Strategic behaviors and transfer of wholesale costs to retail prices in the electricity market: Evidence from Colombia

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This paper estimates the pass-through of prices from wholesale to retail using monthly data for the period January 2017–March 2020 for residential users in the Colombian electricity market, which is characterized by large hydroelectric capacity and inelastic demand. Although much of the literature has found the pass-through rate to be incomplete, results are consistent with other studies that have been conducted for electricity markets and have shown that firms have no incentive to adjust their profit margins in the face of a cost shock. These results also converge with the regulatory framework of the retail electricity market in Colombia. In particular, the results reveal that the cost pass-through is more than complete with a rate of 115%. There is also evidence of an increase in the magnitude of the cost pass-through year by year. When analyzed by type of retailer, the results suggest that the cost pass-through of two major dominant and vertically integrated retailers is statistically higher

than the remaining retailers with a pass-through close to 120%, suggesting that dominant retailers integrated with power generation could exercise market power.