



Yardstick Competition – Network Utilities and the Airport Sector

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Rationale for Economic Regulation



- Natural monopolies
 - Economies of scale
 - Declining average costs
 - Subadditivities
- Sunk cost → Monopolistic bottlenecks
- Welfare loss
- Implementation of Regulation

Concept of Yardstick Competition



- Shleifer 1985
 - Cost levels of identical firms
 - Shadow firm each firm will be measured against
 - No link between firm's costs and the prices
- Relative performance price cap
- Benchmarking
 - DEA
 - SFA
 - Regression analysis



Network Utilities

- “Network utilities are public utilities that require a fixed network to deliver their services, and include gas, electricity, water, rail, and fixed linked telephony.” (Newberry 2002: 1)
- Economies of scale, high sunk costs, high cost of duplication → one supplier of the network
- Regulating essential facilities
 - Network access
 - Unbundling of competitive sectors



Germany

- Bundesnetzagentur (BNetzA)
- Electricity sector
- Decentralised industry structure
- Revenue cap with hybrid elements
- Benchmarking costs of network operators
 - DEA, SFA, COLS
- After 2 regulatory periods change to yardstick competition



The Netherlands

- Office of Energy Regulation (DTe)
- Electricity sector
- Revenue cap including individual efficiency objectives
- Change to Yardstick competition in 2007 (regional distribution companies)
- Annual comparison of costs
 - Simplified version of DEA

The Airport Sector (outlook)



- Definition of the monopolistic bottleneck
- Comparison of airports
 - Size
 - Type of customer
 - Capacity utilisation
- International benchmarking
- Implementation
 - Direct translation of results
 - Using results as a basis



Thank you for your attention.