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Strengths and Weaknesses of the British Market Model

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Abstract

The UK privatized the electricity supply industry from 1989 in the expectation that private ownership and incentive regulation would invest and operate sufficiently more efficiently to offset the higher cost of private finance. This was achieved in the first two decades, assisted by spare capacity, contract-based entry of new efficient and cheap CCGTs, and regulatory pressure on transmission and distribution companies. The climate change imperative to decarbonize requires massive durable and very capital-intensive investment that casts doubt on the liberalised financing model. In the past 30 years, much has been learned about mitigating market power, the failings of an energy-only market, and the potential distortions of poorly designed prices for renewables and tariffs for networks. Innovation has been successfully stimulated though competitions. Efficiency, falling renewable costs and the carbon tax have almost completely driven coal out of the system.

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