

GENERAL INFORMATION

Course information	
Name	Economy of the Electric Power Industry
Code	ECO
Degree	Master in the Electric Power Industry (MEPI)
Year	2018-19
Semester	1 st
ECTS credits	6 ECTS
Type	Required
Department	-
Area	-
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DETAILED INFORMATION

Contextualization of the course
Contribution to the professional profile of the degree
The objective of the course is to become familiar with electric power systems' microeconomic and financial fundamentals. The concepts presented in this course will set the foundations for the proper understanding of stakeholders' decision-making process in the electricity industry.
Prerequisites
There are not prerequisites for this course. The course assumes the student is not familiar neither with microeconomics nor with financial analysis.

CONTENTS

Contents
Theory
Chapter 1. Microeconomic Analysis of the Electric Power Industry
<ul style="list-style-type: none"> 1.1 Demand and supply 1.2 Centralized context 1.3 Perfect competitive markets 1.4 Monopoly 1.5 Oligopoly
Chapter 2. Financial Statements Analysis
<ul style="list-style-type: none"> 2.1 Financial statements. Structure of balance sheet and income statement 2.2 Balance sheet analysis: assets, equity and liabilities 2.3 Income statement analysis: revenues & expenses 2.4 Cash flow statement analysis 2.5 Case study
Chapter 3. Costs and Return Analysis
<ul style="list-style-type: none"> 3.1 Economic and Financial Return. Value Creation and Financial Leverage. 3.2 Economic and Financial Analysis. Ratios. 3.3 Generation and distribution costs. Discounted cash flow valuation. 3.4 Case studies.
Chapter 4. Electricity Industry Financing
<ul style="list-style-type: none"> 4.1 Introduction. Objectives and financial policies. 4.2 Cost of Capital. Optimal financial structure 4.3 Financial needs and working capital management 4.4 Alternatives for financing. Risk analysis and risk management 4.5 Analysis and valuation of electricity companies by financial markets
Chapter 5. Strategy in the Electricity Sector
<ul style="list-style-type: none"> 5.1 Introduction to strategy in the electric power industry 5.2 Business models in the electricity industry 5.3 Build, borrow or buy framework 5.4 Case presentations

Competences and Learning Outcomes

Competences

Basic Competences

CB2 Being able to apply and integrate the knowledge, the comprehensiveness of them, the scientific founding and their abilities to solve problems in new environments and defined in an imprecise manner, including multidisciplinary contexts as highly qualified researches and professionals.

Specific Competences

CE7 Being able to transfer theoretical concepts of Microeconomics to the study and analysis of the real markets.

CE8 Understand the accounting and financial regime of a company and know the general mechanisms for settlement of the sector. As well, to be able to realize the investment analysis in an electricity company and understand the main aspects of strategic management of the sector.

Learning outcomes

By the end of the course students should be able to:

- LO1. Understand the drivers behind demand and supply behavior.
- LO2. Understand the efficiency gains a market environment can achieve,
- LO3. Understand why the market does not always do its job. In this respect, the student will be able to identify the most relevant market failures affecting electricity markets
- LO4. Understand the most relevant financial concepts, with a particular focus on the electricity industry.
- LO5. Use some well-known techniques and methods aimed to analyze electricity companies' financial position.
- LO6. Understand the electricity company's strategy

TEACHING METHODOLOGY

General methodological aspects of the course	
Classroom Methodology: Activities	Competences
<p>Lectures. Description of the course contents and open discussion of concepts. The students have also to try to respond to the numerous questions posed by the instructors throughout the lecture (54 hours).</p> <p>Oral presentations. The students have to discuss with the instructors the most relevant aspects of their work (6 hours).</p> <p>Tutorial activities. Available according to the need of the student. (5 hours)</p>	<p>CB2, CE7, CE8</p> <p>CB2</p> <p>CB2, CE7, CE8</p>
Non-Classroom Methodology: Activities	Competences
<p>The classroom activity should be complemented by the individual student work performed out of class.</p> <p>Personal study. Study of the course contents (90 hours).</p> <p>Term task. The student has to apply the theoretical concepts reviewed in class on real cases (25 hours).</p>	<p>CB2, CE7, CE8</p> <p>CB2</p>

GRADING

There are five blocks in the course. Each of these blocks has a different instructor and a different grading system (described below). The total grade of the course will be the weighted average of the five parts, where weights are given by each part in proportion of sessions.

In order to pass the course in the regular assessment period, it will be needed a minimum grade of 3,5 (out of 10) in each of the five parts, and an average equal or above 5.

In case that the student does not pass the course, the final grade in the regular assessment period will be the lowest of the five marks, and the student will have to retake all the blocks with less than 5 points (the grade corresponding to blocks with 5 or more points will be maintained). The total grade of the course after the retake will again be the weighted average of the five parts, where weights are given by each part in proportion of sessions.

3.1 Grading in the regular assessment period:

Block 1: Microeconomics

Evaluation activities	Evaluation Criteria	Weight
Exams (2) Exams is a combination of short questions, multi-option test and problems.	- Concept understanding - Application of concepts to the solution of practical problems	90 % (20 % and 70 %)
Participation in the class	- Contribution to the class discussions	10%

Block 2: Financial Statements Analysis

Evaluation activities	Evaluation Criteria	Weight
Exam Exams is a combination of short questions, multi-option test and problems.	- Concept understanding - Application of concepts to the solution of practical problems	75 %
Participation in the class	- Contribution to the class discussions	10%
Business case <ul style="list-style-type: none"> Analysis of a real business case. 	- The term task will be evaluated based on the quality of the analysis and the application of the concepts introduced in class.	15%

Block 3: Cost and Return Analysis

Evaluation activities	Evaluation Criteria	Weight
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<u>Exam</u> Exams is a combination of short questions and multi-option test.	- Concept understanding - Application of concepts to the solution of practical problems	90 %
<u>Participation in the class</u>	- Contribution to the class discussions	10%

Block 4: Electricity Industry Financing

Evaluation activities	Evaluation Criteria	Weight
<u>Exam</u> Exams is a combination of short questions, multi-option test and problems.	- Concept understanding - Application of concepts to the solution of practical problems	90 %
<u>Participation in the class</u>	- Contribution to the class discussions	10%

Block 5: Strategy in the Electricity Sector

Evaluation activities	Evaluation Criteria	Weight
<u>Participation in the class</u>	- Contribution to the class discussions	40%
<u>Exam</u>	The final case presentation will be evaluated from two points of view: - The quality of the analysis itself, the clarity and comprehensiveness of the assessment. - The oral presentation of the work, the way the students build up their discussions and their ability to back their proposals and to respond to the questions received.	60%

3.2 Retake

Retakes
In case the student does not pass the course in the regular period, she/he will have to retake all blocks with an individual grade below 5 points. The dates of the retake evaluation period will be

announced in the web page. The grading system of each block in the retake are those described below.

Each of the five chapters (parts) will have the following grading system in the corresponding retake:

- Block 1 (Microeconomics): exam (100%)
- Block 2 (Financial Statements Analysis): exam (100%)
- Block 3 (Cost and Return Analysis): exam (100%)
- Block 4 (Electricity Industry Financing): exam (100 %)
- Block 5 (Strategy): case presentation (100 %).

In order to pass the course it will be needed a minimum grade of 3,5 (out of 10) in each of the five parts. As in the regular assessment period, in order to pass the course, the average mark must be at least 5 out of 10 points (the grade corresponding to the blocks with 5 or more points in the regular period will be maintained to compute the average). Otherwise, the final grade will be the lowest of the five marks.

WORK PLAN AND SCHEDULE¹

Class	Content
1	Introduction to the course - Introduction to Microeconomics
2	Demand and supply (i)
3	Financial statements. Structure of balance sheet and income statement.
4	Balance sheet analysis: assets, equity and liabilities
5	Demand and supply (ii)
6	Economics in the centralized context (i)
7	Income statement analysis: revenues & expenses
8	Cash flow statement analysis
9	Economics in the centralized context (ii)
10	Perfect competitive markets (i) and test
11	Case study (1)
12	Case study (2) and test
13	Perfect competitive markets (ii)
14	Monopoly and oligopoly (i) and test
15	Economic and Financial Return. Value Creation and Financial Leverage.
16	Economic and Financial Analysis. Ratios.
17	Generation and distribution costs. Discounted cash flow valuation.
18	Case studies.
19	Intro. Objectives and financial policies
20	Cost of Capital. Optimal financial structure
21	Financial needs and working capital management
22	Alternatives for financing. Risk analysis and risk management (1/2)
23	Risk analysis and risk management (2/2). Project financing and non-recourse debt
24	Analysis and valuation of electricity companies by financial markets
25	Introduction to strategy in the electric power industry

¹ A detailed work plan of the subject can be found in the course summary sheet (see the last pages).

26	Business models in the electricity industry
27	Build, borrow or buy (I)
28	Build, borrow or buy (II)
29	Strategy in the electric power industry
30	Case presentations

SCHEDULE

SUMMARY OF WORKING HOURS OF THE STUDENT			
CLASSROOM HOURS			
Lectures	Oral presentations		
54	6		
NON-CLASSROOM HOURS			
Personal study	Personal work in case studies	Tutoring	
95	25	5	
ECTS CRÉDITS:			6 (180 hours)

BIBLIOGRAPHY

Basic bibliography
<ul style="list-style-type: none"> Presentations provided by the instructors
Complementary bibliography
<p>Microeconomics</p> <ul style="list-style-type: none"> 2013, I.Pérez-Arriaga "Regulation of the Power Sector". Chap. 2, "Power System Economics", M.Ventosa, P.Linares, I.Pérez-Arriaga 1986, Samuelson and Nordhaus, "Economics" 2005, Viscusi, Harrinton & Vernon "Economics of Regulation and Antitrust" 1992, Varian, "Microeconomic Analysis" 1990, Tirole, "The Theory of Industrial Organization" <p>Financial Analysis</p> <ul style="list-style-type: none"> 1999, G. Bennett Stewart III "The Quest for Value" 2010, Mckinsey & Company, "Valuation, Measuring and Managing the Value of Companies". 2000, Richard A. Brealey and Stewart C. Myers, "Principles of Corporate Finance". Aswath Damodaran, "Applied Corporate Finance: A User's Manual". 2003, Anthony Rice, "Account Demystified", Pearsons education <p>Strategy</p> <ul style="list-style-type: none"> 2008, David J. Collis and Michael G. Rukstad, "Can You Say What Your Strategy Is?" HBR 2008 2004, W. Chan Kim, Renée Mauborgne, "Value Innovation - The Strategic Logic of High Growth", HBR 2004 2007, Robert S. Kaplan and David P. Norton "Using the Balanced Scorecard as a Strategic Management System", July–August 2007 2003, Paul M. Healy and Krishna G. Palepu Paper, "The Fall of Enron", Journal of Economics Perspectives, Volume 17, Number 2. (Spring 2003), pp. 3-26; Up to page 10

- 2010, McKinsey, “The five types of successful acquisition”, McKinsey on Finance Number 36, Summer 2010

WORK PLAN (i/ii)

Week	h/w	Class	Content	In-class activities		h/w	Out of Class activities			Learning outcomes	
				Lecture and problem solving	Assessment		Self-study	Problem solving	Individual and in-group assignments	Learning outcomes	Description
1	4	1	Introduction to the course - Introduction to Microeconomics			6	Review and self-study			LO1	Introduction to the course
		2	Demand and supply (i)							LO1	Introduction to Economics and to general principles of Microeconomics
2	4	5	Demand and supply (ii)			6				LO1	Understand supply and demand diagrams Introduce demand and supply elasticity. Consumer and producer surplus
		6	Economics in the centralized context (i)				Review and self-study			LO1	Understand supply and demand diagrams Introduce demand and supply elasticity. Consumer and producer surplus
3	4	9	Economics in the centralized context (ii)	Problem solving		6	Review and self-study	Problem solving		LO1	The all-knowing, all-powerful perfect benevolent planner. The concept of net social welfare
		10	Perfect competitive markets (i) and test	Problem solving	Exam					LO2	The all-knowing, all-powerful perfect benevolent planner. The concept of net social welfare
4	4	13	Perfect competitive markets (ii)	Problem solving		6	Review and self-study			LO2, LO3	Characterization of a perfect competitive market Analysis of supply and demand equilibrium in the electricity markets
		14	Monopoly and oligopoly (i) and test		Exam			Problem solving		LO3	Imperfect competition and monopolies. Oligopolistic models and market agent's behavior in oligopolistic markets. Market power indexes. Final Text.
5	4	3	Financial statements. Structure of balance sheet and income statement.			6	Review and self-study			LO4	Introductory session to the Financial Statements: information contained, different types, basic principles used to prepared them, objectives and main users. Preliminary analysis of the structure and basic concepts of the Balance Sheet and the Income Statement.
		4	Balance sheet analysis: assets, equity and liabilities							LO4	Different types of balance Sheet. Practical approach, analysing Iberdrola's Financial Statement
6	4	7	Income statement analysis: revenues & expenses			6	Review and self-study			LO4	Analysis of the Income Statement, Study of the different margins shown in an Income Statement: contribution margin, EBITDA, EBIT, EBT and Net Result.
		8	Cash flow statement analysis							LO4	Basic concepts and methods to prepare a Cash Flow Statement, Review of the different kinds of Cash Flows. Free Cash Flows and Net Cash Flow. Analysis of Iberdrola's Cash Flow.
7	4	11	Case study (1)	Problem solving	Case study	6	Review and self-study	Problem solving	Case study	LO4, LO5	Comprehensive exercise to elaborate and interpret a set of Financial Statements: Balance Sheet, Income Statement and Cash Flow. To be prepared and presented in groups in class.
		12	Case study (2) and test	Problem solving	Case and exam						LO4, LO5
8	4	15	Economic and Financial Return. Value Creation and Financial Leverage.			6	Review and self-study			LO4, LO5	The Electricity Business: Departing from UNESA's income account a description of the main cost items of the electricity business is made for both operating and capital costs
		16	Economic and Financial Analysis. Ratios.							LO4, LO5	Ratios: the use of financial ratios by the financial analysis is explained. The notions of financial leverage and value creation are introduced

WORK PLAN (ii/ii)

Week	h/w	Class	Content	In-class activities		h/w	Out of Class activities			Learning outcomes	
				Lecture and problem solving	Assessment		Self-study	Problem solving	Individual and in-group assignments	Learning outcomes	Description
9	4	17	Case studies			6	Review and self-study			LO4, LO5	Case studies: the previously explained concepts and analytical tools are applied to the consolidated financial statements of a relevant electricity group of companies.
		18	Generation and distribution costs. Discounted cash flow valuation.		Exam						
10	4	19	Intro. Objectives and financial policies			6	Review and self-study			LO4, LO5	The objective of the firm, the positioning of the financial function within the company and the strategic decisions of financial management (investment, financial infrastructure, dividend, financial communication).
		20	Cost of Capital. Optimal financial structure								
11	4	21	Financial needs and working capital management			6	Review and self-study			LO4, LO5	Financial Planning Process (short and long term). Working Capital Management. Banking instrument for the short term financial management.
		22	Alternatives for financing. Risk analysis and risk management (1/2)								
12	4	23	Risk analysis and risk management (2/2). Project financing and non-recourse debt			6	Review and self-study			LO4, LO5	The concept of Project Finance. Pros and cons vs. Corporate Financing. Requirements of an investment to structure a Project Finance. The economic model and the risk identification and mitigation process.
		24	Analysis and valuation of electricity companies by financial markets		Exam						
13	4	25	Introduction to strategy in the electric power industry			6	Review and self-study			LO4, LO5	Key concepts of Business Unit Strategy. Readings & Discussion: What is strategy?
		26	Business models in the electricity industry								
14	4	27	Build, borrow or buy (I)			6	Review and self-study		Case study	LO6	Business Plans. Readings & Discussion: How to write a great business plans.
		28	Build, borrow or buy (II)								
15	4	29	Strategy in the electric power industry			6	Review and self-study			LO6	
		30	Case presentations		Exam						