

Comments on
Power Sector Reform
and the Social Contract
of Electricity

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I. The social contract of electricity

The Social Contract: To make society more wealthy, equitable, clean, and democratic.

Aspects of electricity:

- Commodity <--> market norms
- Reliability
- Price stability
- National security and sovereignty
- Access and equity
- Environment
- Service of other development goals

Access, equity, and clean energy cannot be assured by markets alone.

The optimal mix for fulfilling the social contract is best determined in an institutional setting that:

- maximizes social input and accountability
- constrains behaviors that undermine the social contract

II. Political economy of electricity reform

Some necessary elements in analysis:

- Benefits, costs, and risks (including non-economic!) of reform options vs. base case (status quo)
- Social distribution of benefits, costs, and risks
- Decision-making and implementation process
- Actors and motivations
- Rhetoric vs. reality in debates over reform

III. State and social capacity

A Dangerous Comparison: Realistic image of existing state-run sector vs. an idealized image of some future market

State and social capacity: the means to carry out electricity reform and maintain it such that the cure is not worse than the disease

Example: Is it possible for sufficiently skilled, empowered, and independent regulators to be created in an environment of:

- limited technical capacity
- patronage politics
- lack of open polity
- little recourse for ordinary citizens

Old nightmare: Inefficient, stagnant, corrupt parastatals

New nightmare: Inept, poorly supported bureaucrat overseeing massive wealth transfers

IV. Political risks

Does electricity reform:

- Contribute to a fundamental change in the relationship between state and society?
- Strengthen some entities and weaken others in the broader political arena?
- Contribute to increased social conflict?
- Render decision-making affecting the public interest less democratic and accountable?
- Risk state failure, and with what political consequences?

“Blackouts 2001, Gray Out 2002”

V. Environmentalists

- **An environmental debate over electricity reform is still needed!**
- Environmental implications of various electricity reform options require more rigorous scrutiny
- Net environmental benefit of most electricity reform efforts not empirically demonstrated to date
- Not clear that proposed market mechanisms will lead to desired outcomes --> e.g., the failure of retail green power marketing in California
- Loss of publicly-accountable planning and regulatory functions may outweigh potential gains of electricity reform --> e.g., the post-deregulation demise of IRP in California
- Environmentalists should consider what political allies and adversaries they make by linking their objectives to privatization and market mechanisms