



CASE ASSOCIATES



## Network Access

### Which Competition Policy for Regulated Industries

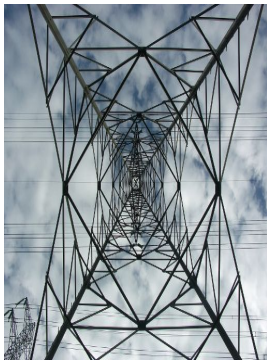
Istanbul, 5-6 September 2008

Dr Pinar Bagci

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### The Network Access Problem

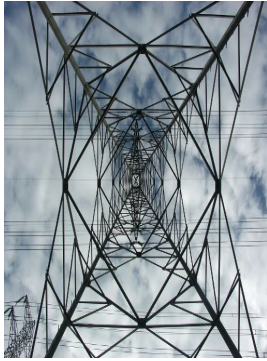


- Vertically integrated dominant incumbent
- Sets wholesale and retail price
- Provides essential input to downstream competitor
- Typical scenario in telecoms, media, energy, water, financial markets

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- MERGERS
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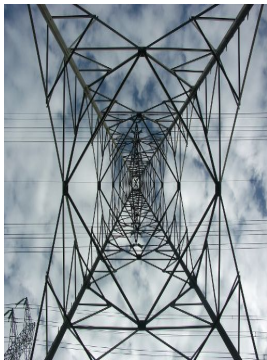
## Typical Network Access and Pricing Issues



- Price Discrimination
- Refusal to supply
- Investment hold-up
- Cross Subsidy
- Margin Squeeze
- Predatory Pricing
- Non-linear Pricing

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## Solutions Depend



On aims:

- Short-run productive efficiency?
- Long-run dynamic efficiency?
- Promote investment?
- Promote entry?

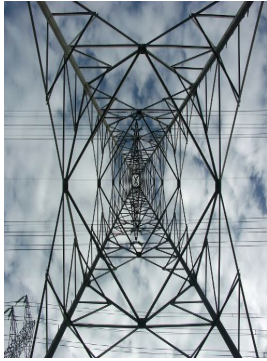
On sector characteristics:

- Number of access seekers
- Interconnection investment
- Investment requirements

On market size, growth and development

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## Example: Energy Sector



### EU Energy Directives

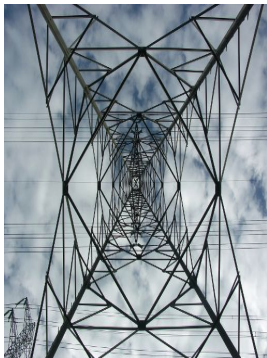
- Functional separation
- Regulated TPA
- Independent TSO

### EC Energy Sector Inquiry

- Insufficient unbundling
- No incentive to connect rival power plants
- No incentive to manage/relieve congestion
- No incentive to invest in interconnection

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## Possible Access Solutions

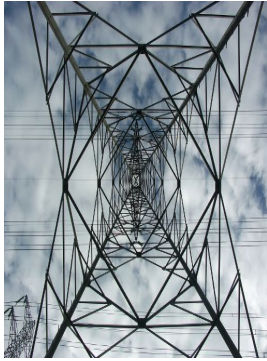


### ➤ Unbundling and Regulated TPA

- Retains scope/scale economies
- Promotes/rewards investment
- Reduces risk for incumbent
- Requires monitoring
- Could entrench monopoly costs
- Cost allocation problems
- Might deter entry

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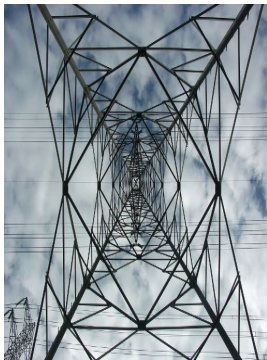
## Possible Access Solutions



- Functional and Physical separation
  - Transparent
  - Promotes entry
  - Duplicates costs
  - Investment hold-up problems
  - Possible coordination failures
  - Affects risks and costs
- ISO and TSO models



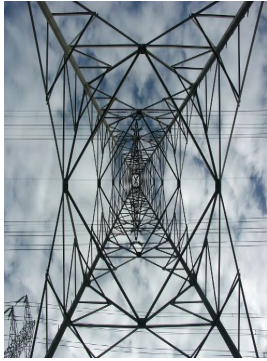
## Access Prices



- Cost reflective
- No undue discrimination
- Promote efficiency
- Avoid cross-subsidy
- At least LRIC
- Ramsey prices



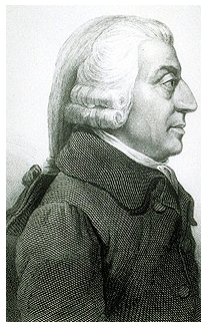
## Conclusions



- Network access solutions depend on aims, sector type, demand and investment requirements
- Sometimes a choice between dynamic and productive efficiency
- In small markets and with few access seekers (energy, water) behavioural approaches likely to prevail
- With many access seekers (telcos), pressure on structural unbundling

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## ABOUT CASE



ADAM SMITH  
FOUNDER OF MODERN ECONOMICS

- Founded in 1995
- Experts in the economics of network industries
- Assignments in communications, software, media, energy, finance, water, transport and many other sectors
- Wide experience of competition and regulatory matters in network industries
- Assist clients in competition and regulatory proceedings and before regulatory bodies and the courts

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