



E-CONTROL



How Regulation Will Influence Market Concentration in EU Energy Markets

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Influence of Regulation on Competitive Environment of Small Companies



- Former large integrated companies are split into separate units
- Small companies remain vertically integrated; retail and network business contribute most to value added

In theory this implies:

- Regulation of revenue for network units – **low risk and low return business**
- Competitive parts face increased risks which involve higher expected returns

Influence of Regulation on Competitive Environment of Small Companies (cont'd)



Effectiveness of Regulation will heavily impact on real outcome

- Ease of building power stations/ ease of connection to the grid/ ease of getting access to main primary fuels (gas) will increase risk for incumbents on **wholesale market** but reduce risks for entrants
 - *Small companies are price takers -> more competition on transparent wholesale markets will reduce their risk*

- Ease of supplier switching / availability of information will increase risk for incumbents on **retail market** and reduce risks for entrants
 - *Small companies are locally dominant companies esp. on markets for small customers → margins will go down*

Relative extent of competition will determine position of retail companies



Idiosyncracies of Small Market Participants

Market opening is only possible if complex information flows are properly managed

- Both for network business but also for suppliers
- Financial and intellectual problem for small companies

Regulatory system very often entails fixed cost

- Negative effect on small companies

Comparative advantage of small companies

- High number and small size of their local markets shelters them from retaliation by big market players
- Small companies successful as „niche“ suppliers

Individual solutions (where companies handle all flows by themselves) add to complexity of the system and favours bigger companies → „**hub and spoke**“ systems are more appropriate for small companies

How Good Regulation Will Make Life Easier for Small Companies



Regulation is typically targeted on big vertically integrated companies, which are able to:

- Get all necessary information about market fundamentals
- Hedge against risk
- Cope with difficult regulatory regimes

Small companies will profit from good market rules, by:

- Having less regulatory cost, as bad rules have to be adapted more often
- Having less cost for retail market information which enables them to use their higher flexibility

Economies and Diseconomies of Scale



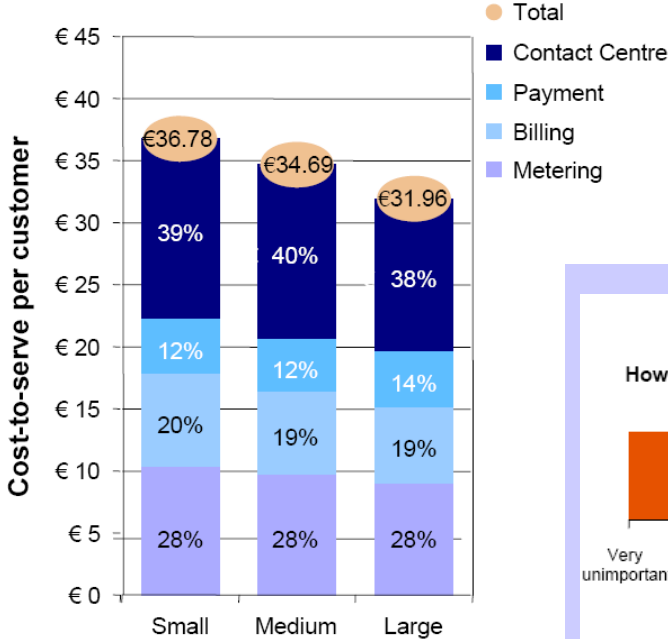
Big companies enjoy some fundamental advantages

- Better prices in investment
- Lower specific cost for network losses (statistical effects)
- Less risk of weather induced investment
- Network asset management is more efficient
- In house coordination of investment
- More efficient use of software and customer relations products

But small companies have other advantages

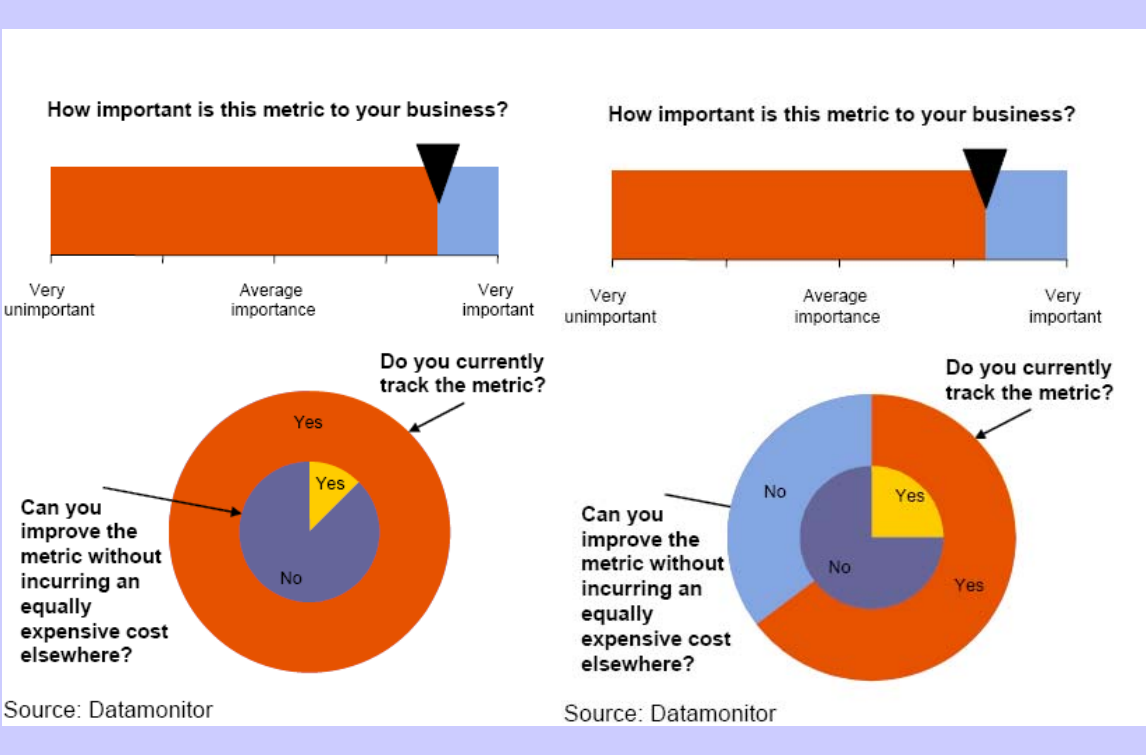
- More flexible labour relations
- Closer to customers
- Better image
- Example: Small DSOs in Austria are NOT less efficient than big ones (result of DEA and SFA)

Some Figures Illustrating the Size of Comparative Advantage



Source: Datamonitor

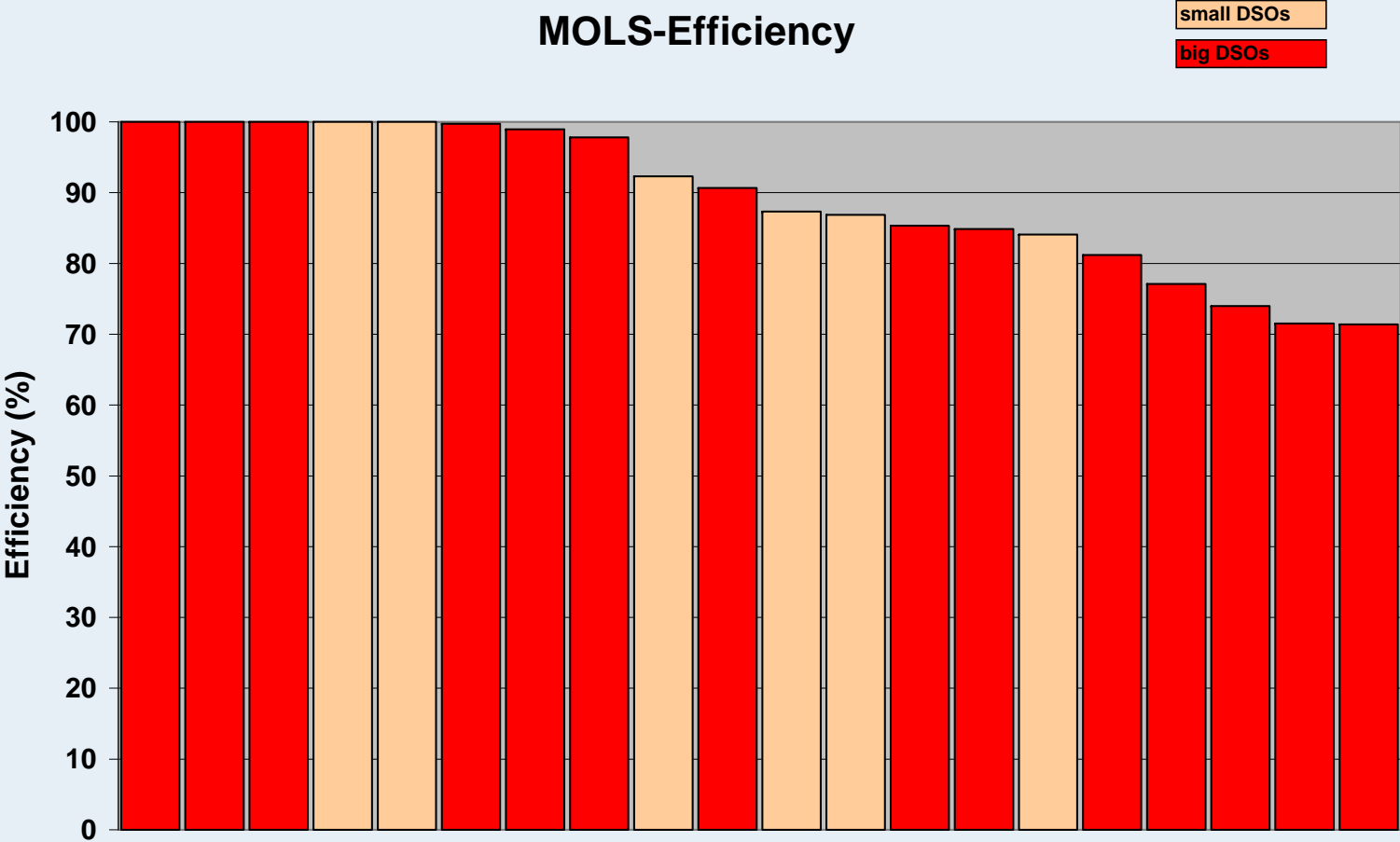
- ...“Small“ defined as <500 000 customers
- ...much higher cost for companies <100 000 customers
- ... lack of knowledge about cost drivers



Source: Datamonitor

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Small DSOs are very efficient



A Level Playing Field Between Big and Small Companies?



- Big companies profit more from bad regulation
- Big companies can even influence rule setting to their advantage
- Big companies are pampered by their respective national governments and sheltered from cross border competition

Regulators try to establish a level playing field...often against their government and the big players

Prospects of a Good Regulatory Environment



Certainly the actual wave of mergers & acquisitions will go on

Huge investment and risks on wholesale markets will trigger further cross border mergers

National markets are in most cases already dominated by a few companies

Small players may enjoy more favorable prospects IF we get the regulatory framework right

- Less discrimination
- Better access to customer groups, better usage of flexibility in niche market

Small Players will survive

Some facts

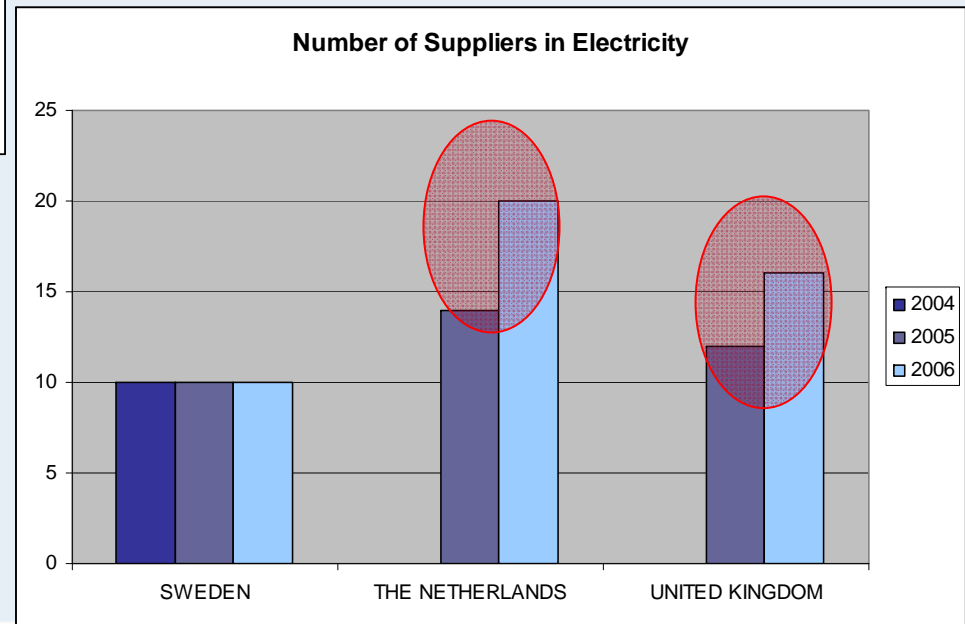
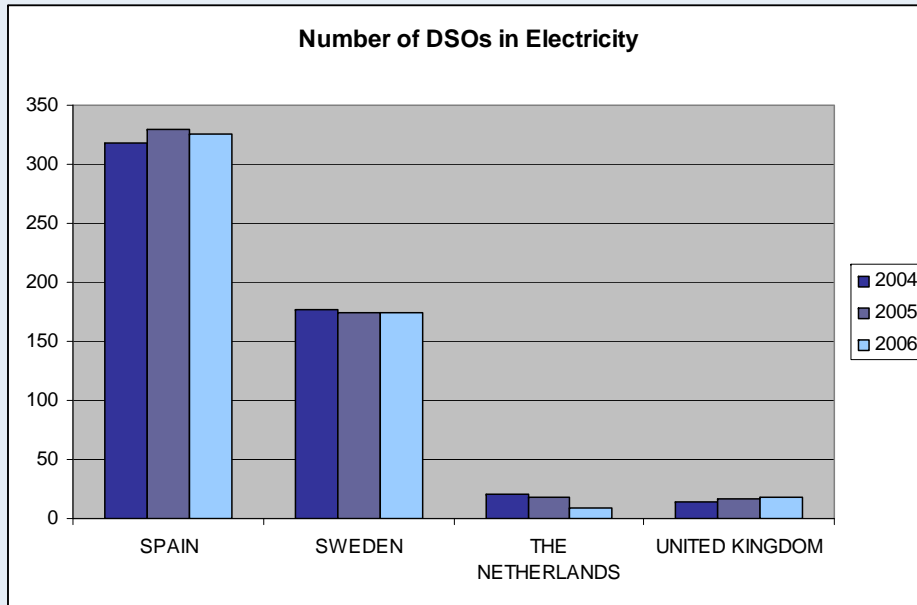


Number of small companies has not fundamentally dropped or has even increased

- Most dynamic markets exhibit constant or even increasing numbers of suppliers
- Also for DSOs numbers are quite stable (exception NL)

Stability of Small Market Participants

Some examples



Successful small companies



Small local retailers are successful out of area retail companies in Austria and Germany

- Niche products in combination with excellent image help to support their business model
- Co-operation in retail market helps to overcome lack of size in relation to advertising, and building up customer relations out of area → Various examples in Germany

Information



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Wir danken für Ihre Aufmerksamkeit !