

Review:

“The Evolving Risk Profile of European Energy Utility Companies and the Energy Sector” by **Daniel J. Tulloch & Ivan Diaz-Rainey**

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Hot Issue: Deregulation

- Deregulation, or Re-regulation?
- Ideological battle vs. fact-based discussion

Paper's methodology, results and strengths

- Big question: Is deregulation risky? If so, to whom?
- Findings: Yes, both to energy unities and to energy system as a whole
- Strengths: significant findings about a significant issue, presented nicely

From good to better

- The paper could be even better if:
 - 1. it discusses more explicitly the wider background of the issue and puts the reader into perspective.





Woo, C.K. *et al.* (2006) Cost of electricity, *Energy* 31: 747-68.

Combining the strengths of UMIST and
The Victoria University of Manchester

Critical questions to be addressed prior to electricity deregulation

Question	Remarks
Will there be adequate capacity after the reform?	Adequate capacity provides the reserve required for reliable service and mitigates market power.
Will many price-taking sellers compete for sales to many buyers?	A few dominant sellers can abuse their market power to raise prices. However, too many sellers can result in fierce price competition, rendering the industry financially unstable.
Will efficient investment occur?	Deregulation replaces centralized planning and investment with decentralized decision-making driven by market prices; which is the superior decision process remains unknown.
Will there be sufficient transmission available under open access?	Transmission congestion limits trading that would have caused electricity to flow from low-cost areas to high-cost areas. As well, it creates load pockets and exacerbates market power.
Will the input markets be competitive?	A dysfunctional input market can compromise the economic performance of a wholesale generation market.
Will there be active forward trading?	Forward trading facilitates market power mitigation, price discovery and risk management.
Will electricity end-users see and respond to wholesale price changes?	Demand response reduces market power and improves reliability. However, electricity consumers, especially households, prefer rate stability and do not exhibit large sensitivity to hourly price variations.
Will the market rules prevent gaming and market power abuse?	A complicated design without strong rules invites gaming and market power abuse.
Will stranded cost be large?	Recovery of large stranded cost complicates the transition to competition.
Will transaction costs be small?	Large transaction costs dissipate potential benefits from deregulation.
Will the post-reform spot price be stable?	High and volatile prices can doom a market reform.
Will deregulation harm reliability?	Centralized planning and investment in developed countries have yielded highly reliable service, which may not be the case under decentralized decision-making.
Will deregulation adversely affect income distribution?	Even if deregulation can produce positive net benefits, electricity producers are likely to receive the benefits, while households and business customers will pay higher prices.
Will there be commitment to deregulation?	If voters and politicians would reverse deregulation after price spikes, it should not have occurred in the first place.
Will electricity consumers be better off than the status quo?	Deregulation should be based on a careful cost-benefit analysis, not an ideological belief in competition.
Can the projected benefits of deregulation be obtained via other means?	Deregulation is not the only mechanism to improve the performance of an electric sector. Performance based regulation is a less risky alternative.
If deregulation fails, can it be reversed?	Deregulation often entails divestiture of the integrated utility's assets. Once done, it is almost impossible to put the pieces back together again.

From good to better

- The paper could be even better if:
 - 2. it adds a footnote to explain why the removal the data of Jersey Electricity company is legitimate (p.14).

Using the selection process above and the availability of total return data on Reuters EcoWin Pro a sample of 26 companies was selected for the pilot study. **However, during the pilot study Jersey Electricity plc was removed due to highly irregular data returns which skewed the dataset significantly.** Also, Hafslund A and Hafslund B

- 3. it puts more inks on the concluding section to point out the policy and academic implications of the findings.