

# **A few thoughts on competition issues in energy**

George Yarrow

Regulatory Policy Institute and GEMA

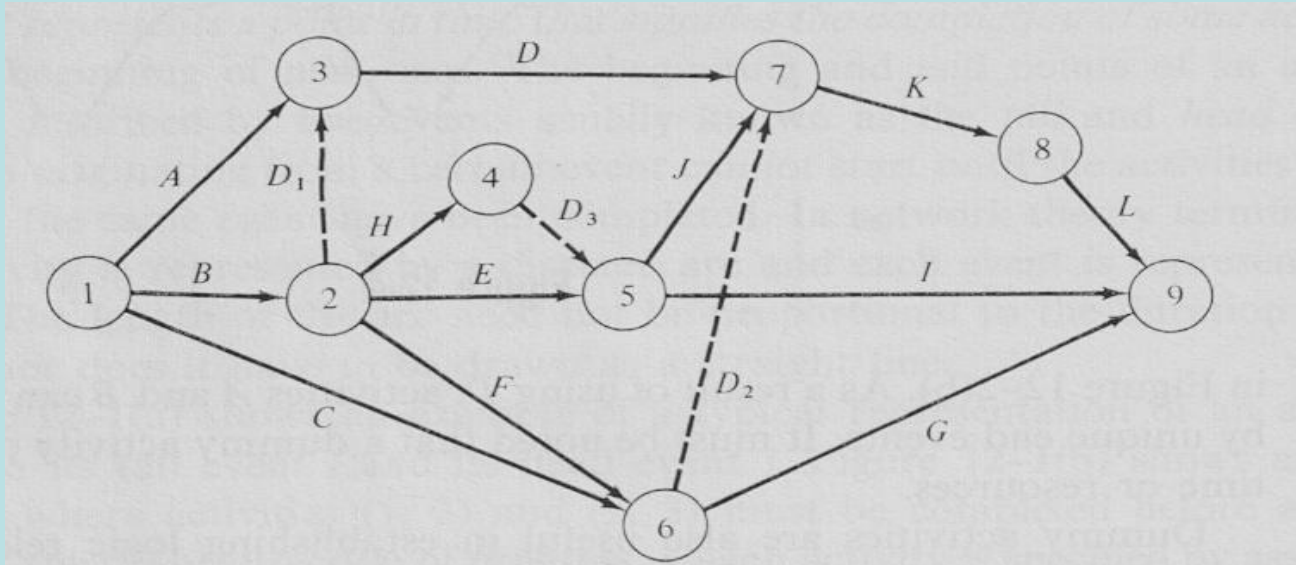
Ofgem RPI-X@20 Workshop

Trinity Hall, Cambridge, 11 December 2008

# Simplified overview

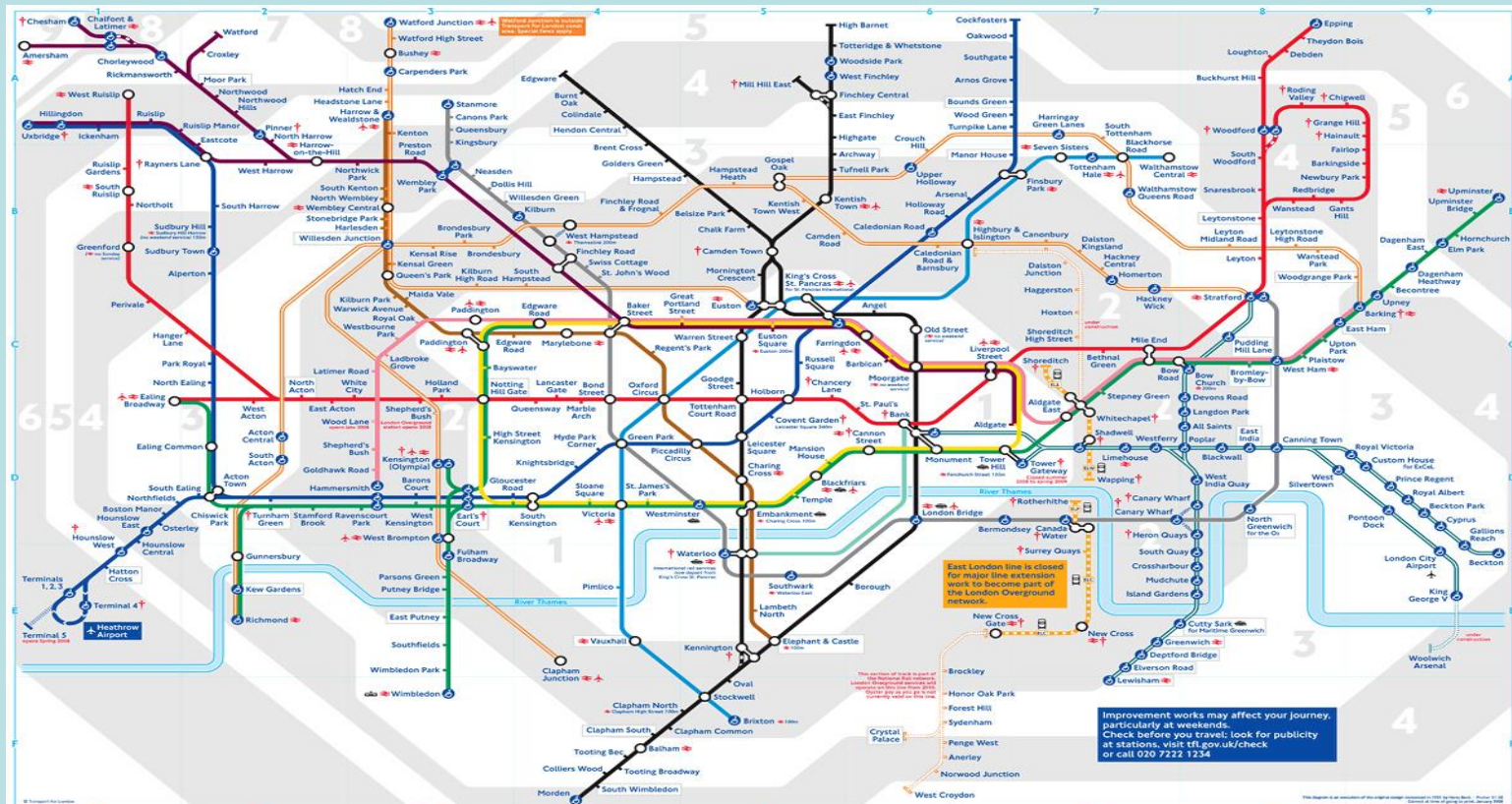
- Distinguish network and ‘service’ activities
- Network:
  - Transmission (regulated monopoly)
  - Distribution (regulated monopoly)
- ‘Service’:
  - Generation (competitive wholesale markets)
  - Supply/marketing (competitive retail markets)
- Issues:
  - Price influence at wholesale
  - Pockets of consumer stickiness at retail
  - Clunkiness of market governance, including competition law
  - Politicisation: “mandated outcomes” vs discovery
  - Market confidence

# What a network looks like



- Nodes and connections
- Complex matrix of substitutability and complementarity
- Compare routes to get a flavour

# The iconic network



**Tube map**

- Bakerloo
- Central
- District
- Hammersmith & City
- Jubilee
- Metropolitan
- Northern
- Piccadilly
- Victoria
- Waterloo & City
- London Overground
- DLR
- Replacement bus service

- Northern Restricted service
- Piccadilly Restricted service
- Victoria Restricted service
- Waterloo & City Restricted service
- London Overground Restricted service
- DLR Restricted service
- Replacement bus service

- Interchange stations
- Step-free access from the platform to the street
- Connections with National Rail
- Check before you travel. See index below
- Connections with riverboat services
- Connection with Tramlink

- Location of Airport
- Interchange with National Rail services to airport
- Replacement bus services
- Bicycle parking
- Car parks
- Toilets on site/nearby
- Travel Information Centres

- Station in Zone 9
- Station in Zone 8
- Station in Zone 7
- Station in both zones
- Station in Zone 5
- Station in Zone 4
- Station in both zones
- Station in Zone 2
- Station in Zone 1

**24 hour travel information**  
**020 7222 1234**

Website  
[tfl.gov.uk](http://tfl.gov.uk)

Transport for London

MAYOR OF LONDON

# Infrastructure (network and facilities) competition in energy

- Power stations
- Gas storage
- Merchant interconnection
- Meters
- Independent networks
- Connections
- Issues:
  - Discovery vs transactions costs of unbundling (general)
  - Double marginalisation (cf airline alliances)
  - Clunkiness of competition law enforcement (again)
  - Regulatory arbitrage
  - Politicisation (again)
  - Interactions with price regulation when competition is weak

# Demand uncertainty, infrastructure competition and investment

- Sources of demand uncertainty:
  - Environmental issues
  - Competition
- The “0-1 issue” for new-build of nodes and connectors
- Planning and supply side uncertainties
- Uncertainty and asset/facility option values
- The traditional, ‘cost-based’ toolkit -- building block methods, LRICs/LRAICs, etc. – is not adequate. Adjustments required if competition is not to be stifled.
- Compare with:
  - Next generation access network issues in telecoms
  - Stansted airport price control and investment projects