

BOOK REVIEW

Deregulatory Reforms of the Electricity Supply Industry by MASAYUKI YAJIMA. (Westport, CT, USA: Quorum Books, 1997), 139 pages. ISBN 1-56720-098-2.

Electric industry restructuring has become a worldwide phenomenon that cannot be easily explained. Perhaps the best explanation lies with the fact that countries everywhere are moving simultaneously toward privatization, competition and less government, and electric industry restructuring is just a component of those activities. This evaluation is less than perfect, however, when one observes electric industry restructuring taking place in developed countries, such as the United States and those in Western Europe, that have not undergone wide-seeping economic reform. Why, for example, in the United States, where the electric industry has served the general public fairly well over the last several decades, restructuring of the industry is inevitable and increasingly politically acceptable?

In his book, Masayuki Yajima presents a broad overview of electric industry restructuring activities around the world. His book is divided into four major parts. Chapter 1 evaluates for general restructuring models, which incidentally are not mutually exclusive: (1) franchise bidding, (2) competitive bidding in generation, (3) wheeling (wholesale and retail), and (4) mandatory and voluntary pool. Chapter 2 surveys restructuring activities of different countries; an appendix at the end of the chapter details features of restructuring in fifteen countries. Chapter 3 provides case studies of restructuring activities in England and Wales, the United States, and the European Union. Chapter 4 addresses the new role of regulatory agencies in a hybrid competitive/monopolistic environment.

Yajima provides a useful synopsis of electric industry activities around the world. Anyone working in this area knows the difficulty of finding a compendium of electric industry restructuring activities in various countries. Much effort has been spent by analysts in searching, sometimes futilely, through various documents to compare the restructuring activities of (say) England and Norway. Yajima's book helps to diminish the cost, allowing researchers to devote greater time to more productive and needed analytical work.

Overall, the author does a good job of providing analytical insights into electric industry restructuring activities. Although some of these border on being pedestrian ("Experience shows the cost-plus regulation does not necessarily

induce efficiency improvements in utility operations" (p. 132), others are quite impressive. For example, Yajima argues that vertical deintegration is a prerequisite for securing "access to the natural monopolistic functions." At least in the United States, the Federal Energy Regulatory Commission is pinning its hopes in the near term on the combination of an independent system operator (ISO) and functional unbundling (the separation of wholesale generation service from wholesale transmission service). I agree with Yajima that asset divestiture, while perhaps a seemingly extreme measure, will probably be ultimately regarded by policymakers as necessary to protect against anticompetitive practices. Many countries that have gone through restructuring already believe this to be the case.

Another observation of the author that warrants a brief discussion is his argument that "[E]leven countries which choose a retail wheeling model understand the need to introduce some sort of pool function to ensure transparency of market information and reduce transaction costs (p.132)." In the United States, ISO's have been formed in California and New England and are being considered in other states. Increasingly around the country, whether rightly or not, ISO's are viewed as a necessary part of retail competition. In other words, retail competition will require an organized spot market managed by an ISO. Under this model, bilateral financial contracts and central dispatching of regional power plants will co-exist, with positive outcomes likely to happen as long as an independent entity controls the system operation functions. This is the current thinking that Yajima has perceptively picked up on.

Regrettably, many other consequential topics examined by the author can only be noted here. They include the merits of UK-style incentive regulation, the societal benefits of restructuring for individual countries, the application of incentive regulation in the United States, the much discussed restructuring activities in California, and a comparative analysis of different transmission-access models. Yajima did a credible, and in some instances a splendid, job of reporting on the most important electric industry restructuring issues.

Several unresolved questions over electric industry restructuring still haunt analysts and policymakers. How sustainable is the current restructuring movement? What accounts for the fact that in the United States restructuring is proceeding at a widely divergent pace across states? Why has restructuring turned into good politics, given the reality that some powerful groups will be losers? Will rent-seekers in the United States dissipate much of the potential benefits of restructuring to electricity consumers? How will all of the ongoing restructuring activities play out? Is there one best restructuring model, or one that will prevail in the long run? Why are dissimilar models being developed in different countries? How can we measure the economic benefits of restructuring? What will be the new functions of regulation?

The author addresses some of these questions, but the reader must wait another day to obtain cogent answers to most of them. This is no fault of the author. His book does a service by raising these questions for future researchers to grapple with. A book can be complimented for performing this function. The challenge is for others, applying good analytical tools, to tackle these hard questions that have significance for both scholars and policymakers.

Kenneth Costello

The National Regulatory Research Institute
Columbus, Ohio 43210-1002
Costello.1@osu.edu