

ABSTRACT

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Competitiveness in the electricity market. Offer prices for electricity 2003–2004.



The aim of the study was to investigate how competitive bidding for electricity supply works in practice and how pricing changes under different market situations and by seasons. To do this, we asked for bids from electricity suppliers to two small-scale consumers: a resident of an apartment building and a resident of a one-family house with electric heating. Another aim of our study was to generate basic knowledge on the electricity market and on the price formation of electricity.

We asked for competitive bids first in December 2003 and then in May 2004 and compared these with respect to their content and price level. We also studied how public prices with the obligation to transmit differed from the prices actually offered.

The study was repeated after six months to see how the market situation and its changes affected the content and price of the bids and the number of bids received.

The results revealed that the average transmission obligation prices were lower and varied more widely than the average offer prices in both customer groups. The fact that transmission obligation prices are lower than offer prices can hinder customers from asking for competitive bids. What was particularly surprising was that the mean of the average transmission obligation prices to a customer living in a one-family house was actually lower than the lowest average offer price. This can restrain the consumers' enthusiasm to ask for bids and can slow down the creation of an effective competitive market.

A comparison of the prices of green energy and conventional electric energy showed that by asking for bids the small-scale consumer can find a cheaper green energy bid already at today's offer prices. Surprisingly, in May the lowest annual cost of green energy to a one-family-house resident was slightly cheaper than the cheapest bid for conventional electricity. This proves that through competitive bidding consumers can promote renewable forms of energy and support sustainable development, at the same time lowering their annual costs of electricity.

The liberalisation of the electricity market at the end of the 1990s had a major impact on the functioning of the market. The challenge in the coming years is the emission trading system scheduled to start at the beginning of 2005 – a change and challenge at least as big as the deregulation of the energy market. Emission trade is expected to raise electricity prices to the small-scale consumer overall. Therefore, it is necessary to examine the actual prices offered by individual suppliers in order to obtain a comprehensive picture of the changes in electricity prices over a longer time period. This study will, thus, also serve as a background for future studies of price changes.

Keywords:

Energy policy, price formation, competitive bidding, electricity, prices, electricity market, price competition, offers