

## The EU is wrong to deter private equity investment

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The bill to liberalise Europe's energy networks, expected to be passed later this year by a large majority in the European Parliament, is aimed at addressing high energy prices caused in part by the lack of competition in the markets. French utility Gaz de France and German conglomerate RWE will be forced to sell their transmission infrastructure, and entrants will be given fair access to the grid.

But the European Commission's proposals for breaking up the continent's energy groups, which form the basis for the legislation, have also been drafted to deter private equity investment in energy companies. Eluned Morgan, Labour MEP and rapporteur of the parliament's energy committee, summed up the Commission's thinking when she said: "We are effectively saying that we don't want private equity and hedge funds taking them over."

The bill contains a caveat specifically intended to discourage private equity investment, by allowing national regulators to set strict minimum investment requirements. The desire to prevent private equity funds from owning energy infrastructure, in particular transmission networks or pipelines, illustrates the widely-held fear that liberalisation will conflict with the goal of ensuring security of supply. However, legislation based on misguided and inaccurate prejudices about private equity will do little to ensure the required investment is made in energy infrastructure. It will also undermine the ability of the market to deliver the best prices and services.

It is incorrect to assume that private equity firms are less responsible owners of utility industries than publicly-traded companies. The latter have systematically failed to invest substantial capital in their assets system as part of efforts to undermine competition from other gas suppliers. Italian energy conglomerate ENI and Germany's RWE have both faced accusations of strategic underinvestment in their transmission networks. As a result, Europe's woefully neglected distribution companies might be ideal candidates to benefit from the sort of management reorganisation and value creation that has been the touchstone of many private equity acquisitions in sensitive industries. Buyout firm Cinven, which recently acquired 25 hospitals in the UK from BUPA, was previously an investor in General Healthcare, which it developed into the number one private hospital provider in the UK.

A recent report by the chairman of the European parliamentary negotiating team, vice-president Alejo Vidal-Quadras, highlighted that it was crucial to "promote investments in infrastructures in a non-discriminatory way" if the energy market was to deliver the best prices and services. An internal energy market should allow "consumer choice of supplier in an open competitive environment." Such liberalisation should as a consequence, he said, contribute to the security of supply, given that "it is essential for every citizen of the [EU] to have affordable access to energy".

Allowing national regulators to set minimum investment requirements to score petty political points against private equity will undermine the achievement of the best prices and services and endanger that security of supply. Europe must rethink its assumptions about the ownership of utilities and other natural monopolies or risk merely exchanging one form of protectionism - against cross-border ownership - with another - against private equity.