INTEGRATING CONSUMER PREFERENCES IN PRICE REGULATION OF ELECTRICITY NETWORKS

BEN MCNAIR

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12:30 – 1:30

Seminar Room 1, 2nd floor, J.G. Crawford Building (no. 13)

ABSTRACT:

Electricity network service quality dimensions such as reliability of supply and the location and aesthetics of infrastructure are valued by urban electricity consumers. Where network services are provided by profit-maximising firms with private information regarding their cost function, a decentralised regulatory contract known as a quality-adjusted price cap can induce optimal quality provision at minimum cost. This form of regulation is increasingly being applied by electricity and telecommunications regulators in Europe and the US. Its success depends upon the accuracy of estimates of consumers’ marginal valuations of the various dimensions of service quality. Choice experiments (CEs) are well suited to valuation of such multi-attribute goods, but mechanism design theory suggests that, in general, CEs are not incentive compatible. A case study CE in Canberra will be used to test for strategic bias that may result from incentive incompatible CE designs. Recent CE studies in transport and environmental applications have found that failure to account for respondents’ process heterogeneity can lead to biased estimates. The case study will be used to identify information processing strategies employed by respondents in the electricity context and examine whether those strategies are affected by the incentive compatibility of the CE design.

Ben McNair is a PhD student in the EMD program. He was Principal Economist at ActewAGL Distribution in Canberra.

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