

Merchant and regulated transmission: theory, evidence and policy

EPRG Working Paper 1128

Cambridge Working Paper in Economics 1160

Stephen Littlechild

Abstract

Economists acknowledge the problems of regulated transmission but take different views about the likely efficiency of merchant transmission. This paper examines the evidence on alleged market failure and regulatory failure as experienced in practice in Australia and Argentina. In these examples, merchant transmission (broadly defined to include private initiatives) has generally not exhibited the standard examples of market failure but regulated transmission generally has exhibited the standard examples of regulatory failure. Imperfect information – more specifically, in the form of lack of coordination – has often been a challenge whatever the approach. Policy should therefore seek to improve the regulatory framework and to remove barriers to merchant transmission and private initiatives. An important role for regulation is to facilitate coordination between potential providers and users of transmission lines.

Keywords regulated transmission, market transmission

JEL Classification L33, L51, L94

Contact
Publication
Financial Support

sclittlechild@tanworth.mercianet.co.uk
October 2011
ESRC Follow-on Fund

