The unbundling regime for electricity utilities in the EU: A case of legislative and regulatory capture?☆

S. van Koten⁎, A. Ortmann

CERGE-EI¹, P.O. Box 882, Politickyh veznu 7, 111 21 Praha 1, Czech Republic

A R T I C L E   I N F O

Article history:
Received 12 February 2008
Received in revised form 1 July 2008
Accepted 2 July 2008
Available online 7 July 2008

JEL classification code:
K49
L43
L51
L94
L98

Keywords:
Electricity markets
Regulation
Vertical integration
Corruption

A B S T R A C T

Theory and empirics suggest that by curbing competition, incumbent electricity companies which used to be, and here are referred to as, Vertically Integrated Utilities (VIUs), can increase their profitability through combined ownership of generation and transmission and/or distribution networks. Because curbing competition is generally believed to be welfare-reducing, EU law requires unbundling (separation) of the VIU networks. However, the EU allows its member states the choice between incomplete (legal) and complete (ownership) unbundling. There is tantalizing anecdotal evidence that VIUs have tried to influence this choice through questionable means of persuasion. Such means of persuasion should be more readily available in countries with a more corrupted political culture. This paper shows that among the old EU member states, countries which are perceived as more corrupt are indeed more likely to apply weaker forms of unbundling. Somewhat surprisingly, we do not obtain a similar finding for the EU member states that acceded in 2004. We provide a conjecture for this observation.

© 2008 Elsevier B.V. All rights reserved.

☆ We thank Libor Dusek, Randall Filer, Jan Hanousek, Peter Katsucak, Jan Kmenta, Thomas-Olivier Léautier, Jesse Rothenberg, Sergey Slobodyan, the participants at the EEA–ESEM 2007 conference, and two anonymous referees for their excellent comments. Financial support from the REFGOV Integrated project funded by the 6th European Research Framework Programme - CIT3-513420 is gratefully acknowledged.

⁎ Corresponding author.

E-mail addresses: Silvester.VanKoten@cerge-ei.cz, SilvesterVanKoten@gmail.com (S. van Koten), andreas.ortmann@cerge-ei.cz (A. Ortmann).

¹ A joint workplace of the Center for Economic Research and Graduate Education, Charles University, Prague, and the Economics Institute of the Academy of Sciences of the Czech Republic.