RETAIL PRICES & REGULATION

2nd Central and South East Europe Commission in Hungary and the REKK Foundation

Budapest, 30th May 2017

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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 =

- Wholesale price
- Capacity contracts
- FiTs
- Transmission costs
- Distribution costs
- Customer metering & billing
- Profit Margin
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
FOR INFORMATION – DIETERHELM.CO.UK

- 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
- The new normal – oil prices after the crash, Paper 16, Feb 16
- Stranded Assets – a deceptively simple and flawed idea, Paper 15, Oct 15
- Reforming the FiTs and capacity mechanisms, Paper 14, Sep 15
- The first 100 days of Conservative energy policy, Paper 13, Aug 15
- Penalty tariffs, open ended regulation and embedding overcharging. Paper 12, Jul 15
- British energy policy- what happens next? Paper 11, Jun 15
- Energy Policy and the Coalition, Paper 10, March 15
- What should oil companies do about climate change? Paper 9, Feb 15
- Competition in the British electricity sector: a set or practical measures, Paper 8, Feb 15