

Lev S. Belyaev

Electricity Market Reforms

Economics and Policy Challenges



Springer

Contents

1	Introduction	1
2	Electric Power Systems, Their Properties, and Specific Features	7
2.1	General Definitions and Classification of EPSs	7
2.2	Benefits of Creating and Interconnecting EPSs	9
2.3	Properties of EPSs	15
2.4	Electric Power Industry in Planned and Market Economies	23
3	Electric Power Industry in the Context of Microeconomics	31
3.1	Basic Notions of Microeconomics	31
3.1.1	Production Cost	34
3.1.2	The Firm's Costs in the Short Run	35
3.1.3	Marginal Costs and the Supply Curve of the Firm	36
3.1.4	The Firm's Costs in the Long Run	39
3.2	Types of Markets for Commodities, Resources, and Services	41
3.2.1	Markets with Perfect Competition	43
3.2.2	Monopoly Market	45
3.2.3	Oligopoly	47
4	Models of Electricity Market Organization	51
4.1	Basic Models of Electricity Market Organization	51
4.1.1	Model 1—Regulated Natural Monopoly	51
4.1.2	Model 2—Single Buyer	54
4.1.3	Model 3—Competition in the Wholesale Market	56
4.1.4	Model 4—Competition in the Wholesale and Retail Markets	59
4.2	Comparison of Models: Criteria, Factors, Competition, and Regulation	61
4.2.1	Possibilities for Creation of Stimuli to Increase Efficiency of Electricity Production Under Tariff Regulation	65
4.2.2	Qualitative Analysis and Comparison of Models	67
4.3	Flaws of the Competitive Electricity Market	72

5	Short-Run Production Costs and Electricity Markets	77
5.1	Relationship Between Short-Run (Yearly) and Hourly (Instantaneous) Costs of Power Plants and EPS Generation Sphere	77
5.1.1	Mathematical Expression of Links Between Short-Run and Hourly Costs	78
5.2	Spot Electricity Markets: Pitfalls in Their Organization	83
5.3	Short-Run Costs of Power Plants	88
5.3.1	General Conditions, Dependences, and Assumptions	89
5.3.2	Short-Run Costs of HPPs	94
5.3.3	Short-Run Costs of NPPs	95
5.3.4	Short-Run Costs of CPPs on Fossil Fuel	96
5.3.5	Short-Run Costs of CGPPs	101
5.3.6	Comparison of Short-Run Costs of Power Plants with Costs of "Typical" Firms	105
5.4	Short-Run Costs of Generation Companies and Price Formation in the Wholesale Electricity Market	107
5.4.1	Short-Run Costs of VICs	108
5.4.2	VIC Costs as Applied to the European Section of Russia's UPS	111
5.4.3	Costs of PGCs and Wholesale Prices in the Competitive Market	115
5.4.4	About Market of Long-Term Contracts	122
6	EPS Expansion Under Different Market Models	127
6.1	Financing Mechanisms for Construction of Power Plants	127
6.2	Models of Price Formation and Their Analysis	137
6.3	Generation Costs in the Long Run	149
6.3.1	Long-Run Costs of Power Plants	150
6.3.2	Long-Run Costs of VIC's Generation Sphere	151
6.3.3	Long-Run Costs of PGCs	153
6.4	Price Barrier for New Power Plants in the Competitive Market	155
6.4.1	Initial Principles, Conditions, and Assumptions	156
6.4.2	Comparison of Costs of Operating and New Power Plants	156
6.4.3	Price Barrier in the Long Run	158
6.5	Substantiation of the Efficiency of Intersystem and Interstate Electric Ties Under Different Models of Market Organization	163
6.5.1	The Situation Under Regulated and Competitive Electricity Markets	164
6.5.2	Benefits or Losses Due to Electricity Export	167
6.5.3	Possibilities for Realization of Capacity Effect of Interconnecting Power Systems	168

6.5.4	Difficulties in Substantiating Financial Efficiency of Interstate Ties Under Competitive Market	173
7	Worldwide Experience in Electric Power Industry Restructuring	177
7.1	Power Industry Restructuring in the USA and Canada	178
7.1.1	The Start of the Reform in the USA	178
7.1.2	Energy Crisis in California	179
7.1.3	Reform Outcome	180
7.1.4	Expansion of Generation Capacities	183
7.1.5	Canada	184
7.2	Positive Examples of Markets with Regulated Prices	185
7.2.1	China	186
7.2.2	India	187
7.2.3	South Korea	188
7.2.4	France	189
7.2.5	Japan	190
7.3	Experience of Implementing the Competitive Electricity Markets	191
7.3.1	Brazil	192
7.3.2	Argentina	193
7.3.3	Chile	194
7.3.4	Great Britain	194
7.3.5	Scandinavian Countries	197
7.3.6	Other Western European Countries	198
7.3.7	Australia	198
8	Power Industry Reforms in Russia	203
8.1	The Reform of the 1990s	203
8.2	Further Restructuring with Transition to the Competitive Market	208
8.3	Forecast for the Years 2010–2020	215
9	Conclusion: Main Results and Directions for Further Research	223
9.1	Relatively New Results Obtained in the Book	223
9.2	Practical Experience of Power Industry Restructuring	227
9.3	Analysis of Initial Principles (Arguments, Postulates) of the Competitive Electricity Market Conceptions	232
9.4	General Conclusions	234
9.5	Directions for Further Studies	235
Appendix A	Derivation of Expressions for the Investment Component of Electricity Price (Tariff)	237
A.1	Competitive Market (Mechanism 3 of Financing)	237

A.2	Regulated Monopoly with Self-Financing (Mechanism 1 of Financing)	239
A.3	Regulated Monopoly Borrowing Credits and Single-Buyer Market (Financing Mechanism 2)	240
References	243
Index	249