INFORMATION AND THE ELECTRIC ENERGY MARKET: THE NEED FOR THE AVAILABILITY OF PRICE INFORMATION TO ENCOURAGE CONSERVATION[1]

by

Ola A. Oyefusi, Ph.D.
Pubic Service Commission of the District of Columbia
450 Fifth Street, N.W., Washington D.C. 20001

Introduction: On average, a customer using utility services only has limited knowledge about the characteristics of the market in which the utility services are sold. Information necessary for making decisions about transactions involving the utilities and utility appliances are also often inadequate. This is contrary to an idealized market exchange which requires the buyers and the sellers to have full knowledge of the transaction-related data that are necessary for decision making. For example, buyers are expected to know the price and product characteristics offered by sellers. Sellers must be aware of product prices, wage rates, cost of inputs, interest rates, and other production related data, as well as information about the buyers.

An idealized model is often assumed because of its capability to yield optimal solutions. It is also often used as a benchmark against which real world markets and situations are measured. An example of an idealized model is perfect competition. The perfectly competitive system, by utilizing the information produced by prices, has the tendency to achieve efficient allocation of resources.[2]

However, this model differ from the structure of the market for electricity which, in most U.S. cities, has a natural monopolistic structure. In these natural monopoly markets, the economic and technical conditions of the market permit only one efficient enterprise.[3] In order to attain the efficiency goals of competition, and to avoid wasteful duplication in this markets, regulation is often used as a surrogate for competition.

As a real world example, the markets for electricity show a natural monopolistic structure in terms of the number of

---

[1]The views in this paper are the author's and do not necessarily reflect those of the Public service Commission of the District of Columbia.

[2]See Nicholson, W., Intermediate Microeconomics and Its Application, 1979, pp. 497 - 520.

[3]See Greer, D., Industrial Organization and Public Policy, 1980, p. 485.