



Workshop:

Issues in Regulation of Electricity Markets

Second Announcement including Abstracts:

The Research Institute for Regulatory Economics is pleased to announce its workshop on 'Issues in Regulation of Electricity Markets'. This workshop is meant to provide a forum for discussion of recent research findings in regulatory economics with a specific focus on network industries and electricity markets. The workshop is targeted at academics and practitioners interested in this area of research. The program and abstracts are enclosed.

TIME AND LOCATION:

March 3rd, 2006, 09:00 - 17:00h

Vienna University of Economics and Business Administration
Festsaal (UZA 1)

LANGUAGE:

Lectures and discussions will be in German and English

LECTURERS:

Gert Brunekreeft,	Energie Baden Württemberg
Stefan Bühler,	University of St. Gallen, Switzerland
Finn R. Forsund,	University of Oslo, Norway
Hans-Ulrich Küpper,	Ludwig-Maximilians-University Munich, Germany
Heinrich Otruba,	European Commission (Information Society Directorate-General), Belgium and Vienna University of Economics and Business Administration, Austria
Franz Wirl,	University of Vienna, Austria

REGISTRATION AND EXPENSES:

Participation is free. If you have not registered yet, please do so by returning the enclosed registration form per fax (+43 1 31336 725) before February 24th 2006.

ORGANISATION:

Stefan Bogner – Mikulas Luptacik – Christoph Weiss
Research Institute for Regulatory Economics
Vienna University of Economics and Business Administration



Workshop:
Issues in Regulation of Electricity Markets

Registration Form

Please send per fax by 24 February 2006 to: +43 1 31336 725

Name:

Institution:

Address:

Telephone:

Email:

Thank you very much for your interest!

Research Institute for Regulatory Economics
Vienna University of Economics and Business Administration
Augasse 2-6
1090 Vienna, Austria



Workshop on Issues in Regulation of Electricity Markets (Aktuelle Fragen der Regulierung auf Elektrizitätsmärkten)

Forschungsinstitut für Regulierungsökonomie

Wirtschaftsuniversität Wien

3. März 2006

Ort: Festsaal

Programm:

- 9.00 – 9.30 Eröffnung (Barbara Sporn, Vizerektorin für Forschung, Wirtschaftsuniversität Wien)
- 9.30 – 10.00 „Das Regulierungskonzept der Europäischen Union für Netzwerkindustrien“ (Heinrich Otruba, European Commission (Information Society Directorate-General), Belgium and Vienna University of Economics and Business Administration, Austria)
- 10.00 – 10.15 Diskussion
- 10.15 – 11.00 “Kapitalmarktbasierete Ermittlung des Kapitalkostensatzes bei entgeltregulierten Unternehmungen” (Hans-Ulrich Küpper, Ludwig-Maximilians-Universität München)
- 11.00 – 11.15 Diskussion
- 11.15 – 11.30 Pause
- 11.30 – 12.15 “Regulation and Investment” (Gert Brunekreeft, Energie Baden Württemberg)
- 12.15 – 12.30 Diskussion
- 12.30 – 13.30 Lunch
- 13.30 – 14.15 “Regulierung in Netzwerkindustrien: Der Preis-Qualitäts-Tradeoff” (Stefan Bühler, Universität St. Gallen)
- 14.15 – 14.30 Diskussion
- 14.30 – 15.15 “Productivity development in electricity distribution utilities” (Finn R. Forsund, University of Oslo, Norway)
- 15.15 – 15.30 Diskussion
- 15.30 – 15.45 Pause
- 15.45 – 16.30 “Regulierungsansätze und Erfahrungen in der österreichischen Elektrizitätswirtschaft” (Franz Wirl, Universität Wien)
- 16.30 – 16.45 Diskussion
- 16.45 Ende



Abstracts:

Hans-Ulrich Küpper

Kapitalmarktbasierete Ermittlung des Kapitalkostensatzes bei entgeltregulierten Unternehmungen

Die Deregulierung bisheriger Monopolbereiche beispielsweise für Telekommunikation, Strom und Gas in Europa hat dazu geführt, dass die Kostenrechnung eine überraschende Bedeutung erlangt hat. In diesen Netzindustrien spielen die Kapitalkosten eine zentrale Rolle bei der Bestimmung kostenorientierter Entgelte. Der Vortrag diskutiert verschiedene Verfahren für die Abschreibungen sowie die Zinskosten und zeigt den engen Zusammenhang zwischen beiden auf. Er arbeitet heraus, dass man nicht von traditionellen kostenrechnerischen Prinzipien ausgehen sollte, sondern mit einem marktkonformen kapitaltheoretischen Konzept eine klare Basis für die Bestimmung dieser Kosten erhält.

Gert Brunekreeft

This presentation studies the impact of regulation on network investment being part of the debate on supply adequacy in power markets. The presentation centres around two claims:

- Price-based regulation is good for short-term efficiency, but not for long-term investment.
- As efficiency gains get exhausted, and (lack of) investment gets more urgent, quasi cost-based regulation regains territory.

Four lines of argument will be explored:

- Price-cap regulation increases risk
- Price-cap regulation is more vulnerable to the regulatory time-inconsistency problem
- Price-cap regulation impedes quality
- Price cap regulation may delay new investment

The arguments rely strongly on the following papers:

- Brunekreeft, G. & Newbery, D.N., 2005, 'Should merchant transmission investment be subject to a must-offer provision?', forthcoming in *Journal of Regulatory Economics* (also Working Paper EPRG 05-03, University of Cambridge).
- Brunekreeft, G. & McDaniel, T.M., 2005, 'Policy uncertainty and supply adequacy in electric power markets', *Oxford Review of Economic Policy*, Vol. 21, No. 1, pp. 111-127.



Stefan Bühler

Regulierung in Netzwerkindustrien: Der Preis-Qualitäts-Tradeoff

This paper examines the effects of introducing competition into monopolized network industries on prices and infrastructure quality. Analyzing a model with reduced-form demand, we first show that deregulating an integrated monopoly cannot simultaneously decrease the retail price and increase infrastructure quality. Second, we derive conditions under which reducing both retail price and infrastructure quality relative to the integrated monopoly outcome increases welfare. Third, we argue that restructuring and setting very low access charges may yield welfare losses, as infrastructure investment is undermined. We provide an extensive analysis of the linear demand model and discuss policy implications.

Finn R. Forsund

Productivity and regulatory reform of Norwegian electricity distribution utilities

Abstract: The purpose of the paper is to investigate the productivity development of the electricity distribution utilities for the last decade covering both pre- and post periods of the different regulatory regimes since 1991, and both for the individual utilities and for the sector as a whole. The regulatory reform of the Norwegian electricity sector in 1991 separated production and supply on the one hand and transmission and distribution on the other hand. Distribution utilities remain natural monopolies and are subject to a regulatory regime designed to give incentives to productivity improvements. The basic mechanism is based on the RPI-X formula. Costs (or maximal price) are allowed to increase according to the costs of inputs measured by the most relevant index, but not to a full extent; a productivity factor X has to be subtracted. Calibrating the X factor was partly based on an investigation of productivity development of utilities before the change of the regulatory regime. The X-factor was gradually introduced and increased to give the utilities some years to adjust. The full regulation took place in 1998 with both a general and individual efficiency requirement on all grid levels. A Malmquist cost productivity index approach is used based on non-parametric frontiers. The decomposition of productivity change into technical shift and catching up reveal the nature of the utilities' effort to benefit from the regulation. Bootstrapping techniques are applied in order to give a better statistical basis for the results.

Franz Wirl

Regulation: Approaches and Experiences in the Power Industry

This presentation reviews the (de-) regulation, privatization and IO-characteristics of the power industry from a normative (e.g. natural monopoly) and a positive (e.g. vote maximizing, rent seeking) point of view. These theoretical



arguments are complemented by facts and observations from the power industry internationally, the EU and in particular in Austria.