Evolution of economic approaches of public service in liberalised network industries

(Abstract)

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With liberalization of networks industries, market dynamics and technological innovations bring new configuration of public service and general interest obligations. Liberalization and competition reduces the public service to universal service obligation and protection of poor citizens, but in the same time the consumers’ power rises by the multiplication of services and innovations helped by competition.

Conversely new coordinations by short term markets which introduces market risks and price volatility questions general interest by not offering guarantee of long term reliability of service in capital intensive industries, which gives new specific responsibility to networks operators and sectoral regulators. Complementary approaches in terms of general interest are made necessary by liberalization in some industries (electricity, gas). The presentation will be focused on theoretical contributions to debates on the design of public service obligation and public policy instruments, and some critical issues.

Before liberalization economic theory was focused on tariff definition and incentive regulation of public service monopolies. Since then, economic research on public service networks focuses on the public service neutrality in the competition, the ruling of obligation by market (“pay or play” selection, attribution by competitive tendering), the way of funding it (public budget, uplift on consumer price, etc) and the selection of efficient instruments of public policy. Economic research also deals with the comparison of market-oriented instruments for guaranteeing capacity adequacy in electricity industry and for pursuing environmental objectives (taxation versus “cap and trade” with CO2 permits, green and white certificates) in electricity and gas industry. Theoretical issues on economic efficiency and imperfect competition are usefully raised, but research works tend to underestimate risks created by markets of property rights and by regulation uncertainties to orient the choice of decentralised competitors. Coordination by programming is made necessary to cope with long term issue of general interest.