

What future(s) for liberalized electricity markets: efficient, equitable or innovative?

EPRG Working Paper 1705

Cambridge Working Paper in Economics 1714

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Abstract Well-designed electricity liberalization has delivered efficiency gains, but political risks of decarbonizing the sector have undermined investment incentives in energy-only markets, while poorly designed regulated tariffs have increased the cost of accommodating renewables. The paper sets out principles from theory and public economics to guide market design, capacity remuneration, renewables support and regulatory tariff setting, illustrating their application in a hypothetical high capital cost low variable cost electricity system in “Andia” that resembles Peru. Such characteristics are likely to become more prevalent with increasing renewables penetration, where poor regulation is already threatening current utility business models. The appendix develops and applies a method for determining the subsidy justified by learning spillovers from solar PV.

Keywords Electricity market design, tariffs, renewables support, utilities

JEL Classification D44, L51, L94, Q40, Q48, Q51

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Publication
Support

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March 2017

The paper is the revised version of the Presidential address to the IAEE during the author’s presidency of 2013

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