

Network Utilities Performance and Institutional Quality: Evidence from the Italian Electricity Sector

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Abstract

It is generally accepted that institutions are important for economic development. However, whether the performance of regulated utilities within a country is affected by the quality of institutions is yet to be investigated thoroughly. We analyse how the quality of regional institutions impact performance of Italian electricity distribution utilities. We use a stochastic frontier analysis approach to estimate cost functions and examine the performance of 108 electricity distribution utilities from 2011 to 2015. This unique dataset was constructed with the help of the Italian Regulator for Energy, Networks, and Environment. In addition, we use a recent dataset on regional institutional quality in Italy. We present evidence that utilities in regions with better government effectiveness, responsiveness towards citizens, control of corruption, and rule of law, also tend to be more cost efficient. The results suggest that national regulators should take regional institutional diversity into account in incentive regulation and efficiency benchmarking of utilities.

Keywords Institutional quality; stochastic frontier analysis; electricity distribution in Italy; cost efficiency; inefficiency determinants.

JEL Classification D22, L51, L94, O43

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