

# The pros and cons of phasing out regulated retail prices for household customers

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A network diagram consisting of numerous interconnected nodes and lines, overlaid on the bottom half of the slide. The nodes are represented by small circles in various colors: white, dark blue, light blue, and black. The lines are thin and light-colored, creating a complex web of connections across the entire width of the slide.

# Pros and cons for maintaining price regulation

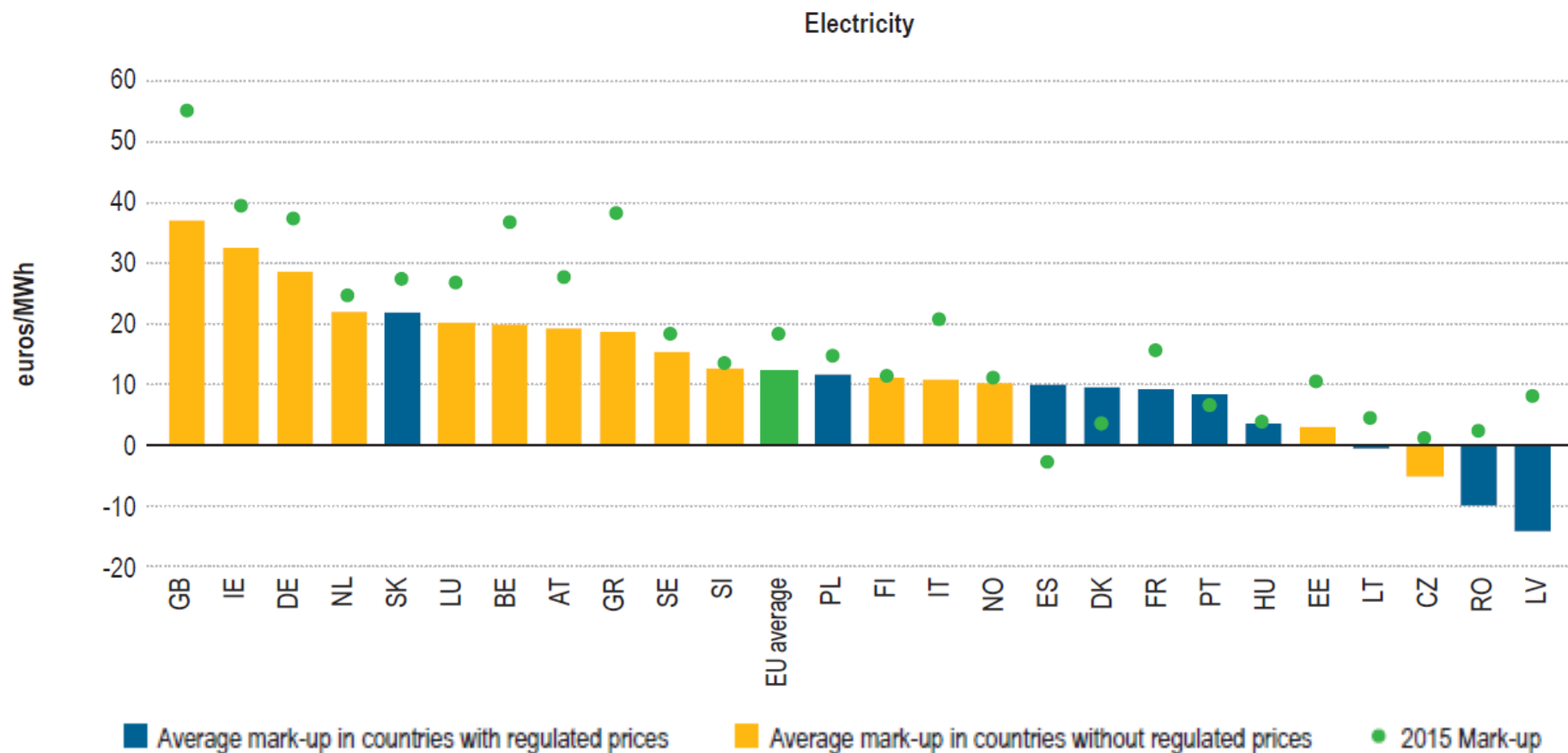
## Pro argument:

- Market forces alone would not be able to guarantee economically 'reasonable' and 'affordable' prices for the majority of end-users
- **Reasoning:** Concentrated market structure or lack of special conditions on the retail markets (e.g. highly demanding rules in consumer service obligations, depressed retail prices or other regulatory elements preventing new entry to the retail market) can arrive to unreasonable prices set above the justified costs of providing services to end users

## Contra argument:

- Artificially reduced prices for consumers limit switching rates of consumers, reducing the efficiency of market competition, resulting in inefficient allocation of resources
- **Reasoning:** Some countries allocate their cheapest electricity generation portfolio on a reduced price level to suppliers of household consumers. Negative or close to zero margins are observable in several East European countries undermining competition

# Average annual mark-ups in retail electricity (2008–2015) markets for households – 2015 (euros/MWh)



Source: ACER MMR 2015

- Shorter and medium term impact:
  - Decreasing Demand Side Response (DSR), e.g. lower participation in DSR schemes, less engagement in energy efficiency measures
- Longer term impacts:
  - Reducing incentives to invest in the country, due to artificially reduced price levels
- EU proposal emphasises the first impact category, as a key barrier to reach higher RES integration

- Retail price regulations can take various forms, from soft to hard levels
  - ,Soft' form of price regulation: suppliers have high freedom to determine the user prices of their services (guided by previously agreed price-setting methodology or by some price indexing methods)
  - ,Hard' form of price regulation: the ministry responsible for energy has the great discretionary power to determine end-user prices, that can divert greatly and in a longer term from market prices
- Does these form fall under the same category?  
All should be treated in the same way?

- Which regulatory forms have the least distorting effects, e.g. concerning demand side response (DSR) or RES integration?
- What are the ‘lessons learnt’ of those countries having experiences in the transition from regulated to competitive prices?
- What type of conditions has to be fulfilled in order to have a smooth and efficient transition between pricing regimes?

During the section we will have a look at the experiences gained in the United Kingdom, USA, Greece and Estonia

Thanks for your attention!

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