



Book Reviews

Thomas G. Weyman-Jones, *Electricity Privatisation* (Brookfield, VT: Gower Publishing Company, 1989), 94 pages.

The denationalization and restructuring of the United Kingdom's Electricity Supply Industry (ESI) is the Thatcher Government's most controversial and complex privatization attempt to date. Prior to privatization, the Central Electricity Generating Board (CEGB), a large public utility with about 50 Gigawatts of capacity, owned all the generation and transmission facilities in England and Wales. Twelve regional area boards purchased the power from the CEGB and distributed it to the ultimate consumer. Under the 1988 privatization proposal, the CEGB's generation facilities would be broken into two large privately owned utilities. *PowerGen* would own 30 percent of the generating capacity and *National Power* the remaining 70 percent, including all the nuclear facilities. The grid would be privatized into a privately owned transmission company, called *National Grid*, and the area boards would be transformed into 12 privately owned distribution companies. The distribution companies would be regulated by the U.K.'s Department of Energy.

Electricity Privatisation, by Thomas Weyman-Jones, surveys "the issues that are likely to arise in the context of the ESI privatisation proposal." The book has three major chapters. The first one examines the behaviour of the industry prior to privatization, and discusses the perceived problems that lead to the restructuring of the ESI. The second chapter analyzes a number of major issues with the privatization of the generation, transmission, and distribution facilities. The book concludes with an analysis of some issues dealing with the regulation of the distribution companies.

The book is somewhat unbalanced in the treatment of the three major issues in the U.K.'s privatization experiment. The discussion of the role of the transmission company, *National Grid*, in providing a spot market for power is particularly well done. The analysis of the crucial issue of the optimal number of generating companies is, however, rather weak. The author is sceptical of the claim that economies of scale in the generation of electricity have been exhausted. His criticisms of the econometric research in this area primarily focused on the early work of Christensen and Greene (1976) who concluded that a small number of extremely large firms were not required for the efficient production of electricity. Unfortunately, the author seems to have ignored a second generation of research which supports the findings of Christensen and Greene.

The decision to create a duopoly in the electricity generation sector was largely motivated by the desire to privatize nuclear power. Recently,

however, the British decided to keep all their nuclear facilities in the public sector. Given this decision, there have been suggestions in the British press that *National Power* itself be broken up into 3 or 4 regional companies. It is quite possible that in the months ahead the optimal number of generating companies could be the most hotly debated question associated with the privatization of the ESI. It is, therefore, unfortunate that the issue of the most efficient market structure did not receive better treatment.

The book is also largely silent on the regulation of the generators. Because of the duopoly in the electricity generation sector and serious barriers to entry by potential independent power producers, the two generating companies could possess significant monopoly power. The British will rely on existing U.K. and European Common Market anti-trust laws to limit the monopoly pricing of bulk power. Since the successful privatization of the ESI could hinge on the effective regulation of the generators, the author should have discussed some of the anti-trust literature.

The proposed regulation of the distribution companies is quite adequately discussed in Chapters 3 and 4. This portion of the book contains a very interesting discussion of a number of regulatory programs that would increase incentives to minimize costs, including price caps -- the one that the British will use to regulate the distribution companies. (It is interesting to note that they have rejected rate-of-return regulation.) Given the growing U.S. interest in price caps and other alternatives to standard rate-of-return regulation, the material in Chapter 4 should be of interest to U.S. readers.

In total, the author did a decent job of surveying a number of important issues surrounding the privatization proposal as it existed in mid-1988. Although two of the major issues surrounding the privatization of the ESI could have received better treatment, the book should still be of interest to readers in the U.K. Additionally, there are many similarities between the privatization of the U.K.'s ESI and many deregulation proposals in the U.S., so the book should be of interest to readers in the United States as well.

James G. Hewlett
Washington, DC, 20008

