

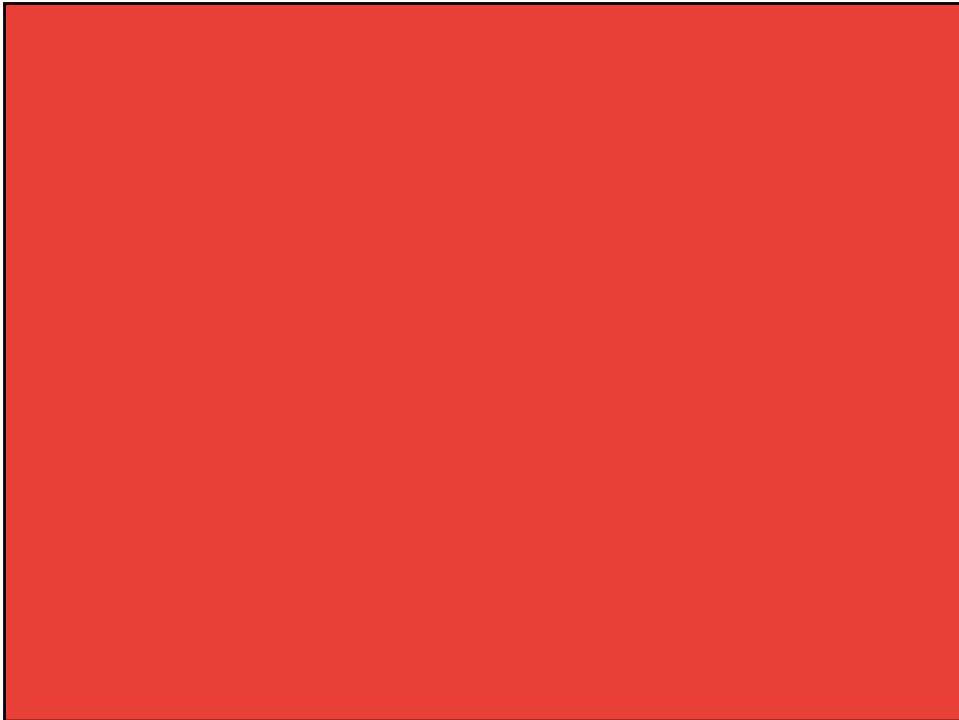


Functional and management unbundling: what might be wrong with the EC's proposals on OU and ISO+?

EURELECTRIC Internal Workshop 31st March

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Agenda

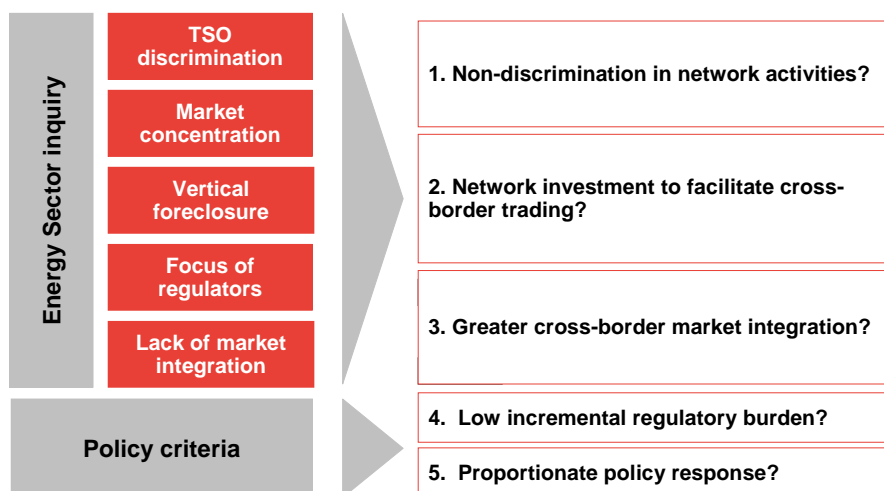
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Given the problems identified, there might be 5 criteria against which to assess unbundling proposals



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The EC's proposals are not well targeted to meet these criteria

	Unbundled national TSOs	ISO+
1. Confidence in non-discrimination?	<p style="text-align: center;">✘</p> <p>Not "least onerous" approach</p>	<p style="text-align: center;">✔</p> <p>Thinner ISO models would achieve this as well</p>
2. More investment on key routes to facilitate x-border trade?	<p style="text-align: center;">✘</p> <p>Will remain national in focus – not clear why there would be more investment</p>	<p style="text-align: center;">✘</p> <p>National in focus, and no profit motive to undertake investments</p>
3. More market integration?	<p style="text-align: center;">✘</p> <p>No more likely than with bundled operators</p>	<p style="text-align: center;">✘</p> <p>No more likely than with bundled operators</p>

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Neither is it clear that there would be reduced regulatory burden

	National OU TSOs	ISO+
Set price controls for monopoly activities	●	●
Define access charges & connection processes	●	●
Co-ordinating TSO investments x-borders	●	●
Progressing market integration	●	●
Addressing interoperability issues	●	●
Monitoring non-discrimination		
Monitoring operating efficiency & TO interface		●

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And both ISO+ and OU are arguably disproportionate and constitute expropriation

OU	ISO+
<ul style="list-style-type: none">○ EC share price analysis shows TSO's can grow...○ ... but this is the wrong counterfactual – how would the combined entity have grown?○ Cost synergies?○ Strategic benefits<ul style="list-style-type: none">• limit scope of opportunities• constrain ability to add value esp. where industry structure remains integrated (e.g. emerging markets?)	<ul style="list-style-type: none">○ Removes prospect of benefitting from incentive regulation on operating activities○ E&W network owner earned an additional £160m profit between 1996/7 and 2001/2 from such incentive regulation

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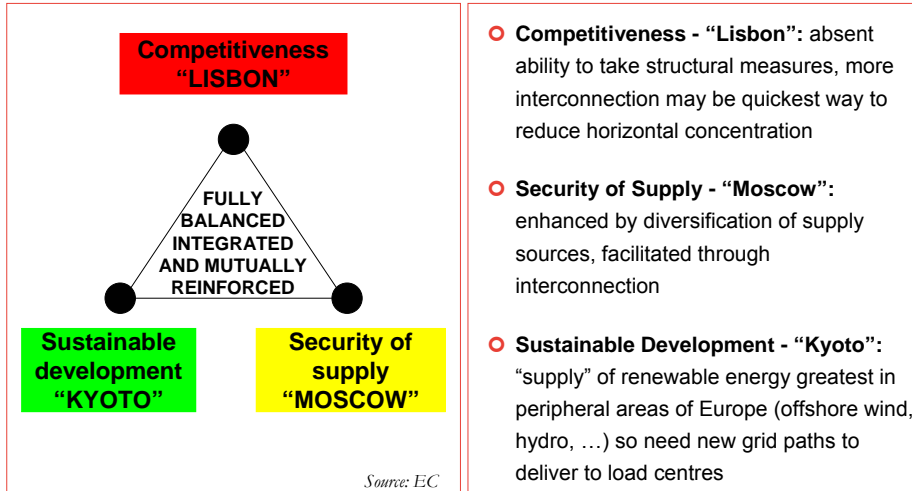
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Start from energy policy fundamentals – a tale of three cities...

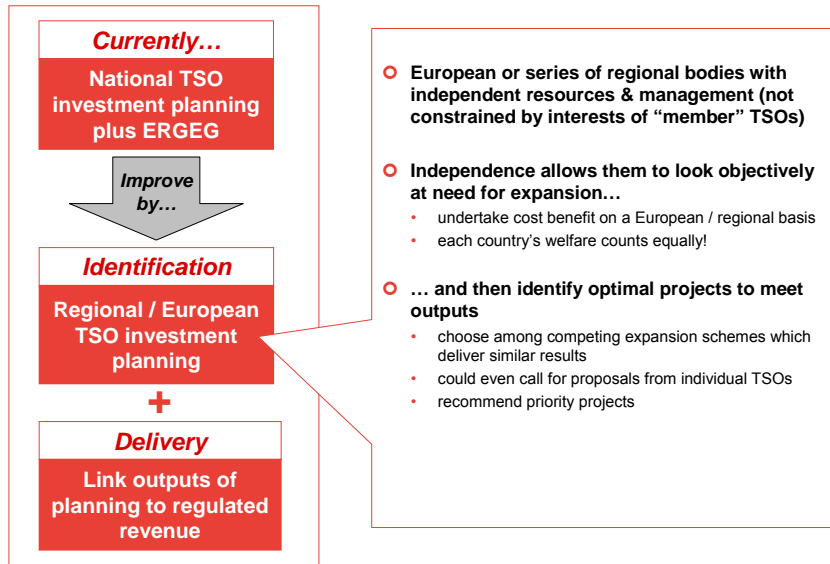


To meet these policy goals, it is the horizontal, rather than the vertical axis which is key

An Regional System Operator operates (but does not own) transmission networks of multiple transmission owners

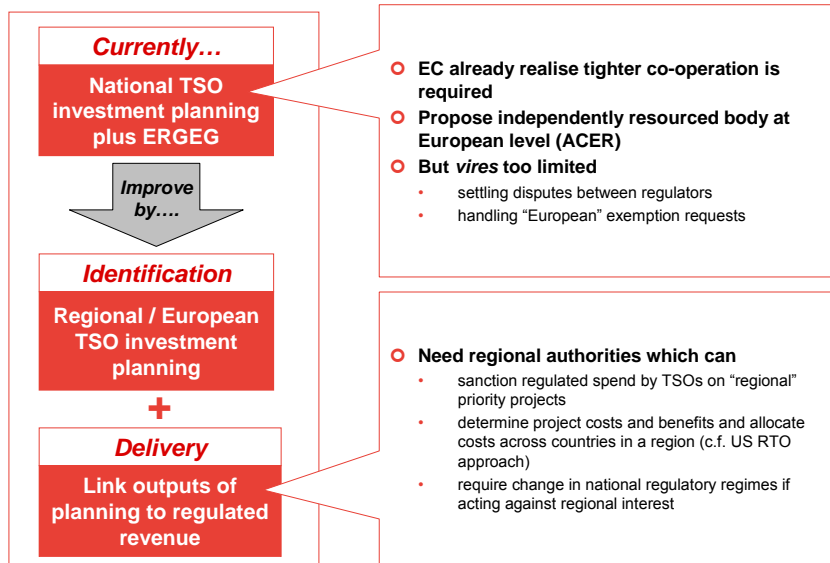
	RSOs
1. Confidence in non-discrimination?	<p>✓</p> <ul style="list-style-type: none"> ○ Ensure non-discrimination at national and regional level – requires: <ul style="list-style-type: none"> • full independence • sufficiently wide scope of activities
2. More investment on key routes to facilitate x-border trade?	<p>✓</p> <ul style="list-style-type: none"> ○ Able to: <ul style="list-style-type: none"> • assess the costs and benefits of regional network investments • mandate and monitor the development of key network links
3. More market integration?	<p>✓</p> <ul style="list-style-type: none"> ○ Market integration is the default outcome ○ Consistent set of arrangements for: <ul style="list-style-type: none"> • wholesale market • congestion management at border

Solutions will require action in relation to TSO co-operation...



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... and greater regulatory authority at the regional (or European) level



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Conclusions

- **EC proposals for greater unbundling are a result of “habit” rather than robust analysis**
 - there are real costs to nationally focused unbundling – greater regulation and losses to companies
 - it is not well targeted towards today’s problems
- **It is true that some further unbundling would be desirable**
- **But policies should be targeted towards horizontal market integration, and not reinforcing national boundaries – arguably, preference among policies would be**
 - RSO
 - National ISO (not ISO+)
 - OU
- **The challenge: how to avoid the claim of timewasting...**

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