Our final report has since been published by the CAA, which has welcomed further engagement from interested stakeholders on these matters. Through our work, we provided a key contribution to the wider policy debate on economic regulation at Heathrow.



CASE STUDY

SSE Tariff Design

THE CHALLENGE

Transmission Network Use of System (TNUoS) charges recover the cost of installing and maintaining the transmission network in England, Wales, Scotland and offshore. A key input into the calculation of these charges is the Expansion Constant (EC), which reflects the annuitised £/MW/km per annum cost of 400kV overhead transmission lines. As of late 2020, the EC was projected to increase significantly from April 2021, which would have presented a significant price shock to transmission network users.

OUR INPUT

Scottish and Southern Energy plc (SSE) engaged FTI Consulting to support the CUSC Modification Proposal (CMP353), aimed at stabilising the EC in the short term while a more detailed review could be carried out. Our support was in the form of a published report, which: (i) examined the existing EC method against common network charging principles; (ii) quantitatively illustrated the impact of the uncertainty faced by transmission network users; and (iii) assessed CMP353 against the CUSC Charging Objectives.

THE RESULT

Our report was part of the evidence base provided to Ofgem, which led to Ofgem approving CMP353, eliminating the risks of a price shock to users of the transmission network and allowing for further industry engagement.



Benchmarking

The assessment of cost efficiency is a critical input to price control determinations and 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 and telecommunications. We have helped clients with internal and external benchmarking assessments and with setting up programmes for the measurement of efficiency in evolving 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 analyses)
- Efficiency estimation with non-parametric techniques
- Assessment of efficiency drivers and best practice



CASE STUDY

UK Water Company

THE CHALLENGE

Ofwat, the water regulator for England and Wales, regularly performs price reviews to determine the price and service packages that water companies must deliver. The process of each price review involves many components, including the review of detailed business plans and the use of econometric modelling to estimate the relative level of efficiency of each operator.

OUR INPUT

FTI Consulting was engaged by a UK water company to assess the economic models published by the regulator, review submissions by other water companies, review the econometric models proposed by our client, and simulate the possible impact of these models on the outcomes of the price review.

RESULT

Our analysis enabled our client to respond robustly to Ofwat and explain the strengths and weaknesses of the econometric cost models published by the regulator.



CASE STUDY

Performance of a UK Electricity Distribution Company

THE CHALLENGE

As part of its ongoing RIIO process, the UK energy regulator gathers actual data from network companies every year to monitor their performance and to benchmark them against the rest of the industry via a range of econometric models. Benchmarking models are shared with the industry to improve transparency and to allow them to assess modelled efficiency.

OUR INPUT

FTI Consulting was engaged by a large Electricity Distribution company to provide support in the form of reviewing an annual iteration of econometric models and to recommend steps for improvement.

Our expert team examined the key manipulation steps which needed to be applied to the raw cost data to support the data inputting / data translation and to accurately update their version of econometric benchmarking models. Once the models were updated, we conducted a critical evaluation of the underlying assumptions and provided an analysis of model outputs to identify the relative performance position of our client against the rest of the industry. In discussion with the client, we also ran a series of sensitivities to simulate the possible impact of these models on the outcomes of the price review.

RESULT

Building on our analysis, we helped to assess the strengths and weaknesses of our client's performance against the rest of the industry and to guide their strategy in relation to the development of their five-year business plan (for RIIO-ED2).

Regulatory Finance & Accounting

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 (e.g. for comparison with 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 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 across a range of regulated sectors in the UK, Europe, the Middle East and Africa. We 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, in both 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.



CASE STUDY

Payment System Operator (Europe)

THE CHALLENGE

As part of the Interchange Fee Regulation (IFR), the European Commission introduced a requirement for four-party card payment operators to introduce functional and accounting separation between their Scheme and Processing operations. When the requirement came into effect in June 2016, certain payment system operators needed to develop accounting separation systems to ensure compliance with the regulation.

OUR INPUT

FTI Consulting worked with a major operator to provide support on the implementation of the accounting separation required by the IFR. Leveraging the experience gained in other industries where similar requirements were introduced, we advised on whether the proposed implementation was consistent with generally accepted principles of cost allocation and international best practice.

THE RESULT

Our guidance helped our client to understand regulators' expectations on the outputs of the accounting separation process and gain comfort that the system they implemented was compliant with the regulation.



CASE STUDY

Transmission Network Service Provider

THE CHALLENGE

A transmission network system provider (TNSP) in Australia was evaluating different options for funding the development of a large inter-regional electricity transmission asset, which was expected to have a significant impact on the connecting regions. The TNSP sought to understand how different options of accounting for its costs in the Regulated Asset Base (RAB) might impact customer bills.

OUR INPUT

FTI Consulting developed a regulatory financial model to consider the different funding options available to the TNSP and the associated impact on customer bills. We evaluated different options for indexation and depreciation of the RAB associated with the transmission investment, and identified the advantages and disadvantages of each.

RESULT

Our analysis helped the TNSP to understand the impact of different funding arrangements and provided the evidence base to support their engagement with relevant authorities.

Cost of Capital

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 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 Capital Asset Pricing Model (CAPM) results against alternative theoretical models including Dividend Growth, Residual Income Models, and multi-factor models such as the Fama-French model



- Arguments for, and quantification of, small company premia
- 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).



CASE STUDY

Regulatory Due Diligence

THE CHALLENGE

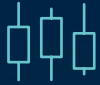
A consortium of investors was looking to acquire a large GB electricity Distribution Network Operator (DNO). As the company operates in a regulated industry, the regulatory overlay is integral in assessing the value of the company and its future performance.

OUR INPUT

FTI Consulting was engaged by a consortium of investors to undertake a regulatory due diligence of the proposed acquisition. As part of this due diligence, we considered changes to the cost of capital and other financial parameters, forecasted incentive revenue, assessed expenditure profiles, and worked to analyse the potential impact of developments in the industry. This involved forecasting regulatory policy in future price control periods and relied on historic assessments of actions taken by the regulator both in the electricity distribution sector and in other sectors such as gas and water. Given the dynamic but uncertain nature of the energy market, caused by factors such as the increasing use of intermittent generation, the transition to Distribution System Operator (DSO) and rapidly approaching Net Zero milestones, we provided our analysis across a range of scenarios, allowing the consortium to objectively assess future performance and potential bid offers.

RESULT

Our team produced multiple reports outlining our analysis. We also provided guidance throughout the non-binding and binding offer phases of the acquisition process. Our assessment was integral in determining the bid submitted by the consortium, which ultimately resulted in the consortium being shortlisted for the binding offer stage.



CASE STUDY

Irish Broadcasting WACC

THE CHALLENGE

In 2019, ComReg, the Irish communications regulator was consulting on its methodology for determining the regulatory cost of capital, a key component of ComReg's price controls. Two of ComReg's regulated firms included RTÉ, Ireland's national public service broadcaster, and its broadcasting infrastructure operating arm, 2RN.

OUR INPUT

2RN and RTÉ (who are part of the same group) engaged FTI Consulting to support on responding to ComReg's consultation. Our regulatory economists provided analysis of ComReg's methodology and helped to determine positions and lines of argument for 2RN and RTÉ to take in their responses to ComReg. In addition, we provided more high-level analysis of the appropriateness of ComReg's RAB-WACC methodology for price controls in the context of wholesale broadcast transmission services, making particular reference to trends in the media and broadcasting landscape, such as the proliferation of non-linear content services and the increased competition of such services with linear broadcast TV. Our team was able to leverage its experience of the Irish telecoms and media markets on this engagement, and was also able to make use of FTI Consulting's wider experience in other regulated sectors and across other international jurisdictions such as the UK and Europe.

RESULT

The CER adopted an allowed return from within the range recommended by FTI Consulting. FTI Consulting provided written expert analysis which formed the core of 2RN and RTÉ's submissions to ComReg. ComReg's recent decision document on the regulatory cost of capital made explicit reference to the arguments and analysis we provided, which resulted in a change to ComReg's approach, specifically regarding asset betas.



Price Control Design

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 jurisdiction.

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.



CASE STUDY

National Grid Gas System Operator Incentives

THE CHALLENGE

National Grid Gas Transmission (NGGT) owns and operates the National Transmission System (NTS), which is the high-pressure pipeline network across GB which transports gas throughout the country. Congestion in parts of the NTS can potentially prevent users of the network from injecting and receiving gas where and when it is required. To encourage NGGT to resolve this congestion efficiently, Ofgem developed the Constraint Cost Management (CCM) incentive scheme as part of the RIIO-T1 price control. Ofgem's proposed CCM incentive in its RIIO-T2 draft determinations was significantly different to NGGT's proposed RIIO-2 business plan, which in NGGT's view would have been detrimental to network users and consumers in the round.

OUR INPUT

FTI Consulting was commissioned by NGGT to independently review Ofgem's proposals for the CCM incentive scheme and comment on: (i) the role of the CCM incentive in the context of RIIO-T2 and the potential consequences of Ofgem's proposals; (ii) the outlook for constraint cost management during the RIIO-T2 period, given GB gas market dynamics and other factors; and (iii) specific critiques of NGGT's input assumptions for the CCM incentive scheme, including those relating to network capability which informs the CCM cost target. Our work involved consideration of the principles behind incentive schemes, as well as analysis of NGGT's modelling approaches and the rationale for Ofgem's views. One of the main considerations was the appropriateness of the 'cost target' and 'cap and collar' for the incentive and our report argued that these may need to be recalibrated.

THE RESULT

Our report was published by NGGT and formed part of the evidence base provided by NGGT to Ofgem in its response to Ofgem's RIIO-T2 draft determinations. Ofgem's final determinations included a significantly recalibrated cost target and cap and collar, which was more aligned with NGGT's original proposal than had been the case in its draft determinations.



CASE STUDY

Singapore Price Control Review

THE CHALLENGE

Every five years, the Energy Market Authority (EMA) - the energy regulator in Singapore - sets price controls for the companies that operate gas and electricity networks in Singapore. In determining the allowed revenue, the regulator needs to ensure that investments by the network companies are delivered at a fair price for consumers, while enabling those companies to play a full role in delivering reliable and secure energy networks, promoting competition and developing a dynamic sector.

OUR INPUT

FTI Consulting was engaged to review and analyse the companies' revenue proposals and advise the EMA on how to set future revenue requirements. Our support to the EMA included: (i) reviewing underlying cost drivers in order to assess the efficiency of the opex; (ii) developing a methodology to review the cost proposal using a top-down approach; (iii) a bottom-up review of capex and opex expenditure proposed by electricity and gas network companies; and (iv) combining the output of two methodologies to determine the efficient frontier.

RESULT

FTI Consulting produced multiple reports with updated revenue forecasts for both gas and electricity companies. In addition, we also recommended updates and data remedies to aid the evolution and future development of the regulatory framework in Singapore.

Market Design

The interactions among market participants in any industry are in large part driven by rational responses to the market ‘architecture’, *i.e.* the framework and rules designed by regulators and policy makers. As a key determinant of the efficiency (or otherwise) of market outcomes, an appropriate market design is critical to the benefit of consumers and to prevent unintended consequences or poor incentive structures from emerging.

FTI Consulting advises regulatory authorities and market participants on issues related to market design, ranging from analysing the challenges posed by the existing framework, assessing options for amending specific market design elements, to the bottom-up development of new market design structures for the application within a specific jurisdictional context.

Our team includes renowned world experts on the design of wholesale electricity markets and has extensive experience across multiple jurisdictions, including the US, Europe, GB, Australia and the Middle East.



Our experts support through:

- Review of existing market designs and assessment of their incentive compatibility and efficiency implications for market participants
- Identification and analysis of new and emerging issues that create frictions within the existing market rules as a result of changes in technology, regulation, policy and customer demands
- Application of broad-ranging international experience of a variety of electricity market designs and rules applied in different jurisdictions
- Development of approaches to introduce competitive processes into new parts of existing industries’ supply chain
- Design and application of new market architecture options, and assessment of their pros and cons for application within the local context
- Advice to market participants on the impact of alternative market design options on their business and potential impact on commercial strategy



CASE STUDY

Australian Energy Security Board

THE CHALLENGE

As part of the Post 2025 Market Design initiative, the Energy Security Board (ESB) in Australia has been requested to develop advice on the long-term, coherent, fit-for-purpose market framework to support reliability and security of the National Electricity Market (NEM) and to meet the challenges arising from rapid decarbonisation of the electricity system. Among several market design initiatives, ESB sought to review the options for Resource Adequacy Mechanisms as well as for procuring and dispatching Essential System Services (ESS or ancillary services).

OUR INPUT

FTI Consulting was engaged to advise on both topics. On the Resource Adequacy Mechanisms, we examined options ranging from relatively minor adjustments to the current regime, through to introducing scarcity pricing arrangements and the implementation of capacity markets.

On the ESS, we examined how the ESS may need to evolve in the context of rapid renewable deployment and parallel retirement of conventional synchronous generators that have typically supplied ESS as a by-product of electricity generation. Our analysis focused particularly on system strength, inertia, operating reserves and frequency response.

RESULT

Our report was published by the ESB in support of the Post 2025 Market Design Consultation Paper, and thus contributed to the high-profile discussion of the long-term market design for the Australian NEM.



CASE STUDY

Ofgem Review of Independent System Operators

THE CHALLENGE

In common with many energy markets in the world, the GB energy market is undergoing a period of transition, driven by concerns over climate change, in which the share of generation from renewable intermittent sources is increasing rapidly. Alongside this, technological changes are enabling increasing flexibility and controllability of energy demand and better storage. At the same time, the UK Government has committed to achieving Net Zero carbon emissions by 2050.

In response, Ofgem, the energy markets regulator in GB, is considering whether reforms to the System Operator (SO) arrangements in the gas and electricity sectors can help support the transition to Net Zero.

OUR INPUT

FTI Consulting was engaged by Ofgem to help it consider its options for reforms. We provided advice to Ofgem to assess the high-level costs and benefits associated with various models of SO arrangements. As part of our work, we considered a range of potential models of SO arrangements, including independent SOs in both the electricity and gas sectors with different sets of responsibilities and functions, as well as the possibility of a combined electricity and gas SO. Our work involved considering how current SO functions could be carried out by existing or new entities in the industry, as well as considering new roles that an SO entity might perform in an evolving energy market environment. We provided both quantitative and qualitative analyses of the potential benefits that different models of SO arrangements could bring in order to support Ofgem in its policymaking.

RESULT

FTI Consulting produced an independent report setting out our analysis, which was published alongside Ofgem's report in early 2021.

Regulatory & Commercial Strategy

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. Deep understanding of regulatory drivers is also critical in understanding sale/purchase value in transactions involving regulated assets.

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 helped clients assess options and scenarios and to influence and engage regulatory authorities in a variety of contexts including:

- Working with regulators to develop alternative frameworks which meet regulatory objectives with limited disruption of the regulated entities' business operation
- 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 a given market or jurisdiction
- Preparation of market studies, for example, in relation to the size of the market, pros and cons of strategic market entry, competitive landscape and available profit margins
- Assessment of strength of case, including analysis of whether and how to appeal price controls
- Regulatory and commercial due diligence on sell side, or buy side, regarding M&A of regulated assets and businesses



CASE STUDY

Large Payments Company

THE CHALLENGE

The Payment Systems Regulator (PSR) launched a review into the supply of card-acquiring services in 2018. Broadly speaking, this review focused on the nature of and quality of competition in the card payment services that merchants use when customers pay for products (either online or in shops). Such services rely on large technology-driven networks, and with significant differences in scale and customer propositions between market participants.

OUR INPUT

FTI Consulting has been engaged by a large participant in the card payment market since 2018, advising on a large range of strategic, competition and regulatory issues pertaining to the PSR's review and ultimately guiding the client's engagement with the PSR. This has involved a range of activities, such as: (i) advising on potential 'theories of harm', drawing on recent precedent and detailed knowledge of sector dynamics; (ii) developing internal workshops relating to matters such as pricing remedies and structural market interventions; (iii) engaging in detailed accounting analysis to understand and articulate changes in product pricing over time; and (iv) assisting in regulatory engagements and consultation responses.

THE RESULT

Our work has allowed our client to play a significant role in the regulatory engagement, by producing high-quality and well-evidenced outputs.



CASE STUDY

LNG Terminal Strategy

THE CHALLENGE

An LNG terminal operator was confronted with the need to rethink its commercial and regulatory strategy after 15+ years operating exclusively under long-term contracts. The expiry of some long-term client commitments led the terminal to sell capacity on a short-term basis, ask for some regulatory burden to be lightened and to consider a new phase of long-term contracting.

OUR INPUT

For the long-term sales, we built a benchmark of competitor terminals to assess the attainable price, and a financial model that would consider different capacity settings, as well as terminal expansion, to assess the achievable rate of return. In support of discussions with the national energy regulator, we provided: (i) a recommended design for the long-term Open Season process; and (ii) a detailed international analysis on the appropriate level of return that should be considered for the terminal in this new phase. Finally, to support long-term discussions with potential clients, we provided an independent view on the outlook for the national gas market over the next 20 years.

For the short-term sales, we: (i) conducted a review of competition and spot cargoes market dynamics; and (ii) developed a quantitative model to value the products offered by the terminal to short-term shippers.

RESULT

The terminal operator was able to secure a more favourable regulatory setting, and launch an Open Season process for long-term capacity. Additionally, the terminal operator was able to optimise its short-term sales through better client targeting and value estimation.

Economic & Financial Modelling

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 in 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 finance ability
- 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



CASE STUDY

Carbon Reduction Benefits of Electricity Transmission

THE CHALLENGE

A number of European countries have pledged to accelerate the decarbonisation agenda and to achieve Net Zero carbon emissions by 2050. The power sector is due to play a key role in this initiative, which will require a change in the generation mix (replacing carbon-intensive generators with renewables), as well as closer market integration across Europe.

OUR INPUT

FTI Consulting was engaged by the developer of an electricity interconnector between Great Britain and Germany (NeuConnect) to evaluate how a more integrated transmission network could contribute to Net Zero objectives. We used our fundamentals electricity market model to develop a long-term scenario for achieving Net Zero by 2050, and thus to characterise the long-term generation and emissions profiles across Europe. This analysis, in turn, enabled us to estimate how much carbon emissions would be reduced as a result of constructing NeuConnect.

THE RESULT

Our analysis, published by NeuConnect, provided the developer a quantitative evaluation of the environmental benefits that NeuConnect is expected to bring, and enabled them to engage with a wide range of stakeholders on the contribution that the investment in NeuConnect could make to a reduction in carbon emissions in Europe.



CASE STUDY

Development of Fibre to the Premises (FTTP) Broadband Network

THE CHALLENGE

A digital network business in the UK was planning its large-scale deployment of full-fibre (Fibre to the Premises, FTTP) broadband network infrastructure. As part of this initiative, the company required support to develop its business case and strategy for FTTP and to refine its deployment plan in advance of deployment.

OUR INPUT

FTI Consulting provided extensive advice on the client's strategy for FTTP network deployment, developing detailed modelling tools that the client could continue to use for assessing their business case. Our work and the modelling tools we developed covered all aspects of the project, including capex, opex, pricing, customer demand, regulation and the effect of competition with rivals. Throughout the project, we engaged closely with the client's staff on the impacts of a comprehensive set of factors on the fibre business case, including deployment cost, rollout speed and profile, competition from other fibre networks, wholesale pricing and passive network sharing.

THE RESULT

The modelling tools we developed were used extensively by the client's strategy team to plan its large scale FTTP deployment, which is still ongoing. The client has continued to expand its plans for deploying FTTP networks in the UK, alongside the UK government's wider efforts to encourage rollout of full fibre networks.

Challenging Regulatory Decisions

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 helping companies assess the strengths and weaknesses of their positions and shaping arguments to be as influential as possible with the appellate body, having due regard to whether this is a specialist body 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 regulation, we assist companies buttress their arguments with additional supporting evidence.

Our Regulated Industries Experts

Building on our renowned expert witness and competition knowledge, our specialists advise companies and regulators across a wide range of industries.

Our advisors combine exceptional technical expertise and economic rigour with extensive sector-specific knowledge, as they advise clients facing complex and fundamental changes in critical infrastructure sectors.



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— About FTI Consulting

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

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FTI Consulting is an independent global business advisory firm dedicated to helping organizations 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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