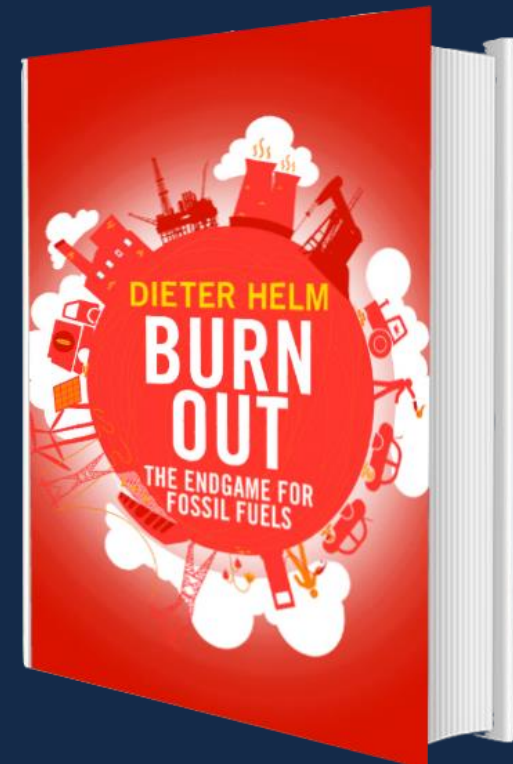


# RETAIL PRICES & REGULATION


2<sup>nd</sup> Central and South East Europe Commission in  
Hungary and the REKK Foundation

**Budapest, 30<sup>th</sup> May 2017**

**Dieter Helm**



# AGENDA

- **Prices should follow costs**
  - **The future structure of costs**
  - **The coming of capacity markets**
  - **An electricity future with the economics of broadband**
  - **Regulation and ensuring prices = costs**
- 

# PRICES & COSTS

Costs to customers =



# THE FUTURE STRUCTURE OF COSTS

- Digitalisation of economy
- Zero marginal cost generation
- New technologies for electricity generation

Digital = Electric = Capacity

Decline of wholesale markets

# THE COMING OF CAPACITY MARKETS

- **Renewables**

- Intermittency
- Undermine economics of gas & coal
- Drive down wholesale prices

- **Un-investible against wholesale price**


- Reserve markets
  - Flexibility markets
  - Capacity markets
- 

# THE ELECTRICITY FUTURE AND THE ECONOMICS OF BROADBAND

- The broadband hub
- Multiple household serviced
- A new corporate landscape

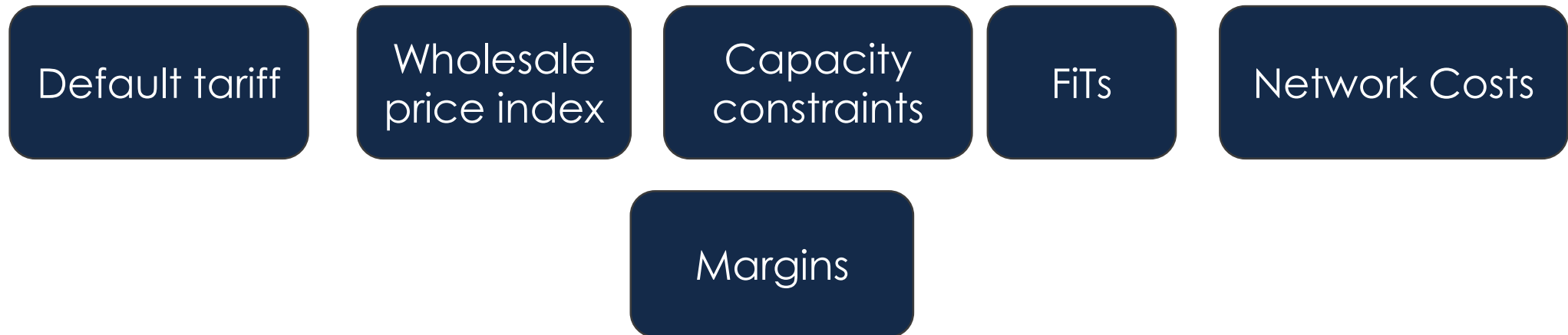


# NEW CORPORATE LANDSCAPE

- **New companies in supply** (Amazon et al)
  - **New data-focussed businesses** (Google, Apple, Facebook)
  - **New entrants for transport** (BMW, Toyota, Nissan, Ford)
  - **New infrastructure decentralised businesses** (Pension Funds)
- 

# REGULATION & ENSURING PRICES = COSTS

- The need for a default tariff, whether or not regulated
- The default tariff = cost – pass-through






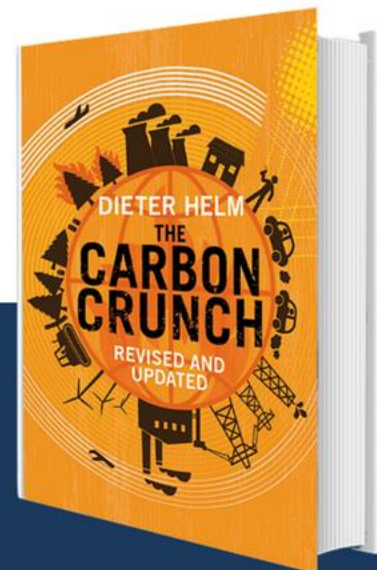
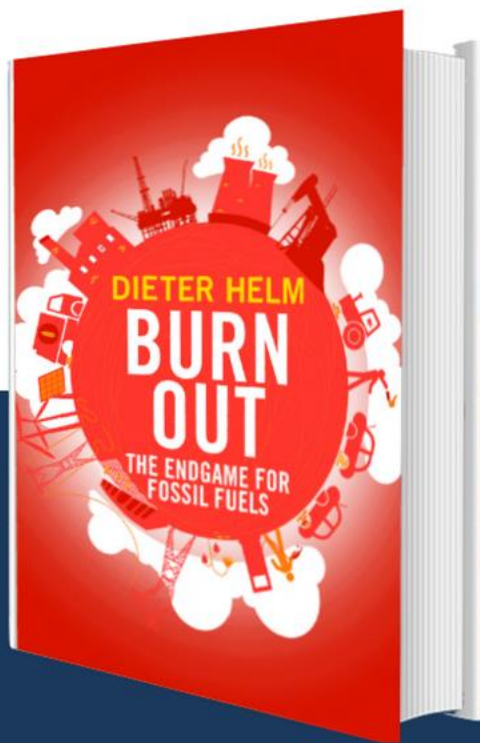
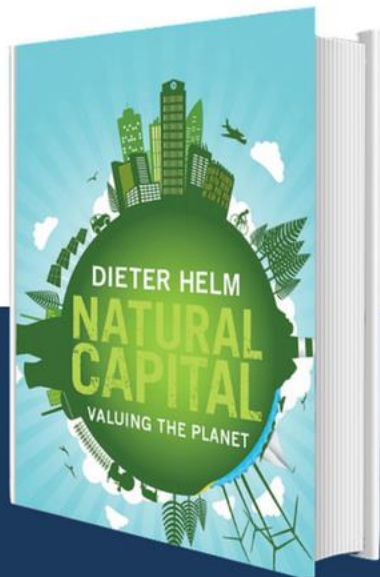
# REGULATION & MARGINS

- Default tariff & unregulated margins
- Published margins
- Regulated margins



# CONCLUSIONS

- **Changing costs points to changing tariffs & changing regulation**
  - **Digitalisation is radical**
  - **Future is about fixed costs**
  - **Default tariff required**
- 
- A red curved graphic element is located in the bottom right corner of the slide, consisting of a thick, curved line that starts from the bottom edge and curves upwards and to the left.



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## Energy Futures Network Paper 24.

Why intervention on electricity prices is needed and how to do it without undermining competition

Dieter Helm  
April 2017



## Energy Futures Network Paper 23.

Not so smart – what has gone wrong with the smart meter programme and how to fix it

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March 2017



## Energy Futures Network Paper 22.

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Feb 16



## Energy Futures Network Paper 21.

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- Greg Clark's energy agenda, Paper 20, Sep 16
- Flawed in almost all its parts – the final CMA report on electricity markets, Paper 19, Jul 16
- After Hinkley – how to contract for the rest of the nuclear programme, Paper 18, Apr 16
- The CMA Energy Market investigation: Companies 5-0 CMA? Paper 17, Mar 16
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