



Ex-post evaluation of competition policy enforcement in energy markets: the E.ON abuse of dominance case by Tomaso Duso

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Summary

- **Alleged abuse of dominance** E.ON by withholding capacity
- Commitment E.ON: **divesture** of 5.000 MW (2009-2010)
- **Ex-post evaluation**: effect of divesture on wholesale prices
- **Difference in Difference** approach
- Counterfactual: prices during **peak** / **off-peak** hours
- Basic model for estimating prices: demand & supply drivers
- Results: strong and statistically significant **convergence effects** in short and long run
- **Robustness check**: placebo regression France and Spain
- **Caveats**: evidence of no type II error, but type I is uncertain

Alleged abuse of dominance

Theoretical starting point for ex-post assessment:

“The divestiture of generation capacity should lead to an increase in competition [...] which should lead to an increase in energy supply [...], which implies an outward shift of the supply schedule. Subsequently, wholesale prices should decrease c.p.”

- In this case: divestment leads to less market power of E.ON, which should reduce its possibility and incentive to withhold production capacity → outward shift of supply curve!
- However: ***alleged*** abuse.
What if ...What if no withholding has taken place ...?
- What would this mean for DiD assessment?

Difference in Difference approach

- DiD assesses convergence of wholesale prices during peak and off-peak hours over time → assumes all other factors have same effect on development peak and off-peak prices
- Peak and off-peak prices as counterfactual, because:
“a shift to a lower capacity schedule if capacity is withdrawn [...] would have much larger effects during peak time”.
- Is it possible that the convergence should (partially) be explained by the steeper slope of the supply curve during peak hours compared to off-peak hours?
 - What would this mean for DiD assessment?

Alternative approach?

- DiD tries to identify if prices during peak and off-peak hours (before - after divestiture) have converged and attributes the cause of this effect to the divestiture.

Possible alternative approach?

- Try to identify relationship between divestiture and energy supply by comparing supply curves before and after divestiture.
 - Assess if the alleged withheld capacity (before divestiture) is part of the supply curve after the divestiture.
- Note; in case of no difference this could also indicate that the alleged abuse has actually not taken place....

Thank you for your attention