BOOK REVIEW

Power Loss: The Origins of Deregulation and Restructuring in the American Electric Utility System by RICHARD F. HIRSH. (MIT Press, 1999) 418 pages, 37 illus. ISBN 0-262-08273-X

This work has an ambitious theme—to explain the "power loss" of the electric utility elites. Seemingly omnipotent in the 1960s, a variety of factors have lead to their partial downfall. However, this book suffers from three basic problems. First, it only follows events up to 1996, which is just when this industry started to get interesting. At the end of the book, restructuring is on the verge of happening in California and New Hampshire. Thus, the book misses out on what may have been the real breakthrough for restructuring—the deregulation of the Pennsylvania market.

Second, the book is both too long and too short. It is too long in that it starts at the beginning of electricity regulation, and spends a long time taking us through the 1930s and the 1970s. It focuses on events in detail that seem to have little relevance. It is too short in that it does not spend enough time focusing on how decisions are actually made at regulatory commissions.

The third critique comes from an economist's point of view. The author is a historian, and I am an economist. Naturally, I believe that the economist's view is better, though of course Professor Hirsh may well disagree. However, from the economist's point of view, I see several things going on. First, the claim for regulation of at least the generation part of this industry is that generation was a natural monopoly. This claim made less and less sense as time went on. Second, from a public choice point of view, electricity regulation evolved (if it did not start this way) as a tool for a well-organized interest group (utility stockholders and/or managers) to earn economic rents. This interest group is protected from rationally ignorant voters (consumers) by the fact that it was hard to evaluate how effective a job regulators were doing. There are hints of what I term the "economic theory" in the book, but they are scattered, making it frustrating reading for me.

The best part of the book comes in its discussion of the impact of the Public Utility Regulatory Policies Act of 1978 (PURPA). By opening up markets to non-utility generators, PURPA made it clear to all those who cared to look that generation was not a natural monopoly. Hirsh outlines the class of new entrepreneurs who came into the market, what technologies they used, and the political interest group they represented. Unfortunately, the discussion of technologies, because of the timing of the book, misses out on the newest generation of gas turbines that are becoming more and more important in the generation of electricity.

The book, however, deals lightly with what may be the two other factors that brought down the electricity power structure. The first is the tremendous cost overruns in the construction and operation of nuclear power plants. Somehow, from the period 1965 to 1979 the electricity industry appears to have suffered from a complete meltdown of its decision making process. All across the country utilities (with the approval of regulators) built hugely uneconomic nuclear reactors, investment that led to tremendous cost increases in the 1980s and 1990s. It seems safe to say that restructuring never would have occurred but for the investment in nuclear power. An analysis of the nuclear power fiasco that explained more thoroughly why it occurred would be a great asset to this work.

The second, and related, factor that led to restructuring, was the vast differentials, in states of electricity prices. Because of payments for what are now known as stranded costs, which differed between utilities, neighbors could be paying greatly different amounts for electricity. (See White, 1996.) This price difference served to overcome the "rational ignorance" of voters and informed them that something was not quite right at their state regulatory commission.

Hirsh spends extremely little time examining how state commissions work, and why certain state commissions moved towards restructuring. Why did these commissioners give up much of their powers? Why did they believe it was in their own self-interest to do so? There is a very small discussion of how large industrial users supported restructuring, but that is incomplete. Industrial users have proven adept in many states in getting lower rates for themselves within the old regulatory framework. Given this, it is unclear why the regulators, together with utilities, did not simply buy this interest group out with lower prices.

The book spends a good deal of effort reviewing the movement for energy conservation, and detailing the principal actors in that movement. This issue, however, appears to have had only a cursory impact on electricity restructuring. Indeed, current environmental groups seem ambivalent at best about restructuring efforts.

In summary, this work is somewhat unfinished. I fear that the question is still valid: how did electricity utilities and regulators lose much of their power? And why is this restructuring only half complete? I suspect we will have to wait a few more years for the answers to these questions.

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References

White, Matthew W., "Power Struggles: Explaining Deregulatory Reforms in Electricity Markets," *Brookings Papers on Economic Activity: Microeconomics* Volume 10 (1996) 201-50.