Market Power and Heterogeneous Pass-through in German Electricity Retail

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Market Power and Heterogeneous Pass-through in German Electricity Retail *

Tomaso Duso† and Florian Szücs‡

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Abstract We analyze the pass-through of cost changes to retail tariffs in the German electricity market over the 2007–2014 period. We find an average pass-through rate of around 60%. This significantly varies with demand factors: while the pass-through rate to baseline tariffs, where firms have greater market power because customers are less willing to switch, is only 50%, it increases to 70% in the competitive segment of the market. Although the pass-through rate of independent firms is significantly higher than that of other firms in the competitive market segment, the extent of supply-side heterogeneity is limited. Thus, the firms’ ability to exercise market power and reduce pass-through appears to be constrained by competition and largely determined by demand side factors. Finally, we find that the pass-through rate in the competitive market segment has been approaching unity over the past years, indicating a rise in competitive pressure.

Keywords: Pass-through, electricity retail, market power, Germany

JEL Codes: D4, L1, Q4

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