## 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
Electricity Market Reforms
Economics and Policy Challenges
Belyaev, L.S.
2011, XVI, 252 p., Hardcover
ISBN: 978-1-4419-5611-8