

Forward Contracts and the Curse of Market Power

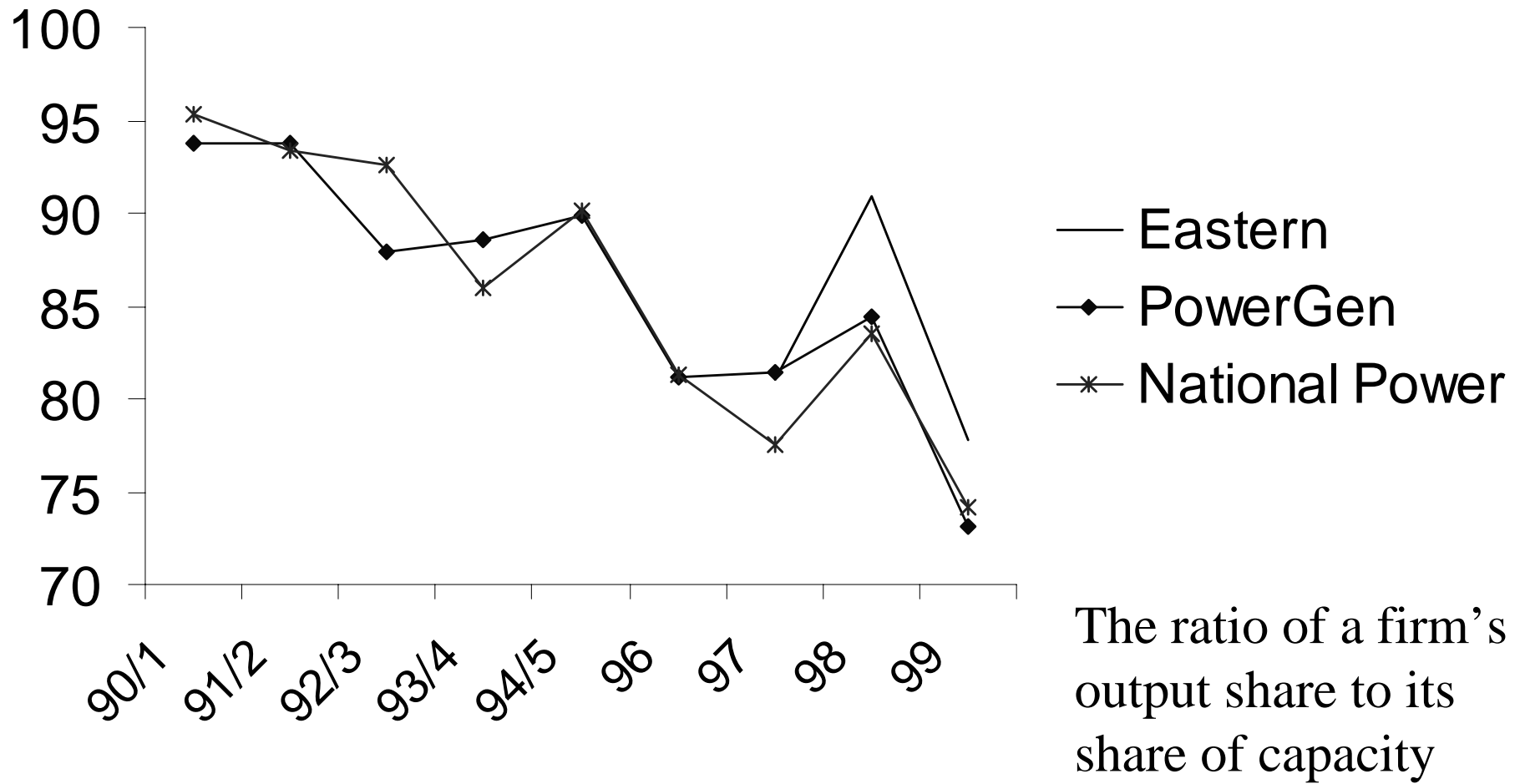
Comments by Richard Green

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Is it bad to be big?

- Working harder to raise prices?
- Daren't be caught "gaming"
 - Report on Pool Prices, 1991
 - Report on Constrained-on plant, 1992
 - Report on Gas turbine plant, 1992

Relative load factor



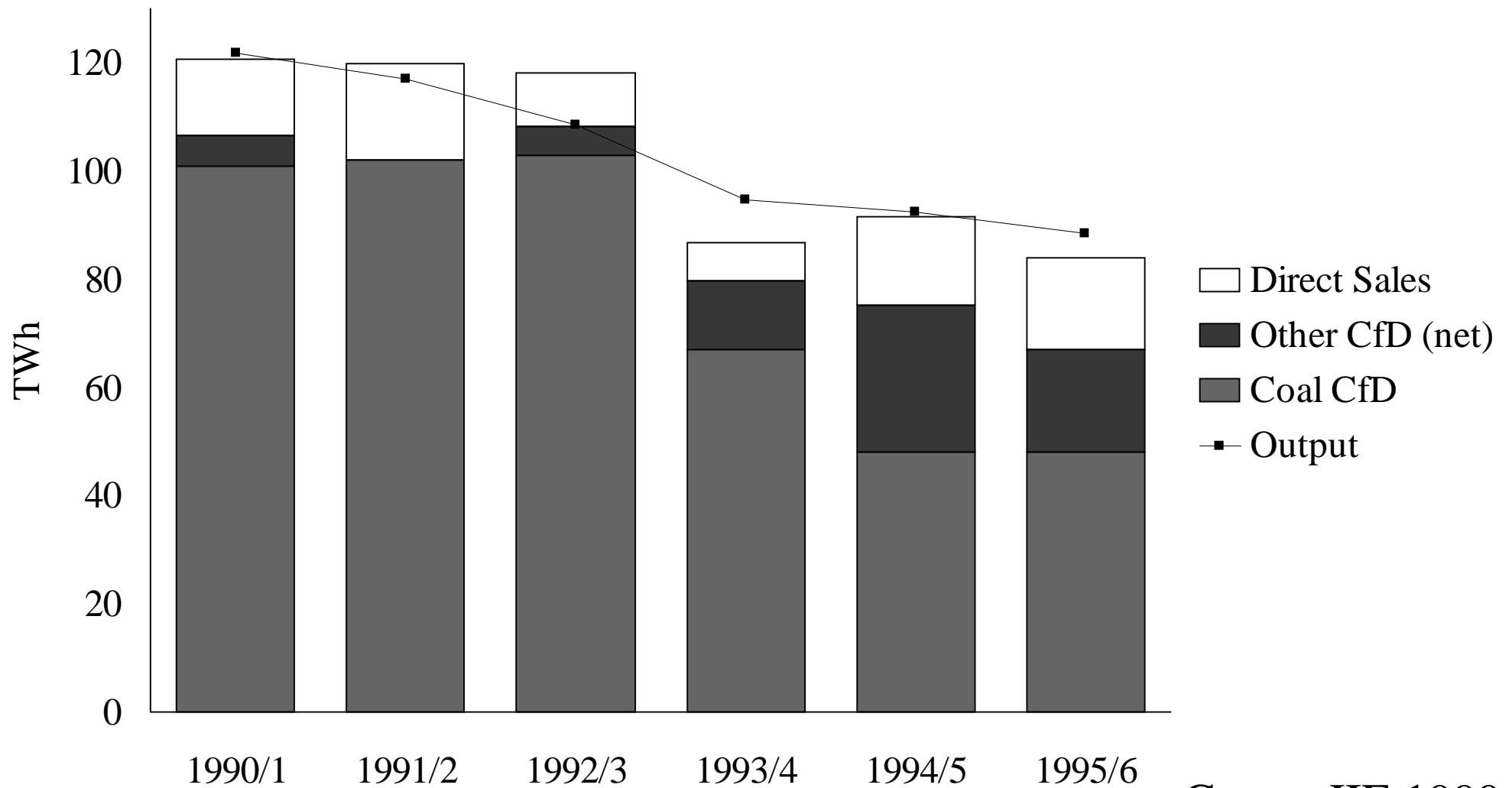
The role of contracts

- Worth having for hedging
- UK generators tried to have high contract cover for expected output, and then generated to match it
- Changes incentives w.r.t. spot price

Can contracts prevent entry?

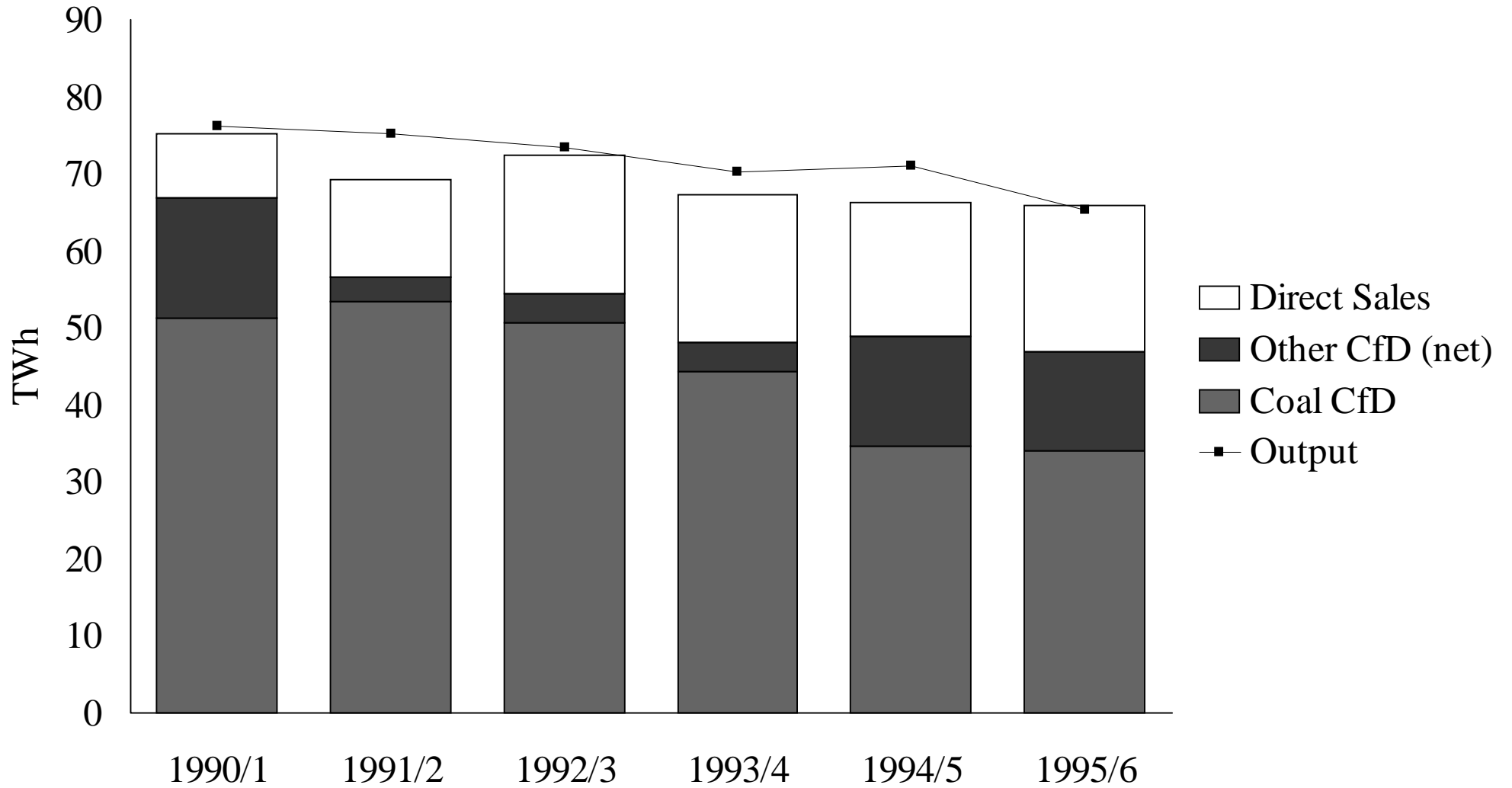
- They didn't!
 - new entrants had 20% of capacity by 2000
- Incumbents had little long-term cover
 - coal deals for 3 years, then 5 years
 - most other cover for 1 year at a time
- Long-term contracts help entrants

National Power



Green, JIE 1999

PowerGen



Green, JIE 1999

Vertical Integration

- The real long-term commitment?
- Volume sold to small customers is stable (?)
- UK regulators generally let retail prices follow the wholesale market