Managing Entry and Competition in Regulated Industries – Comparison of 3 sectors (energy, telecoms, post)

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Regulatory principles (1)

- Overall approach: **pro-competitive regulation** as competition delivers benefits for consumers and results in competitiveness as well as driving efficient investment in infrastructure
- No micromanagement, but setting conditions prevailing in a **competitive market** in order to incentivise rational (undistorted) economic decisions of market players, i.e. simulate competition to stimulate competition, it is up to the operators to decide on investments, technology acc. to their business models towards which the regulator must be **neutral**
- Process of **liberalisation** was initiated by the European directives in order to open up markets for competition while the state influence was restricted to regulation in order to promote competition.
- Process of legal market opening (liberalisation) will not work without **economic regulation** to ensure new entrants (competitors) can make use of new possibilities and compete **effectively**: ex-ante regulation guarantees a **level playing field**!
- **Economic regulation** aims to initiate market processes towards the competitive equilibrium ensuring **efficient outcomes**
- This implies **accepting market outcomes**, i.e. no corrections, no interference

Regulatory principles (2)

- **Competition** as a means to create economic welfare and in particular consumer benefit (lower prices, better quality and more choice, i.e. a better value proposition for the user)
- **Competition** is the best driver for efficient investment and consumer benefits, but in network industries it can only be achieved with strict access and price control regulation applied ex-ante
- **Regulation** as a means to promote sustainable competition via opening markets in network industries a. creating a level playing field with non-discrimination, access and price regulation
- Fundamental principles: **predictability**, forward looking and long term commitment (**credibility**) and a principle based approach to ensure confidence of investors for long-term investment decisions
- While the regulatory framework must be **predictable** it must also be **dynamic** in order to deal with **changing** markets
- **Network industries** are characterised by market entry barriers resulting from substantial economies of scale + scope as well as network effects requiring sector specific regulation to overcome structural **market entry barriers**

Changes in regulated markets (1)

- During the period of market opening in the late 90ties the market situation was relatively stable in all three sectors: energy, telecommunications, post.
- But early on the situation started to develop with different speeds: in telecommunications the technological progress was fast and the market was growing rapidly which facilitated market entry
- In the postal market new players focused mainly on business customers and started to enter the market only slowly also because the growth potential was deemed to be limited
- In the energy markets the process was very slow as vertical integration made downstream market entry difficult and consumers were afraid of switching, which required the regulator to set standardized switching processes

Changes in regulated markets (2)

- Around 2010 major changes occurred in all three sectors:
- The changes in the **energy sector** are policy driven, i.e. promoting the integration of renewables, ICT technologies play a role in flexibilizing the grid: smart grids/meters, but it is important that the regulator also regulates smartly, i.e. sets conditions towards a **smart market** to enable new players such as aggregators to drive the market and thus enable consumers to benefit
- In the **telecommunications market** the changes are mainly technology driven (Internet protocol) allowing new market players to enter the market more easily: the so-called Over-The-Top players driving demand. The regulator needs to ensure a level playing field between traditional telco operators and the „new kids in town". Evolution towards a digitilizated economy with the communications sector at the core of this development increases the importance of the sector for the whole econ.

Changes in regulated markets (3)

- In the **postal sector** we see electronic substitution, i.e. cross-sectoral competition and the arrival of new players such as Amazon etc. changing the value chain considerably and bringing „fresh winds“ (*e-commerce*).
- Again, the regulator needs to ensure fair competition for old and new players and take account of the changes in the value chain going beyond purely postal markets
- Demand is shifting from traditional to electronic services which requires rethinking the definition of „universal service“ and „modernizing“ regulation
- In all three areas, the market boundaries are changing and we see more **cross-sectoral components** which would need to be reflected in regulation as well
- The role of the regulator is changing: market entry is happening, thus the regulator needs to focus on ensuring a level playing field and allowing the higher **market dynamic** to carry on with a flexible and timely implementation

Conclusions

- We see for all 3 sectors that market entry is taking place, thus the opening of the markets was successful
- However, the opening was only the necessary condition, not in itself sufficient, other factors played their part:
- The market entry was policy driven (energy), technology driven (telecommunications), and driven by cross-sectoral competition and arrival of new players in the postal sector
- Market dynamics are increasing overall and market boundaries are becoming more fluid with convergence of business models enabled by technological changes.
- The regulator has to adapt to ensure this market dynamic will bring benefits to consumers and is not constraint by outdated regulation, i.e. regulation has to factor in changes
- The task of the regulator remains to keep pace with the dynamic process with a pro-competitive regulation bearing in mind that markets are increasingly interconnected

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Thank you for your attention

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Bundesnetzagentur: German multi-sector NRA

- Independent higher federal authority in the scope of business of the Federal Ministry of Economics and Energy

- **Sector-specific regulator** tasked with **ensuring effective competition** in 5 network industries:
  - **Telecommunications and Posts** (since 1998),
  - **Electricity and Gas** (since 2005), and
  - **Railways** (since 2006)
- Electricity and **network planning** (since 2011), and network permitting (2013)

HQ in Bonn

- BNetzA employs ar. 200 staff in energy <u>regulation</u>, up to 240 staff are being recruited for electricity network <u>planning and permitting</u>
  Overall headcount for <u>all</u> sectors: ar. 2700 staff members
- Budget: 207m euro (2015), BNetzA is tax funded