

Market power issues in the reformed Russian electricity supply industry

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Abstract

The paper examines long-run and short-run levels of market power in the liberalised Russian electricity market. We observe that despite potential for market power abuse, actual exercise of market power as measured by price-cost markups remained low. We attribute the result to the bid-at-cost rule implemented as a part of a special unit commitment procedure on the day-ahead market. We first look at the restructured industry and discuss the mergers and acquisitions and their impact on competition in long term. The M&A were undertaken in different market zones and thus did not seem to increase concentration (HHI remains almost unchanged) although with future zone integration competition in long run is put at risk. We then examine short-run level of market power by estimating hourly price-cost mark-ups and assessing their dynamics in 2010 and 2011, a year preceeding and following the market liberalisation respectively. Using time series models (AR models) we reject hypothesis of actual market power abuse. Further, using a Tobit regression we find that the liberalisation decreased the mark-ups by about 1.66 percentage points. .

.Keywords

Russian electricity market, liberalisation, market power, concentration, price-cost mark-ups

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