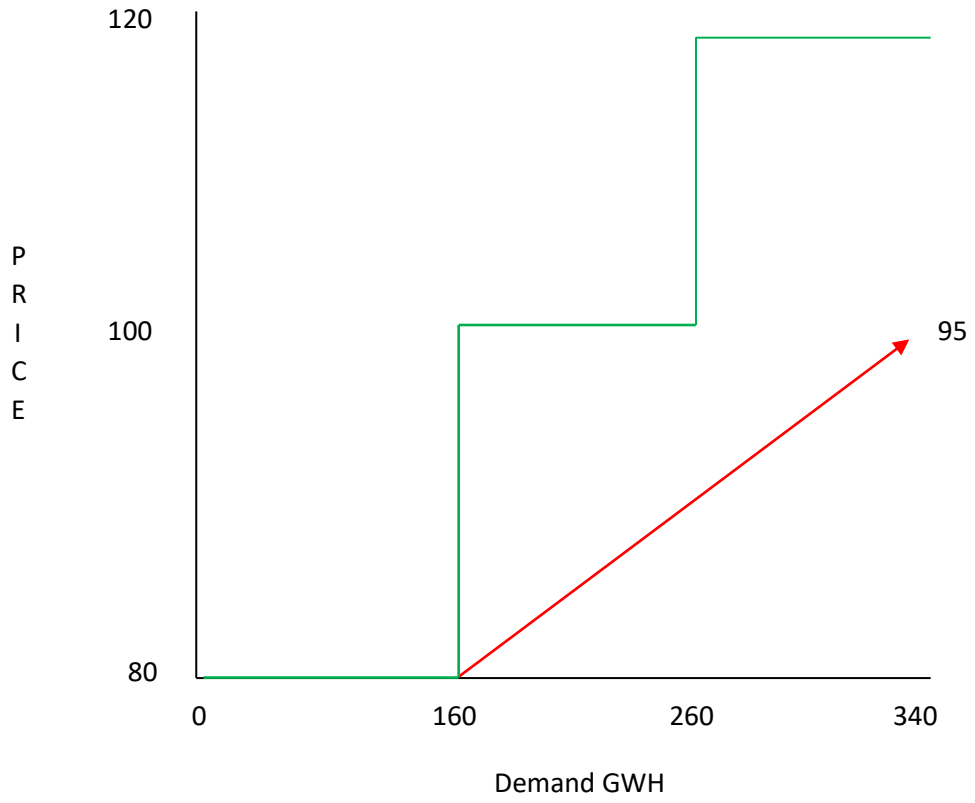
GRAPH SHOWING DIFFERENCE BETWEEN MARGINAL COSTING AND MARKET VALUE.

The green graph represents marginal costing and the red graph represents market value. Marginal cost goes up in steps. For example once demand exceeds 160 GWH requiring nuclear which is more expensive it steps up immediately to 100 the cost of nuclear. The price is fixed at 100. When 260 GWH is exceeded it steps up to 120 the cost of gas.



Conversely market value is a smooth line. Up to 160 units of demand the price will be 80 but as soon as it exceeds 160 the higher cost production of nuclear will begin to contribute to raising the market price. The more demand proceeds the greater will be the weight of electricity produced at 100, then followed by gas at 120, all the time incrementally raising the market price. By the time demand hits 340 the weighted average cost will be 95 due to electricity being produced at 80, 100 and 120 but in different proportions.

From this graph it is clear to see how much more expensive marginal costing makes electricity. It steps up immediately once demand reaches a certain point regardless of electricity being produced more cheaply. There is no averaging out process. Lower costs does not bear down on the higher cost.

Really it is a nonsense which is why it is never found in any other industry. Were it to be found in general, it would wreck the capitalist economy.