What I think what I have learned from Michael’s presentation…

Achim I. Czerny
WHU – Otto Beisheim School of Management
Burgplatz 2, 56179 Vallendar
Tel.: +49 261 6509-223
Fax: +49 261 6509-DW
mailto: achim.czerny@whu.edu
URL: www.whu.edu

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What I think what I have learned from Michael's presentation…

Similarities between the UK gas distribution and railway network sector

- Network industries
- Vertical separation between up- and downstream markets
- Capital costs are similar
- Simple benchmarking methods are applied

Differences

- No international benchmarking in gas but in rail
- Generous price control review in gas, ambitious cost reduction plans in rail
- No subsidies in gas, lots of subsidies in rail
- Strong incentives for cost reductions in gas (revenue cap), questionable incentives in rail
- Bonus and penalty mechanism for the reduction of GHG emissions in gas, but no incentives to reduce GHG emissions in rail
- No output standards in gas but several in rail (safety, reliability, capacity)

What I think what I have learn from the chat with Michael about investments…

- Network rail is a private not-for-profit entity:
  - high costs can (at least partly) be covered by increasing infrastructure charges
  - incentives to really achieve cost reductions are reduced
- Revenue-caps as in gas will create stronger incentives to reduce costs
- Should we recommend to introduce revenue-cap regulation for NR?

- Large investments are more important in rail than in gas
- A cost-based approach could reduce investment risks and, hence, lead to large investments (high costs could be covered by increasing charges or subsidies)
- But, limited incentives to achieve capacity enhancements at lowest cost
- With revenue-cap regulation agreements to invest in capacity would lead to a higher revenue-cap, however, the change in revenue-cap might be too low and investments might be postponed into the distant future
- Ex-ante uncertainty about the right level of revenue caps can hinder investments

- Third option: revenue cap for NR and large investments are undertaken in a PPPs

Thank you!