

Managing Entry & Competition in regulated industries

Club of Regulators

Conference on “Disruptive Business Models and Regulation”

Paris, 3 November 2016

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In the good old times...

Issued in 2009, the 3rd EU Energy Package is a framework based on two pillars; the first one...

Infrastructure

Leading role of Regulation to prevent market failures

- Natural monopolies
- Externalities
- Asymmetrical information

Little room for **Competition**

- (Competition for the market)

Main Outputs

- Unbundling
- Tariff Setting
- Quality of service

In the good old times...

... and the second one...

Energy Markets

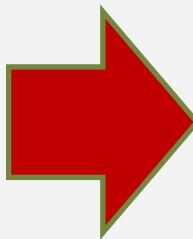


Residual role for **Regulation** to prevent market failure

- Asymmetrical information
- (Externalities)

Competition as the rule 

Main Outputs

- 
- Organized Markets
 - Quality Commercial Serv.
 - Standards

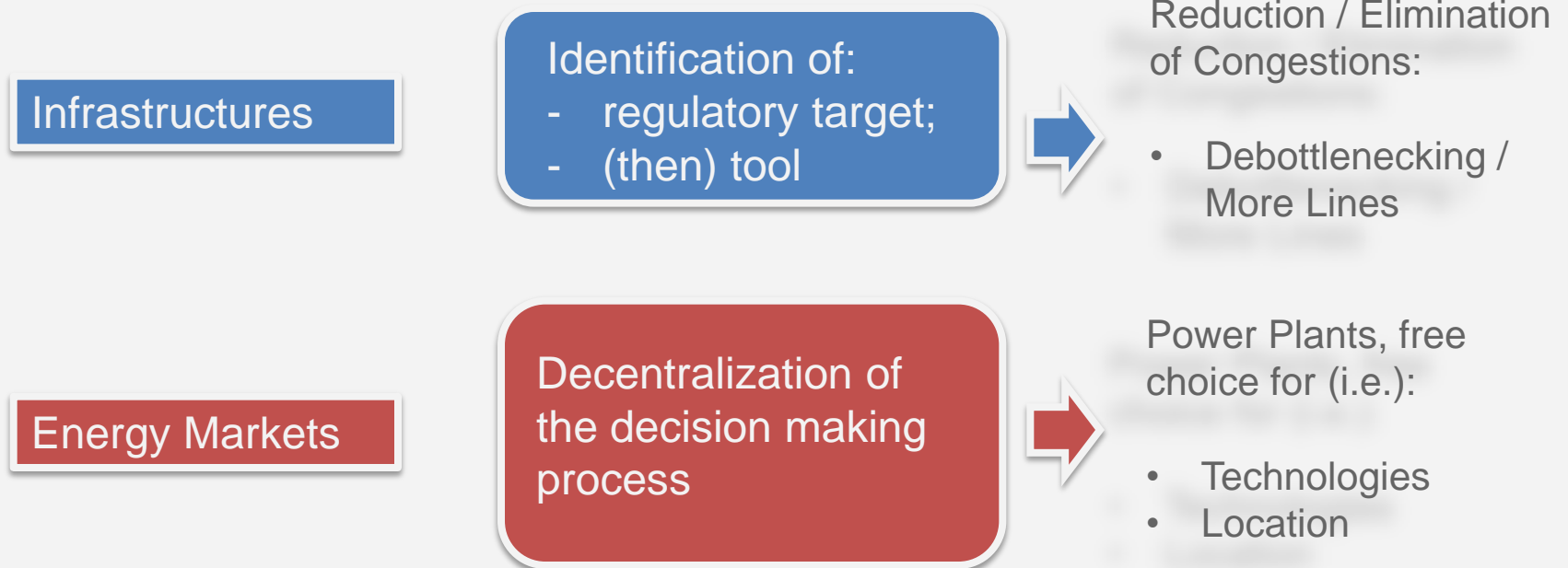
Constraints



Public services Obligations
Social Issues
Low Carbon Economy

In the good old times...

Regulation had a (rather) well-established approach

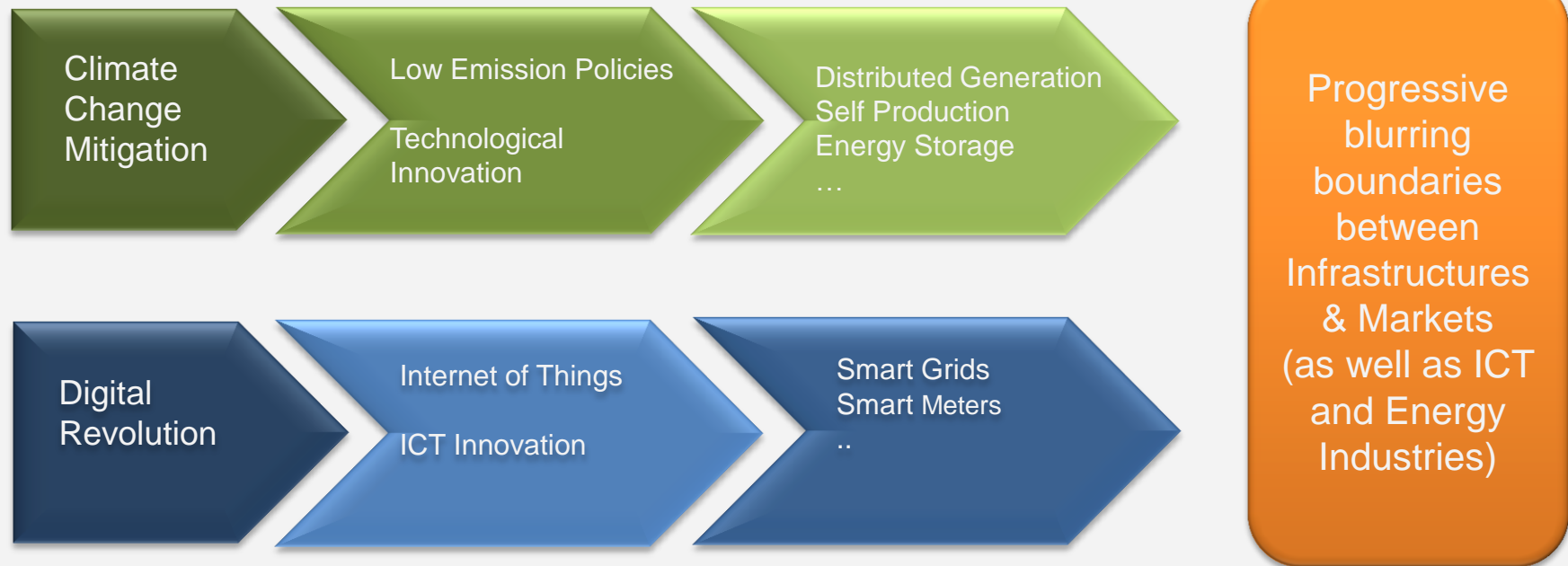


Moreover:

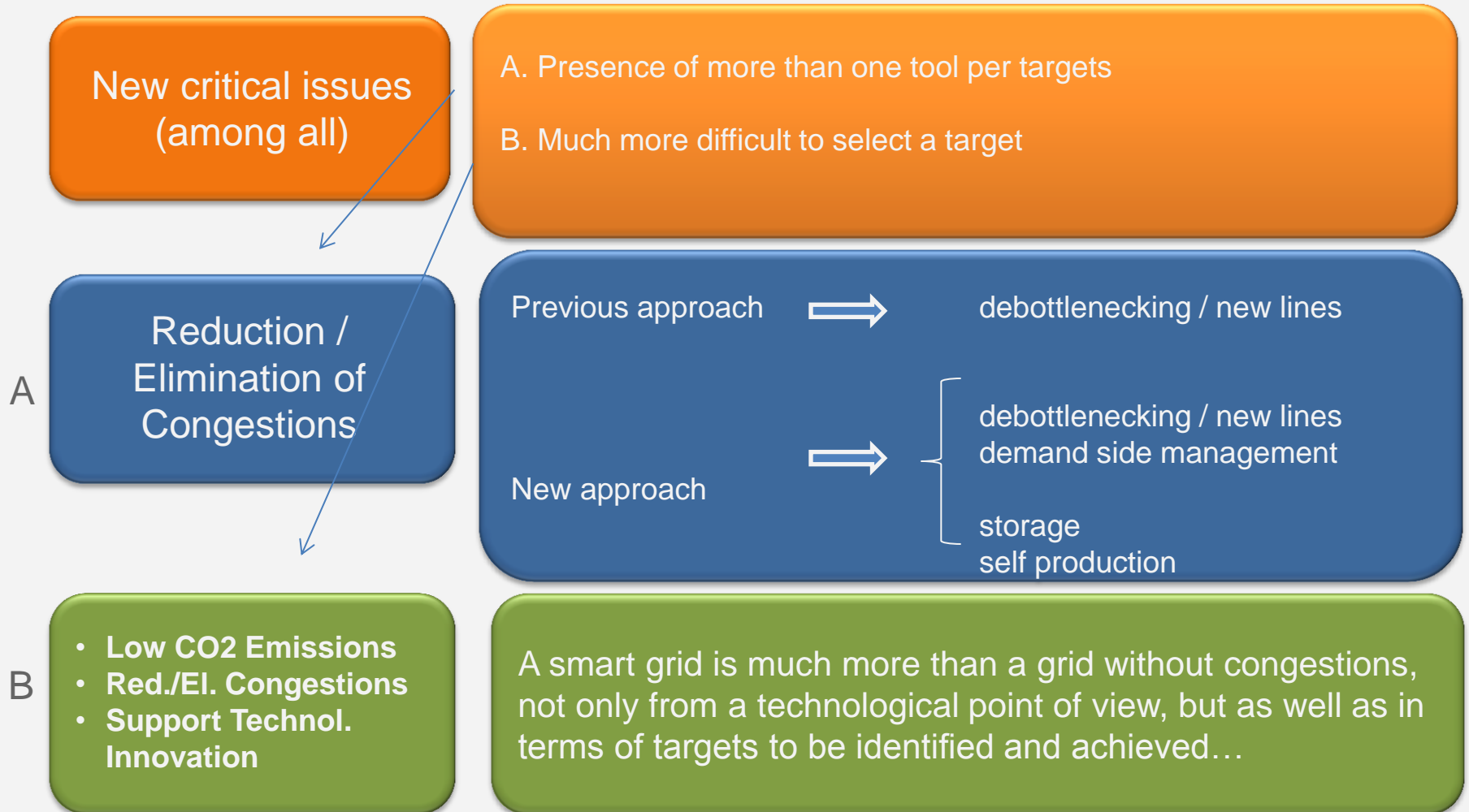
- Free entry and exit in Energy Markets
- Selected procedures for Infrastructures (competitive bidding, etc.)

Nowadays

.. but two terrific rule changers irrupted in the calm waters of regulation...



Nowadays



Nowadays

New technologies are reducing transaction costs and widening the possibilities to exchange and share information

“aside from transaction costs, the prevailing outcome will be efficient”

The Coase Theorem states that, when conflicting property rights occur, bargaining between the parties involved will lead to an efficient outcome regardless of which party is ultimately awarded the property rights, as long as the transaction costs associated with bargaining are negligible.

Specifically, the Coase Theorem states that "if trade in an externality is possible and there are no transaction costs, bargaining will lead to an efficient outcome regardless of the initial allocation of property rights."

Open Points

- New role for self-regulation
- Regulation more focused on targets than on tools
- Blurring boundaries between regulation and competition, while growing interaction between planning and regulation too
- Doubts about:
 - the entailment itself to impose a target by a public body (in case of no more need to regulate)
 - the right to use a tool by a firm (in case of persistence of need to regulate)
- Consequences on entry and exit
- Evidence collected up to now by Pilot projects on smart grids

Thank you for your kind attention!

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