



2nd SESSA Conference:
Addressing Market Power and Industry
Restructuring for Consumer Benefits
7-8 October 2004, Stockholm School of Economics

Is Big Beautiful?

Ulrik Stridbaek
International Energy Agency



Is big beautiful?

Point of departure in IEA shared goals:

Markets when ever it is feasible

- **Is it feasible when it comes to electricity generation and consumption?**
- **Is there e.g. an inherent drive towards (too) large companies that will undermine the functioning of the market?**



Is big beautiful?

Electricity utilities are large and growing.

Is that process driven by:

- Economics of scale in electricity generation and supply?
- Potential for oligopoly/monopoly rents?
- Money to spend?



Economy of scale?

- **Power generation technology**
 - ◆ **Combined Cycle Gas Turbines seems to be the preferred choice currently.**
 - Sharp drop in prices per installed *kW*. Very short lead times. Modular in character.
 - ◆ **More distributed generation**
 - Influenced by environmental policy that seems to be there to stay.
 - ◆ **Risk in power generation**
 - Because of markets?
 - Or does markets allow transparency and pricing of risks that are inherent in electricity generation?



Economy of scale?

- **Technology for organisation**
 - ◆ **Can efficient electricity markets make operations planning on company level obsolete?**
 - ◆ **Efficient electricity markets require**
 - **Advanced tools and skills for central system operation**
 - **Advanced systems for data management**
 - **Advanced systems for communication**
 - ◆ **Are there any technological barriers for the establishment of efficient markets today?**



Economy of scale?

- ***If economy of scale in electricity generation has been undermined by technological development:***
 - ◆ **Markets will suggest other outcomes than we were used to under regulated pricing regimes**
 - ◆ **The old regime with vertically integrated companies and regulated prices may no longer be an efficient option**
 - ◆ **Strive for growth into very large companies through mergers motivated by other objectives?**



Outstanding issues

- **Curbing market power abuse**
- **Security of Energy Supply for CCGT**
- **Demand participation**
- **“One size fits all” in market design?**