

The Direct Costs and Benefits of US Electric Utility Divestitures

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Abstract Competition increases firms performance. But in many industries, especially network based industries, effective competition requires the separation of firms. Separation can lead to a trade-off between technical efficiency gains from competition and losses from separation. But separation itself can be beneficial, too. We estimate the combined effect of competition and vertical separation (as well as the individual effects) for the case of US electric utility divestitures. We analyse the difference-indifference in inefficient costs between divested units and non-divested units in either restructuring or non-restructuring states. We find that for our benchmark model of technology the combined effect is virtually zero. We analyze the uncertainty about the unobserved true technology and find that this number constitutes the lower bound whereas the upper bound is \$24 billion. Generally, the effect of separation itself is much larger than the effect of competition. Also, the effect of separation is positive for most models of the technology.

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