

# The Restructuring and Privatisation of the Peruvian Electricity Distribution Market

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Restructuring and privatisation is a complex process that involves mainly institutional and organisational issues, degree of intervention and the degree of competition (unbundling versus vertically integrated structures). Thus, a case study approach has been adopted to assess the restructuring and privatisation of the electricity market in Peru. The selected firms account for 64 per cent of the total distribution market and 100 per cent of the privatised distribution firms.

A cost-benefit analysis is the methodology used for doing this assessment. The main question that this research aims to answer with the social cost-benefit analysis is whether or not the restructuring and privatisation of the electricity distribution market in Peru was worthwhile, and if so, to what extent. The methodology developed by Jones et al. (1990) provides a unique opportunity to answer this query. The methodology involves the comparison of counterfactual (situation in absence of divestiture) and actual scenarios (situation with divestiture) and the projection of the future (for capturing and incorporating any subsequent costs or benefits). In addition, the methodology allows us to identify the distribution of net welfare among the main groups: government, customers and producers (companies). Winners and losers are identified. Having identified each group, it is necessary to estimate their respective social welfare component. Finally, the results are aggregated across time with the respective adjustments (discounting). The benefits of being connected are also computed based on counterfactual scenarios. Firms that were not privatised (benchmark companies) are used for making appropriate comparisons and for determining the preferred counterfactual cost decline.



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The results suggest that privatisation was worthwhile and that the social welfare of being connected has an important contribution to the total net benefit. Among societal groups, government and producers benefited the most and consumers the least due to price increases.

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