

# Impact Parameters on Electricity Prices in Liberalised Electricity Markets

Reinhard Haas

Energy Economics Group, Vienna University of Technology, Vienna, Austria  
<Reinhard.Haas@tuwien.ac.at>

A major motivation for the promotion of the liberalisation of electricity markets is the assumption that it will lead straightforward to competitive prices in electricity generation as well as electricity supply. In this paper, we argue that this is an illusion. If liberalisation, deregulation, and privatisation are the only elements of restructuring it will not lead to competitive electricity prices but rather to the opposite: oligopoly or even monopoly prices due to the exertion of market power.

We pretend that the following parameters have a strong influence on whether it is possible to bring about real competitive prices:

- the existence of excess capacities;
- a rigorous separation of the grid from generation and supply;
- a large number of generators; a large number of suppliers;
- an equilibrium between short-term (e.g. balancing and spot markets) and long-term markets (e.g. bilateral contracts, forwards)
- a 100% liberalised market;

To verify this hypothesis in this paper the experiences of various liberalised markets are analysed. A very important role in this context plays the volatility of a primary energy source like hydropower. If no sufficient back-up capacities exist shortages in hydro power will lead to substantial price spikes.. The major conclusions are: All five conditions described above must be fulfilled simultaneously to bring about competitive electricity prices! If only one of these conditions is missing, competition will remain an illusion and the result is a distorted market again. In the worst case, even more distorted markets emerge than before the start of restructuring. In this case, the recommendation to a government is: Revise and improve your regulation system but hands off from liberalisation, privatisation and deregulation!

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