

Can Producers Apply a Capacity Cutting Strategy to Increase Prices? The Case of the England and Wales Electricity Market

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Non-Technical Summary

Promoting competition among electricity producers is primarily targeted at ensuring low electricity prices for consumers. Producers could, however, withhold part of production facilities (i.e., apply a capacity cutting strategy) and thereby push more expensive production facilities to satisfy demand for electricity. This behavior could eventually lead to a higher price determined through a uniform price auction.

In this paper, using the case of the England and Wales wholesale electricity market, we empirically examine whether producers can indeed apply a capacity cutting strategy. We analyze the bidding behavior of producers during high- and low-demand trading periods across trading days and direct and indirect evidence for producers' successful manipulation of capacity bids targeted at increasing a wholesale electricity price. We also examine whether the regulatory reforms to improve competition were successful at mitigating the extent of strategic capacity manipulation.