

Transparency and Confidentiality in Competitive Electricity Markets

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Abstract

Transparency is fundamental to the delivery of competitive electricity markets. The timely release of reliable data helps market participants to understand past events and help predict the likely evolution of supply, demand and transmission conditions as they impact on price formation. The availability of relevant data to regulators and other third parties also allows for more effective monitoring of electricity markets and the detection of market power abuse. A critical aspect of transparency is that it eliminates (or very substantially reduces) differences in available information between dominant and smaller market participants, thus increasing the trust and confidence needed for both to engage in trade and make decisions. The combined result is more cost-effective investment and operating decisions, reduced risk premia, greater market confidence, increased market liquidity and efficiency, and lower barriers to entry.

Regulators, the European Commission and market participants all argue that electricity markets in Europe are not sufficiently transparent and call for stronger and/or mandatory transparency requirements. However, while there are persuasive arguments for a high level of information disclosure, full information disclosure may not necessarily be the best policy, particularly when confidentiality, the potential for collusion and the direct costs of data provision are accounted for.

We identify the data elements required for the development and maintenance of effective competition in wholesale electricity markets, and evaluate the costs and benefits of greater transparency, drawing on both insights from economic theory and evidence of the practice of data release from various markets around the world. Among the member states of the EU there is significant diversity in the practice of data release, and in particular there is a severe lack of transparency in generation data which is essential for understanding price formation. It is clear that those member states in which data transparency is highest have not collapsed into chaos. Rather they have highly liquid and deep wholesale markets in which confidence is high. More stringent mandatory data release requirements rigorously enforced by regulatory bodies are essential if the current resistance to widespread data release is to be overcome.

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