

Robustness of various capacity mechanisms to regulatory errors

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Abstract

In the EU, several governments have introduced or are contemplating a capacity mechanism to ensure adequate investment in generation capacity. Previous research has focused on the impacts of capacity mechanisms on installed capacity and cost to consumers in case of efficient regulation. By contrast we find that the choice between capacity mechanisms may be influenced by the extent of regulatory errors as well as whether the mechanisms evaluated from the perspective of consumer cost or from a welfare perspective.

Keywords Electricity Market Investment, Capacity Mechanism, Strategic Reserve, Reliability Contract, Capacity Payment, Regulatory Inefficiency

JEL Classification

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