UK infrastructure in 2014
The future of investment and progress under the National Infrastructure Plan
As set out in NIP 2013, the UK has been at the forefront of developing a model of infrastructure investment whereby responsibility for funding, financing and delivery is split between the public and private sectors.

National Infrastructure Plan: finance update, 19 March 2014

Since publication of the fourth version of the National Infrastructure Plan (NIP) in December 2013, the development of infrastructure across the UK continues to be a much discussed topic.

Providing insight into the government’s most urgent infrastructure investment, the announcement of the budget in March 2014 highlighted support for building more than 200,000 new homes, a GBP 270 million guarantee for the Mersey Gateway bridge, an additional GBP 140 million for flood defence repairs/maintenance and a pledge towards funding improvements in Welsh road infrastructure.

The Queen’s Speech last week also highlighted a new Infrastructure Bill to further reform change of use rules to make it easier for empty and redundant buildings to be converted into productive use, and support for exploration of shale gas reserves under private land without consent. Indeed, it has been estimated that the GBP 36 billion of planned investment into UK infrastructure over 2014/15 could lead to more than 150,000 construction jobs and add up to 5% to GDP. The impact of the Autumn Statement and upcoming General Election will be closely watched by the industry.

With this continued focus and topical political and market developments (such as rising costs and skills shortages) on the horizon, it is an interesting time for infrastructure stakeholders both nationally and internationally. As the NIP and UK infrastructure market further evolve, Clyde & Co will continue to be active across sector developments with legal and market insights as they arise.

Introduction

In this paper, we explore:
- The challenge of energy infrastructure: energy security, decarbonisation, and affordability
- Rhetoric, relaxing restrictions and the future for fracking
- The “A2015” Highways Agency roadmap
- The Queen’s Speech
- Network Rail to join the public sector
- Institutional investment: a sector by sector review

We hope that you find these insights informative. If you have any questions regarding the UK infrastructure market, please don’t hesitate to contact us.

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Central to the National Infrastructure Plan (NIP) is the infrastructure pipeline which includes the government’s ‘Top 40’ priority investments which are considered crucial to meeting the UK’s needs in each infrastructure sub-sector. Valued at over GBP 375 billion, the ‘Top 40’ includes large infrastructure projects with a capital value of GBP 50 million such as the Northern Line extension to Battersea, the nuclear generation project at Hinkley Point C, and Crossrail. Additionally, capital programmes worth the same amount but comprising of many smaller projects grouped together are also included. Examples of these projects include road works/upgrades and flood prevention schemes.

There are seven categories of infrastructure asset covered within the plan: transport, energy, communications, water, flood, waste and intellectual capital. Based upon the below however (which details the ‘Top 40’ priority investments), the transport and energy sectors are the big winners in terms of capital value investment and prioritisation.

For industry participants, this prioritisation is a welcome step however critics are quick to highlight that for contractors and investors particularly, the greatest opportunities may not lay within the ‘Top 40’, as 27 of these projects are already under construction and many others are already procuring project partners. Thames Tideway is an example whereby eight ventures were shortlisted in late 2013 with construction expected to commence in 2016.

While future projects and elements such as the 2015 UK General Election will undoubtly influence project planning, it is clear that funders and contractors must be on the front foot to take advantage of opportunities. Moreover, securing long term, guaranteed funding in order to maintain an active pipeline will be crucial.

The UK energy system faces a number of challenges as existing infrastructure closes, domestic fossil fuel reserves decline, and the system increasingly requires adaptation in order to meet low carbon objectives.

Changes are required to ensure that the UK has a secure energy supply in years to come and, already, the threat to supply security has been brought to the top of the agenda this year due to the political troubles in the Ukraine.

**Background**

The UK government has recognised that changes are critical to maintain security of supply and deliver the energy people need, where they need it. In its own words “Large-scale investment is required in order to achieve security of supply as the UK makes the transition to a lower – carbon economy”.

This is reflected in the fact that GBP 147 billion of the total GBP 375 billion required investment in the National Infrastructure Plan (NIP) is earmarked for electricity generation. In fact there is a view that this may not be enough. A joint report by the London School of Economics (LSE) and npower suggests that the energy sector needs record levels of investment of up to GBP 330 billion by 2030 if security of supply is to be achieved while carbon emissions are reduced. This in turn would enable the UK to achieve the EU’s long term 2030 emissions reduction target.

**Where is the energy investment required?**

HM Treasury’s “National Infrastructure Plan: finance update March 2014” (Treasury Update) accepts that the historical model of large utilities financing electricity generation on balance sheet is unlikely to deliver the scale of investment required. This is particularly the case when the traditional utilities are seeking to reinforce their balance sheets through asset sales and cuts in capital expenditure. As a result, the way forward must include project specific investment in the electricity sector with finance through separate vehicles where the return is directly related to the performance of specific electricity assets.

The Treasury Update gives a useful summary of where investment is required and the total value of projects (by technology type) which are in the pipeline for the period up to 2020 (excluding those in construction or already part of an active programme).

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Will investment be made?

The reality is that the government’s energy and climate change policy has three competing objectives: energy security, decarbonisation, and affordability. These are enshrined in the Energy Act 2013 (Energy Act) which contains the legal framework for the government’s EMR policy for long term support for low carbon electricity generation.

The conflict is reflected in the factors the government must take into account under the Energy Act when setting its decarbonisation target range. While the impact of climate change is relevant it must also consider the need for economic growth and the cost to consumers. There is no easy way to reconcile the fact that it costs more at the moment to provide power from low carbon technology than from traditional fossil fuel sources. Although the construction of combined cycle gas turbines (CCGT) could result in short term price gains by switching from coal to competitively priced gas (while initially achieving moderate reductions in greenhouse gas emissions), this delays achieving moderate reductions in the long term investment required in low carbon plant if required emissions reductions are to be achieved. It is interesting in this context to see that the government regards investment in CCGT as part of the energy mix. The Department of Energy & Climate Change’s (DECC) EMR policy is to create a capacity market with 15 year capacity agreements available which should provide sufficient certainty to unlock investment in new gas plant. The government’s recognition of the continued importance of fossil fuels as an energy mix and a “dash for gas” will slow down long term support for low carbon electricity generation.

Given that the CMA’s main focus will be to assess whether the “big 6” suppliers should be broken up, there are significant concerns that this will put a halt to the investment needed in UK power generation. Will investment be made?

Despite this, there are a number of hopeful signs that investment to create green growth has started. A recent EY Renewable Energy Country Attractiveness Index indicates that the UK is now the fifth most attractive place in the world for renewables, the second for biomass and the first for offshore wind. Further, according to Bloomberg, Britain saw record levels of investment in renewable energy in 2012 to 2013 which rose 59% to GBP 7.3 billion; placing the UK third in the world behind China and the US.

Finally, in late April, the DECC announced the first tranche of support under the new legislative framework for eight major new renewable projects ranging from off-shore wind to the conversion of a unit at Drax to biomass which will attract around GBP 12 billion in private investment. This will be followed by auctions for ‘contracts for difference’ to assist the low carbon transition. The UK is also now benefiting from some foreign direct investment in its renewable supply chain with ABP and Siemens making a GBP 310 million investment in Hull in two new factories to make turbine blades and assemble off-shore wind turbines.

The future of UK energy depends on continued investment. This in turn depends on ensuring the investment environment is favourable and one of the key conditions that must be satisfied to enable development is regulatory certainty. With more clarity emerging on the detail of EMR and the announcement of the first awards for support, there may now be a base on which investors can rely to unlock their funds.
In early 2014, David Cameron boldly announced that the government supported the exploitation of onshore oil and gas through hydraulic fracturing (fracking) and that the UK should fully embrace exploration, stating: “I want us to get on board this change that is doing so much good and bringing so much benefit to North America.” Since then, the government has announced further tentative steps towards its ambition to realise shale gas exploration such that it is now one of the governments’ Top 40 priority UK infrastructure projects under the most recent iteration of the National Infrastructure Plan (NIP).

Latest studies have indicated that supplies of natural gas which are economically recoverable from shale in the United States can accommodate the country’s domestic demand for natural gas (at current levels of consumption) for more than a hundred years. This is an economic and strategic boon home and abroad, and at least in the near term, a potentially important stepping-stone toward lower-carbon, greener energy. However, as things stand in the UK currently, unconventional oil and gas exploration is hampered by a powerful anti-fracking movement and a cumbersome planning and environmental permit process.

The government is seeking to address both of these hurdles by a combination of rhetoric and (at least the beginnings of) relaxation of restrictions. It has also introduced the most competitive tax regime in Europe for shale gas and in the Queen’s Speech, the government announced plans to allow developers to drill under homes without the owner’s permission. Nevertheless, it remains the case that any developer wishing to exploit (what is estimated to be) 1,300 trillion cubic feet of shale gas lying underneath British soil still has a challenge ahead. On 8 May 2014, the House Of Lords Economic Affairs Committee released a report stating that development of shale gas resources should be an “urgent national priority”, blaming the “dauntingly complex” regulatory framework for the snail’s pace of exploration.

What fracking will mean if given the green light

Work is carried out in three distinct phases: exploration, appraisal and production. The exploration phase can last anything from two to six months and involves drilling wells to identify whether oil or gas can be produced profitably. All UK shale gas development is currently in this phase.

The appraisal phase is next, and typically lasts from six months to two years. It requires testing of the deposits to establish the strength of the resource and its potential productive life. Finally, the production stage can begin, when developers can begin profiting from their efforts. This phase is expected to last a minimum of 20 years. However, preparing the apparatus and finding a suitable drilling site is only half the battle. Before the government will grant the developer a drill consent, numerous other consents and permissions must first be obtained.

1 BBC, “Cameron urges fracking opponents to ‘get on board’,” 13 January 2014.
For local communities.

likely to be accompanied by a right to compensation

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known as “ransom strips” in a fracking area, giving them

fracking for shale gas is performed in both

vertical and horizontal wells, and horizontal wells can be

over a mile long. Therefore, a single fracking operation may

require rights to drill under multiple landholdings. As the

law currently stands, drilling without landowner consent

will amount to trespass and opens extraction companies to

the risk of landowners obtaining injunctions to halt the

drilling process. Unlike in the United States, landowners

have little incentive to cooperate with developers as

underground oil and gas belongs to the Crown.

Reports in the press have suggested that opponents of

fracking could obstruct drilling by buying up strips of land,

known as “ransom strips” in a fracking area, giving them

the right to mount legal challenges to drilling. Licensed

developers have the right to seek compulsory purchase of

land required for drilling; however, to date no such

order has ever been implemented. Such proceedings are

likely to be drawn out: the developer must show that the

need to acquire the right is in the national interest, and

that the landowner has been unreasonable in refusing to

grant the right by private arrangement. It is unlikely that

landowners who have refused access to developers will go

down without a fight.

The government is seeking to clarify the position for

developers post Queen’s speech following a public

consultation. Ministers want to establish that energy

companies have the right to run shale gas pipelines

under private land, without breaking trespass laws. This is

likely to be accompanied by a right to compensation for

local communities.

Petroleum exploration development licences

Secondly, the developer will require a petroleum

exploration development licence (PEDL). There are

currently 126 PEDLs for onshore oil and gas in the UK and

the Department of Energy and Climate Change is planning to

conduct a new round of licensing in 2014. These licences

confer on the developer an exclusive right to search, bore

for and extract hydrocarbons in the licence area. However,

this licence alone is not enough to start drilling.

Planning permission and Environmental Impact Assessment

Planning permission is also required from the Minerals

Planning Authority (which is usually the County Council).

When applying for planning permission, the developer

must complete an ownership certificate which provides

details about the ownership of the application site and

confirms that appropriate notices have been served on

landowners. The government has recently signalled its

intention to simplify this process by allowing developers

to apply for planning permission without notifying the

owners of land where only underground operations

will take place. This should be welcome news to developers and

shows recognition by government of the impracticalities of

identifying interests in land over large areas in the early

stages of seeking the various consents needed. As yet,

planning permission has only been granted for exploratory

wells at a small number of sites, with no site being close to

opening.

The Minerals Planning Authority must also decide whether an

Environmental Impact Assessment (EIA) is required, on a case-by-case basis. It is unlikely that an EIA will be

required for exploratory drilling operations which do not

involve hydraulic fracturing.

Environmental and health & safety go ahead

Fourthly, permits from the Environment Agency will be

issued to ensure fracking is not harmful to the

surrounding environment. This will be a step heavily

scrutinised by environmental campaigners, who advocate

that the techniques used in fracking could cause small

earth tremors, water contamination and environmental

damage. However, the government claims that if there is

any risk to the environment, the authority will find this

risk unacceptable and not permit activity.

No developer has managed to reach this stage in the

process as of yet: the House of Lords Economic Affairs

Committee’s report pointed out that the Environment

Agency has not received or approved any applications for

the necessary permits since the moratorium on hydraulic

fracturing was lifted in 2012.

Finally, the Health and Safety Executive must be notified

of the well design and operation plan. If satisfied, a well

consent will be granted.

Only when all of these consents have been obtained will

the government grant a drill consent to the developer.

The future for UK fracking – the good and the bad

It’s not all negative news for UK onshore energy operators.

As above, in the government’s bid to go “all out for shale,”

the most competitive tax regime in Europe for shale gas has been

introduced; saving companies an extra 24p in tax for every GBP 1 they spend on the project. The new

tax breaks are structured so that when a developer starts

making taxable profits from selling gas, it will be taxed at

30 per cent rather than the usual 62 per cent. In fact, new

developers will now have an effective tax rate lower than

the US.

The government is also allowing councils to keep all

of the business rates raised from fracking sites, a deal

which is expected to generate millions of pounds for local

authorities. It is claimed this could amount to GBP 1.7

million a year for a typical site, funded directly from

central government. This has been vilified by critics, with Greenpeace accusing ministers of trying to

“bribe councils.”

Whatever your stance, fracking continues to be a topic

for debate, sparking lobbying and protests from

campaigners. However, the government has firmly marked

its position; the production of onshore oil and gas is “full

steam ahead”. There is no doubt that post Queen’s Speech

and in the lead up to the Autumn Statement (December

2014), fracking will be a key industry topic. Based upon

the government’s statements so far this year however,

industry leaders will certainly be monitoring these

announcements to see if they signal the end to rhetoric

and political positioning and instead, the start of developer

application approvals and progress.

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The “A-2015” Highways Agency roadmap

With the Highways Agency transforming into a government owned yet “independent” company, the road ahead looks clearer.

The destination

In line with the Government’s “Action for Roads” Command Paper issued last July, and its subsequent consultation process (which concluded in April), the draft Infrastructure Bill proposes to transform the Highways Agency by April 2015 from an entity run directly by the Department for Transport into a government owned – but “independent” – company. As a consequence, it will have much greater freedom to make decisions affecting the strategic road network, without the need for ministerial scrutiny in every case.

The Bill provides for a “Road Investment Strategy” to be produced to determine the levels of performance and investment that are to be delivered (probably over a five year period, similar to the model already in use on the railways), and a committed revenue stream will provide enhanced certainty for contractors (replacing the previous “brake/accelerate” approach to funding).

The government has estimated that these changes to the Agency could save the taxpayer GBP 2.6 billion over ten years.

The vehicle

These structural reforms should constitute at least a first step on the journey to a more dynamic road network for the 21st century – but how will the new company operate in practice?

The Bill itself sets out the overall strategic parameters of the relationship between the government and the company, in a way that seeks to protect the public interest, without the need for daily intervention in its activities. The detail of the governance regime, however, will be set out in three additional key documents:

- A formal Licence will be issued by the Secretary of State, setting out key conditions for the company’s operation of the network. A Framework Agreement will be entered into between the Government and the company, setting out the procedural interface between the two, defining roles and responsibilities, and laying down polices as to financial independence, reporting, monitoring, audits etc.
- Finally, Articles of Association will set out the company’s constitution and internal rules and procedures, in line with normal principles of corporate law.

The (backseat) drivers

As sole shareholder, the Secretary of State will appoint the Chair of the company who, in turn, will nominate the CEO, and the majority of the board – subject to approval by the Secretary of State. The latter will also have the right directly to appoint a non-executive director to provide support and advice to the Chair.

In addition to its other normal rights as sole shareholder (such as calling an EGM or dismissing board members), the Secretary of State is also likely to retain a number of sanctions to deal with poor performance by the company. These may include financial penalties (for example, the Bill provides for fines in the event of a failure by the company to comply with the Road Investment Strategy, or with directions or guidance issued by the Secretary of State). They may also include the withholding of incentives for management, and/or the loss of operational independence, whilst remedial measures are implemented.

It shouldn’t be thought however that oversight will only be exercised by the Secretary of State. The company’s CEO will be formally answerable to parliament for the expenditure of taxpayers’ money, whilst the Bill provides for two external bodies to hold the company to account – one within Passenger Focus to represent the interests of road users, and the other within the Office of Rail Regulation to oversee cost and efficiency.

In addition, the company will, of course, ultimately face action in the courts, if it fails to comply with its legal duty as a highway authority to maintain its road network in a safe and serviceable condition.

The roadmap

Whilst there will almost certainly be delays, with the odd pothole and traffic jam looming (the run-up to a General Election, for example…), we now know a lot more about the route ahead. Directions will become clearer still, when promised first drafts of the Licence, Framework Agreement and Articles are published over the course of the summer. We will continue to provide journey updates in later editions of this briefing on these drafts and progress.

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The Queen’s Speech

On 4 June 2014, the Queen’s Speech announced a number of changes across investment and infrastructure in addition to the previously discussed Highways Agency changes. Below our Clyde & Co infrastructure partners provide their comments on the announcements:

Fracking
The proposal to give energy companies the right to exploit shale gas reserves under private land without landowner consent is an important step in addressing existing practical difficulties, albeit I suspect that there is still some way to go before fracking becomes a serious proposition in the UK. Potential investors will still need to be persuaded that the intricate procedural hurdles and local politics can be overcome.

Pension reforms
The pension reforms are further evidence of the government’s commitment to encouraging pension saving. This is likely to provide a welcome boost to saving, supplying much needed capital for investment in infrastructure projects.

Housing
A significant reason for the current housing bubble, particularly in London, is the shortage of supply of suitable housing. While the pending secondary legislation to allow the development of a Garden City around Ebbsfleet, which has excellent transport links to central London, is to be welcomed – as is further reform to ‘change of use’ rules – it’s doubtful whether this alone will be sufficient to achieve the additional numbers of new homes required in the short term.

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Infrastructure in numbers

£36bn
Planned investment into infrastructure for 2014-2015

200
Major projects due to get underway over the next two years

10.1%
Forecast growth in the infrastructure sector for 2014

6.3%
The construction industry’s contribution as a percentage of total UK GDP

19%
Forecast growth in total housing completions for 2014
From September 2014, Network Rail will become a government controlled body. Is this merely a case of “statistical change”, or something more significant?

**Changed basis of analysis**

Network Rail Ltd was incorporated in 2002 as a company limited by guarantee and is often referred to as a not-for-profit institution. It was set up to replace Railtrack plc which was put into Railway Administration on 7 October 2001 following a number of railway accidents, including the Hatfield crash in 2000.

The UK’s Office for National Statistics (ONS) had previously decided, based on its interpretation of the European accounting rules which applied at the time, that Network Rail is a private corporation. New rules come into force on 1 September 2014 and the ONS has now decided that Network Rail will, from this date, be within the public sector.

In reviewing the position of Network Rail the ONS reviewed the degree of the government’s risk exposure and concluded that this is highly relevant for three reasons. First, Network Rail’s debt is guaranteed explicitly by the Department for Transport (DfT). Second, under the Railways Act 1993, the government has a statutory obligation to protect the interests of rail users so if Network Rail will, from this date, be within the public sector.

In reviewing the position of Network Rail the ONS reviewed the degree of the government’s risk exposure and concluded that this is highly relevant for three reasons. First, Network Rail’s debt is guaranteed explicitly by the Department for Transport (DfT). Second, under the Railways Act 1993, the government has a statutory obligation to protect the interests of rail users so if Network Rail will, from this date, be within the public sector.

Network Rail will have changed its basis of analysis. This reclassification of Network Rail as a central government body is a statistical decision that does not alter the company’s structure as a not-for-dividend company, limited by guarantee, with members rather than shareholders. The business acts and operates today as it did yesterday, and our job of delivering a safe, reliable and improving railway for four million daily users continues12.

**Reaction of DfT**

Publicly, DfT have supported this view. In his statement on the topic, Patrick McLoughlin, the Secretary of State for Transport, said: “I am committed to ensuring that Network Rail maintains the operational flexibility to continue to deliver a safe, punctual rail network and increased capacity for our busy railways and that it is able to attract a high calibre of staff, while still providing value for money and being accountable to Parliament.”

Notwithstanding these words, it appears that DfT has established a number of people which is referred to as the Network Rail Sponsorship Group. Little is known about this group but an implication may be that DfT is assessing what the change means and how to respond. A flexing of departmental muscle could be on the horizon.

**Memorandum of understanding**

DfT and Network Rail have entered into a Memorandum of Understanding which sets out the implications of the “statistical reclassification for the relationship between Network Rail and Her Majesty’s Government”. It also explains where further work will be needed to determine the way this relationship will function and the conclusion of this will be set out in a Framework Agreement between the Department for Transport and Network Rail. One could draw the conclusion from this that DfT do not yet fully understand the implications of the change which could take some time to understand.

There is a clear desire to continue some business as usual. The Memorandum states that the change in approach will not affect “the Government’s commitment to the railways or its plans for investment, including both its existing rail investment strategy for 2014-19 and HS2”. The rail franchising programme should be unaffected too.

More cryptically, the Memorandum states that the “Framework Agreement will aim to preserve Network Rail’s ability to continue managing its business with appropriate commercial freedom, within a proper regulatory and control framework to maintain effective accountability.”

The Memorandum goes on to state that the “Government’s general approach to this reclassification is therefore only to make changes where they are: required to satisfy Government and Parliamentary budgeting and accountability requirements; or justified to deliver value for money”. Delivering value for money is a theme which runs through the Memorandum and it will be interesting to see what this means in practice but it is clear that DfT will want more rather than less oversight.

Network Rail’s senior management will also be interested to see what the change means for them as the Memorandum for executive director pay and incentives is to be reviewed “in light of Government’s new accountability to Parliament for Network Rail”. Capping pay at the level of the Prime Minister’s would be an unpopular prospect for some at King’s Place.

**The role of the Office of Rail Regulation (ORR)**

The Memorandum states that the ORR will continue to act as the independent economic, competition and safety regulator for Network Rail’s activities. If DfT is to exert greater control over Network Rail some may query whether the ORR needs to retain all of these functions.

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12 Network Rail. “The Office for National Statistics announces a change to its classification of Network Rail”, 17 December 2013
13 Department for Transport (The Rt Hon Patrick McLoughlin MP). “ONS decision on the classification of Network Rail”, 17 December 2013
Institutional investment: a sector by sector review

Institutional investment is increasingly seen as a new method of funding infrastructure projects. Below, we consider a few sectors available for investment by institutional investors and assess the extent to which the National Infrastructure Plan (NIP) offers the right opportunities in these areas.

### Social Housing

The National Association of Pension Funds (NAPF) supports social housing investments by pension funds stating that “it has liability-matching properties and the potential for investment returns much higher than those currently available on inflation linked gilts.”

The opportunities offered by the sector are greatly shaped by financial and social issues, where banks have become very reluctant to hold long term illiquid assets such as housing investments on their balance sheet. The government in turn has cut almost 50% in grants to the social housing sector following the post crisis austerity measures. It is now estimated that housing associations will need to borrow around GBP 15 billion to fund planned regeneration and maintenance projects between now and 2015. All this combined with the government issued a strategy policy statement to Ofwat, the water sector regulator, encouraging a greater attention to:

#### Water

- The impact of regulation in the field upon future investment prospects in the sector
- The long term challenges faced by the sector, and
- The sustainable development objectives

As a reinforcement of this trend, Ofwat’s provisional price determinations for 2010-2015 provided for a major capital investment program of more than GBP 26 billion in water infrastructure (including GBP 13 billion of expenditure for capital maintenance), leaving water companies to prepare their business plans for meeting these infrastructure commitment targets. All this seems to promote a more investor friendly approach to the regulation of the water sector.

An increasing number of investors have begun to factor environmental, social, and governance issues into their decision-making process and recognise the unique position to play a role in driving the transition to a more sustainable global financial system. Investment in water supply and sewage could be a great opportunity for institutional investors looking to diversify their portfolio and make a difference.

### Renewable energy

Contrasting with NIP’s complete lack of oversight of socially responsible investment in social housing, renewable energy has been an area which received much more attention. Several factors can be found in the NIP to support institutional investment in this sector including:

- The liberalised market
- The Electricity Market Reform package of measures being implemented by the government in order to meet the renewable energy target set for 2020
- The government’s legally binding carbon commitments
- The government’s plan to implement the Contracts for Difference (CfDs) in the low carbon generation technologies, and
- The government’s plan to implement a favourable tax regime for shale gas

All these factors should support institutional investors in renewable energy by decreasing some of the risks associated with investing in this sector.

The CfDs will protect investors from fluctuations in the wholesale electricity price, will provide increased certainty about future revenues and help reduce the initial cost of capital. The government also intends to include other contract terms such as the providers’ flexibility to reduce capacity, protection against unexpected events and protection against change of circumstances. Renewable energy therefore provides a clear option for institutional investors both by favourable market conditions as well as by undoubted government support.

### A project focused approach

Given that 40% of the government’s pipeline of projects is already under construction, it is also important for institutional investors to focus on sectors where the government has not yet identified key projects within the NIP policy framework and where it adopts a more flexible approach as to the type of projects available for consideration.

The government encourages projects in gas and unconventional gas production, wind energy, biomass, solar PV, wave and tidal energy and states that it will monitor investments in these sectors at a program level despite not identifying specific projects.

There is significant scope for government led financing in these sectors if a suitable project is put forward by the investors and institutional investors should consider these opportunities.

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NAPF: “Investment insight: Social Housing”, March 2013

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What they say:

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Chambers UK, 2013: Construction

“Clyde & Co LLP’s projects capability naturally skews towards infrastructure mandates, in line with the firm’s market-leading construction practice.”
Legal 500 UAE, 2013: Projects and energy
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