



**International deregulation practices and steps for achieving customer satisfaction**

# Market opening and liberalization

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# Market opening and liberalization provide two main benefits

## Main benefits from market opening and liberalization

### Fair and reasonable energy prices

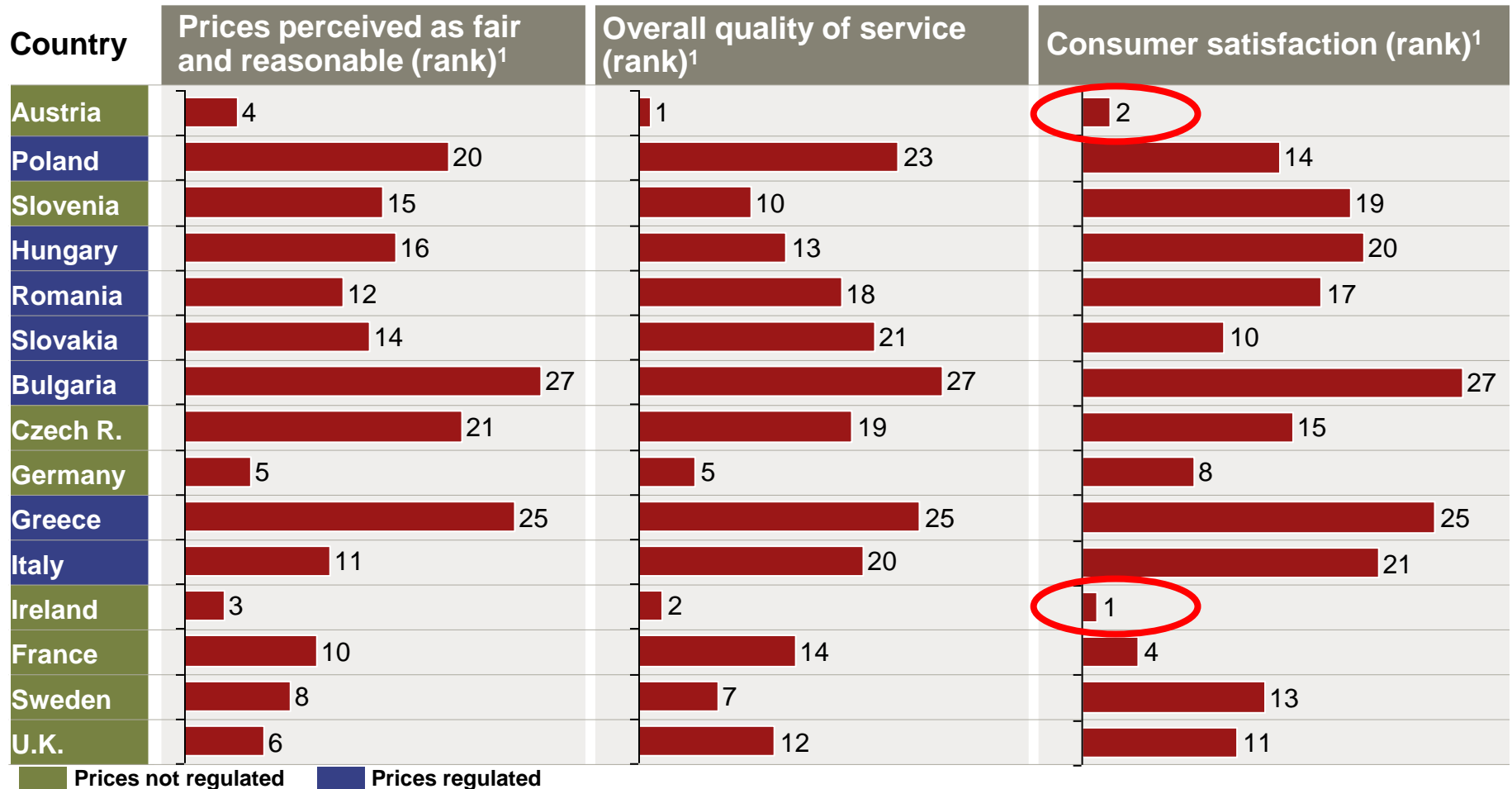
- After the initial price increase during market opening, prices significantly decreased when markets fully opened to competition
- Price reduction forced grid operators to realize heavy efficiency increases and be more profitable at the end

### Good quality of service

- System quality in developed markets is much higher than in recently opened markets
- The network losses in developed markets are generally lower than in recently opened markets and are mainly driven by technical reasons

# Fair prices and high service quality are key determinants for consumer satisfaction, characteristics of non-regulated markets

## Ranking of selected EU member countries 2011 <sup>1)</sup>



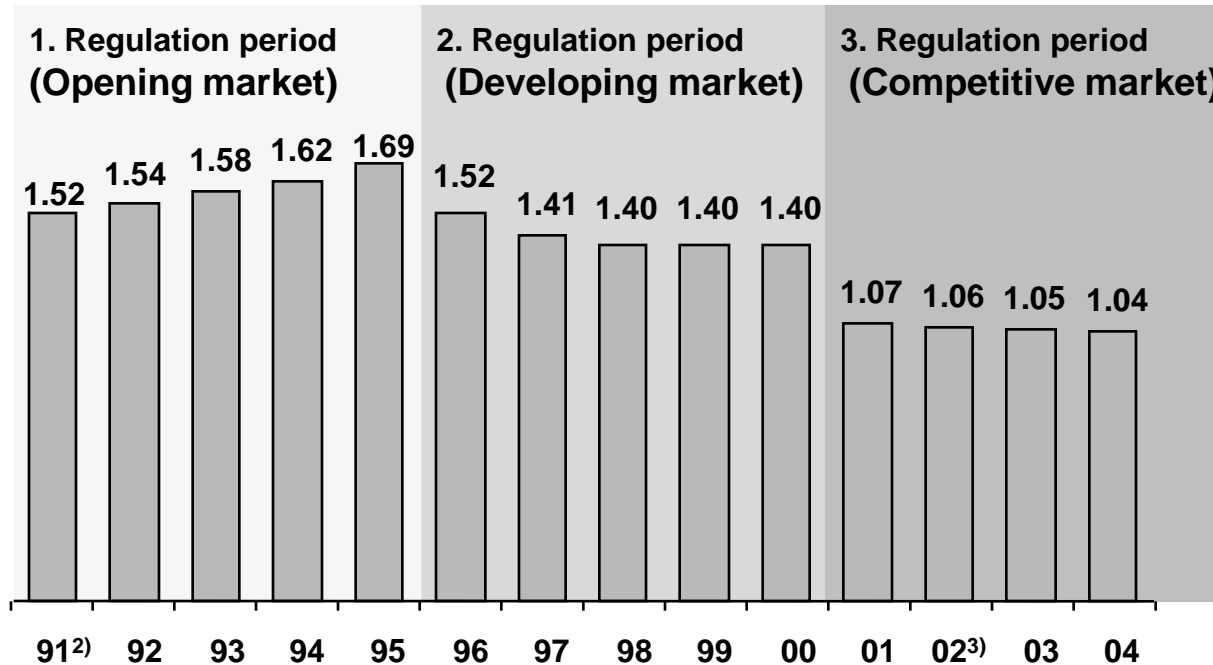
1) Rank among 27 EU member states in the study The functioning of retail electricity markets for consumers in the EU  
 Source: European Commission – Directorate General for Health & Consumers, A.T. Kearney

For instance, in UK cumulative price was 53% lower since start of deregulation – despite price pressure in the opening phase

Example UK

Development of grid tariffs in local distribution networks<sup>1)</sup>

– p/kWh –



- Regulation in 5 year interval
- 91-95: Tariff increase by 1,3% p.a. plus inflation compensation
- 96-00: Reduction by 25% in 96/97 afterwards -3% p.a. (incl. inflation compensation)
- 01-05: Reduction by 25% in 01 afterwards -3% p.a. (incl. inflation compensation)
- **In total there was a cumulated drop of grid tariffs by 53% from 1991 till 2004**

1) Weighted mean average of the 12 distribution grids in England and Wales

2) Last half year of previous year until first half year of year indicated

3) Inflationary rate 2002 and follow-up years estimated at 2%

Source: OFFER; OFGEM; (Office of Gas and Electricity Markets, UK) National Statistical Office; Electricity Association; Business Reports;

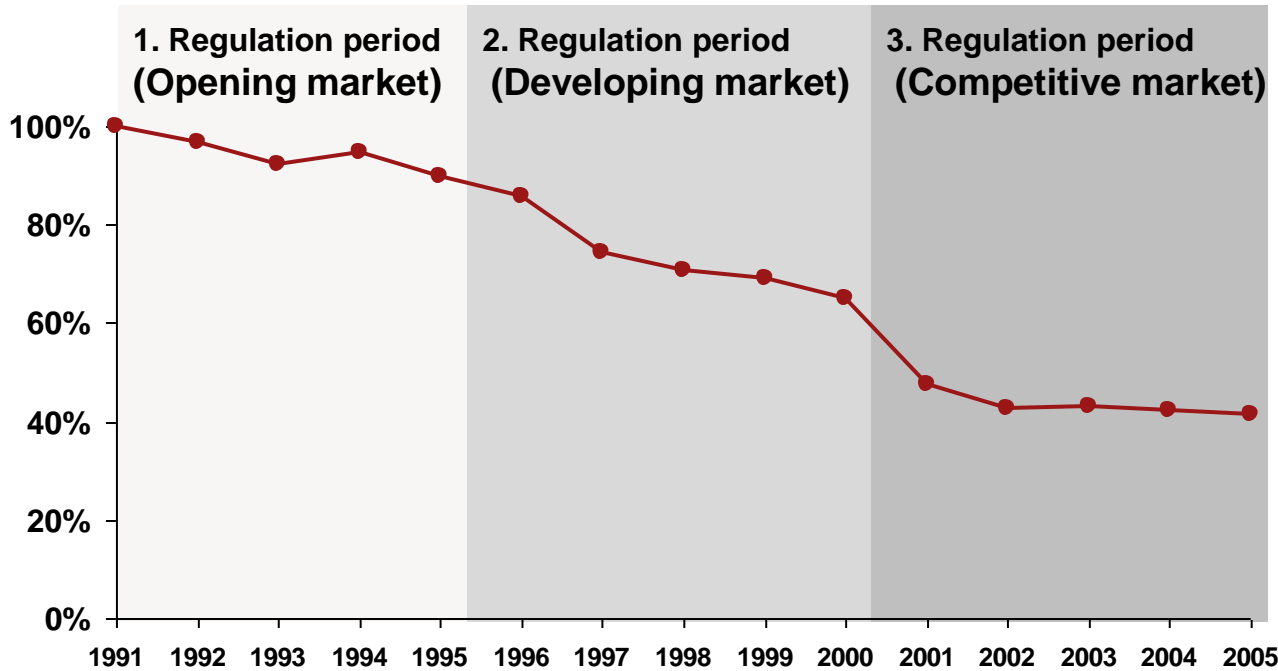
A.T. Kearney Analysis

Price reduction forced grid operators to realize heavy efficiency increases, and be more profitable at the end

**Development of average distribution cost index**

Example UK

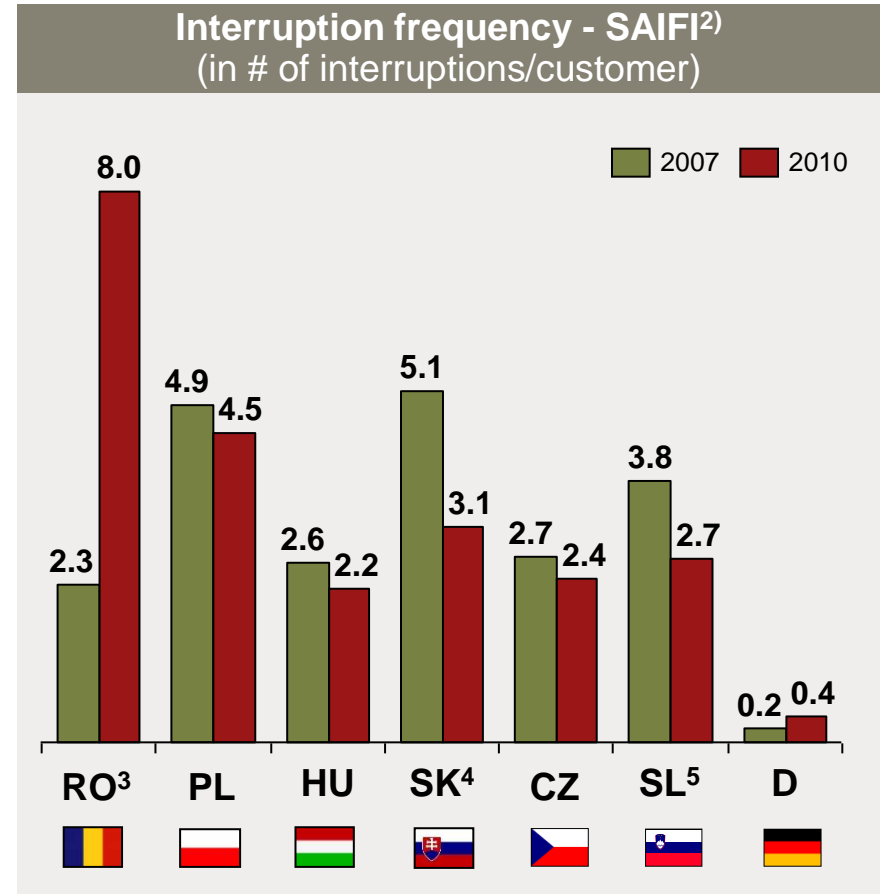
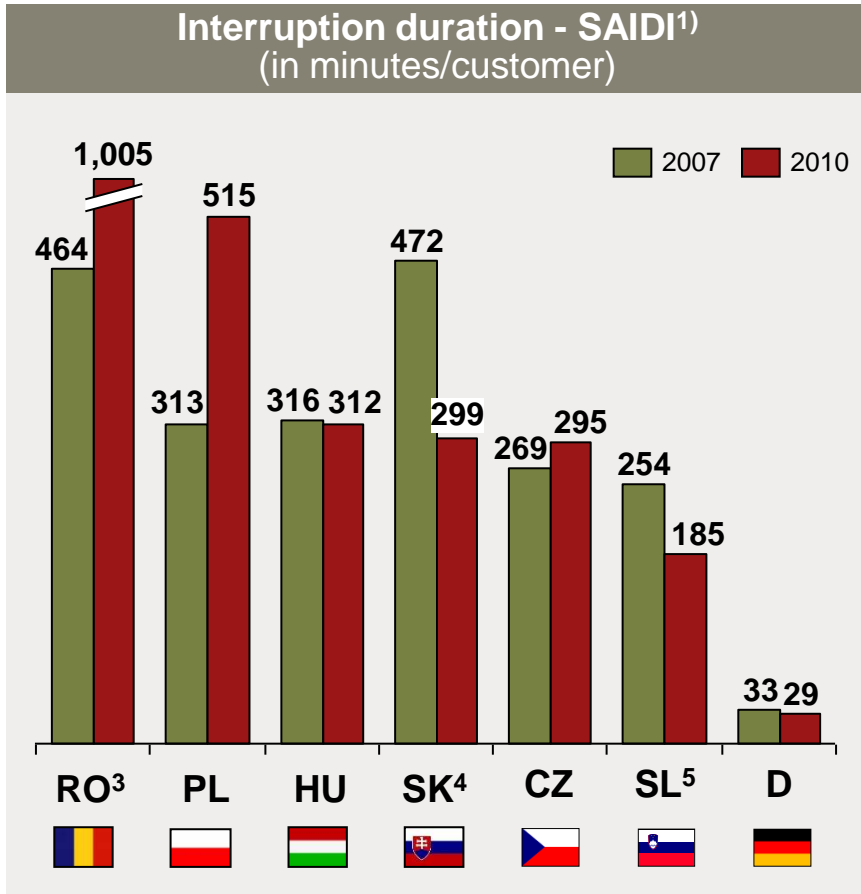
– % –



- The average distribution cost index decreased steadily along with increasing efficiency pressure
- There was a major downturn of grid costs in the developing phase
- After tackling key inefficiencies in the first two regulation periods grid cost and efficiency consolidate in the competitive market phase

# System quality in developed markets like Germany is much higher than in recently opened markets in Eastern Europe

## System quality indicators for 2007 vs. 2010



1) System Average Interruption Duration Index; 2) System Average Interruption Frequency Index; 3) Data from Romania was only available for 2009, not for 2010

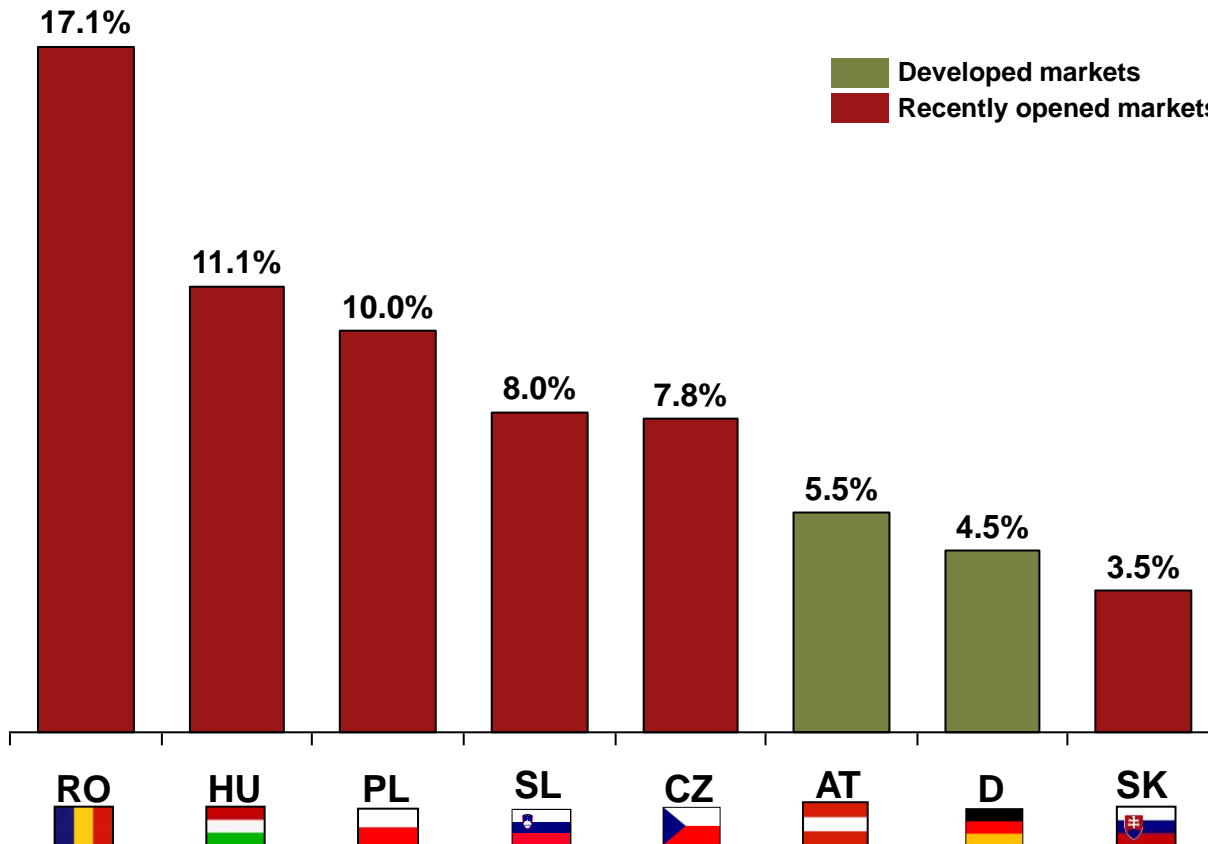
4) 2010 data for Slovakia is based on information of DSO SSE; 5) Aggregate data for Slovenia is available from 2008

Source: CEER, SSE annual report; A.T. Kearney

Also, the network loss in developed markets are generally lower and mainly driven by technical losses

**Network losses 2010<sup>1)</sup>**

– % –



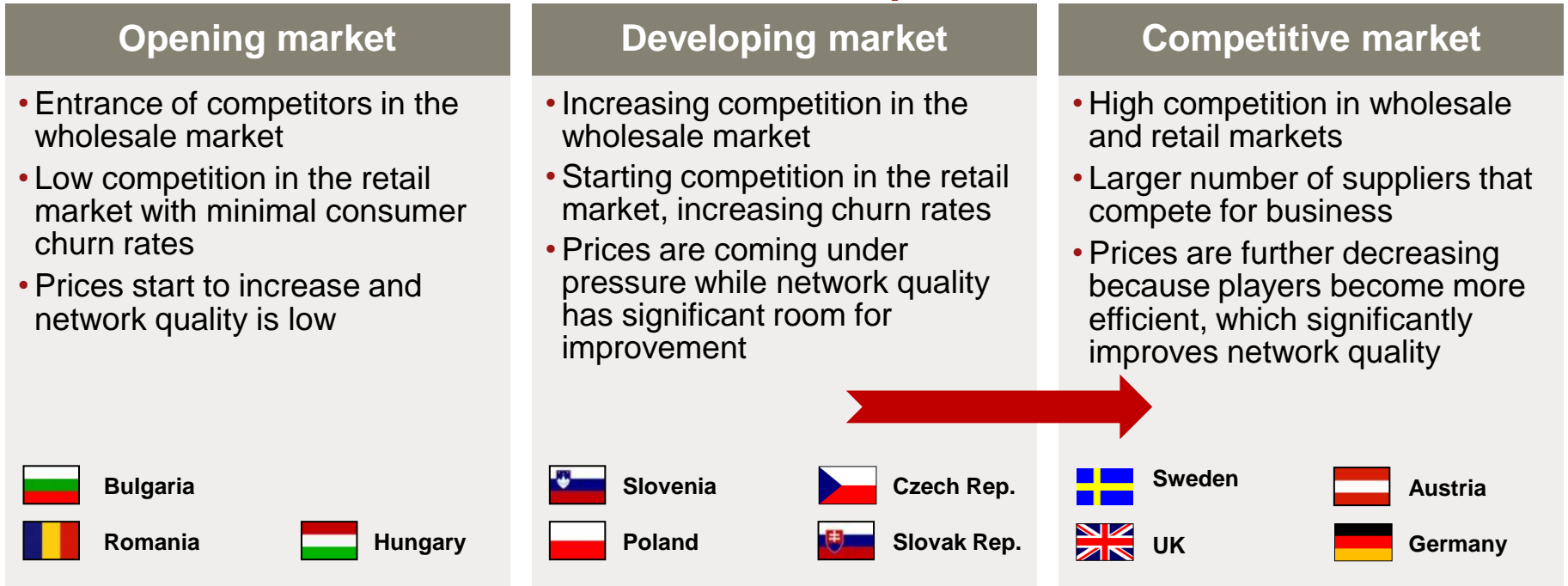
- In developed markets like Germany network losses are typically 5-8%, mainly driven by technical losses while theft rate is insignificant
- Slovak Republic has reduced its losses by almost 50% since 2005 due technical improvements in the network
- With 8% network losses, Slovenia has significant room for improvement

1) Network losses related to total electricity demand  
 Source: Eurostat, Member Country Regulatory Authority Reports, A.T. Kearney

According to international practices we can expect downward price pressure, requiring players to make further adjustments

**Market phase characteristics**

*Market development* 



**Key characteristics of competitive markets are fair and reasonable price perception by consumers and good quality of service**



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