

Book review

Service Quality Regulation in Electricity Distribution and Retail

By Elena Fumagalli, Luca Lo Schiavo, and Florence Delestre (Berlin: Springer, 2007). 153 pages, ISBN 978-3540734420.

In recent years the use of incentives for promoting higher efficiency has become the main theme in network monopoly regulation. There has however been a strong bias towards the price dimension of regulation. There is now a rich body of literature dealing with productivity measurement and the design of price regulation to enhance efficiency. Quality regulation however has deserved much less attention both in academic and regulatory circles. A valuable contribution to closing this gap was provided by the Council of European Energy Regulators (CEER) who previously issued three reports comparing quality regulation initiatives in Europe.

The book by Elena Fumagalli, Luca Lo Schiavo, and Florence Delestre builds further on this initiative. They have written a book about quality regulation in electricity distribution and retail. Their book provides a comprehensive overview of the different regulatory instruments as well as the practical issues involved in implementing these instruments. The book is intended as a handbook and is primarily aimed at staff from energy regulatory authorities. Through this book, the authors also intend to provide for a shared framework for service quality regulation across the European Union.

The book consists of six chapters, a reference list, and a useful index. The introductory Chapter 2 starts with defining quality in the context of electricity distribution. The first area of quality is commercial quality which covers items such as the provision of new connections, metering, and complaints handling. The second quality area is continuity of supply which deals with interruptions in the supply. The third and final quality area is

voltage quality which is related to variations in the voltage characteristics from the desired levels such as voltage dips and flicker. In this chapter the authors also introduce the four main regulatory instruments in use today: (1) publication of data, (2) minimum quality standards, (3) reward and penalty schemes, and (4) premium quality contracts.

Chapter 2 also presents a simple but very useful framework around which the authors suggest to be used to approach quality regulation. Under this framework, the different areas of quality are linked to the objectives that can be achieved with the different regulatory instruments. These objectives can range from merely collecting information and making this available, to favouring market-like mechanisms and competition. In between there are the objectives of protecting worse served customers and delivering an efficient level of quality. Depending on the objective, a certain quality instrument may or may not be a valid choice. The more ambitious the objective, the more complex the regulatory instrument.

The three quality areas - commercial quality, continuity of supply, and voltage quality - are treated in detail in chapters 3, 4 and 5, respectively. These chapters are uniformly structured. Each chapter starts with defining the quality area and identifying possible indicators for measurement. After this, the four quality instruments are successively discussed in the context of the quality area being considered. In doing so, a number of examples are provided from countries such as Italy, Norway, the Netherlands, United Kingdom, Portugal, and Hungary. The chapter closes with a section called "Advanced topics" where a listing is provided of some of the more difficult problems faced by regulators in the respective quality area.

The modular approach of the three core chapters 3 to 5 make it easy for readers to not lose track of the large amount of information contained in the book. The description of the different quality instruments is very thorough and their application is illustrated by numerous examples in different European countries. This helps to fulfil the promise of the book to be a practical guide for implementing quality regulation.

Chapter 6 deals with some of the more detailed issues regarding implementing quality regulation. Three topics are treated. First, the consultation process which the authors point out to be a crucial aspect of the regulatory decision-making process. Second, the use of customer surveys to collect information about customer satisfaction and quality preferences. Third, the use of auditing procedures. The topics addressed in

Chapter 6 are a valuable addition to the preceding chapters. In the spirit of the book, it provides practical information accompanied by different examples of actual applications.

One minor shortcoming of book is the naming of the sections “Advanced topics” in chapters 3 until 5. An alternative title might have been preferred as the current one suggests a detailed treatment of selected specific issues. Instead, the section only provides a brief overview of some problems involved in implementation of quality regulation. The title “Advanced topics” would have been more appropriate for Chapter 6, which now has the tedious title “References on specific issues”.

Throughout the book, the authors put particular emphasis on the issue of measurement and data collection. After having pointed out its importance in the first two chapters, each of the three core chapters starts with a section on measurement and data collection for the particular quality area. Chapter 6 even dedicates a full section to data auditing. This focus on data and measurement reflects the authors’ rightful concern with the issue. Good data is particularly important where comparisons are involved or where quality performance is translated into a financial incentive. Under price regulation, regulators can typically rely on already existing accounting systems with clearly defined definitions and accounting procedures. For quality, such systems are typically absent. There is an important role here for the regulator in providing instructions and guidance in setting up a sound quality measurement system. This handbook can be considered an important contribution in achieving this.

When developing regulation, regulators are often confronted with a wide gap between theory and practice. Theoretical foundations of price and quality regulation have been extensively discussed in the academic literature. Such theoretical treatises are however often of limited use to regulators. Books like this help to fill this gap and bring the academic and regulatory communities closer to each other. This is also reflected by the mixed composition of the authors: two authors are working as regulators themselves and one comes from the academic community.

In conclusion, this book sheets an important demand from the regulatory community and provides very practical guidance to regulators when setting up quality regulation. Although the book is written from a European perspective, it is equally useful for the non-European regulatory audience. Regulators setting up quality regulation now have a standard work to refer

to for guidance. Hopefully in future initiatives such as this will follow for other regulatory areas as well.

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