

BOOK REVIEWS

THE 1988 NATURAL GAS YEARBOOK, William A. Mogel, Editor, Executive Enterprises Publication Company, Inc., 1988.

Reviewed by *Mary E. Baluss**

The 1988 Natural Gas Yearbook, edited by the tireless William A. Mogel, is an ambitious effort to provide a detailed review of a broad range of changes affecting the natural gas industry in 1987. Each of the ten chapters deals concisely with a particular subject area, including federal regulatory issues of concern to producers, lease and royalty problems, take-or-pay issues, cogeneration, current ratemaking developments, financial and regulatory accounting developments, environmental issues, natural gas transportation, legislative developments and "the future of natural gas." The chapters are written by a broad range of contributors, including attorneys, economists, an academic, an accountant, a consultant and a lobbyist. Planned as the first of an annual series, the work is intended to be useful to the interested and reasonably well-informed observer rather than the daily legal practitioner in any specialized case.

Overall, *The 1988 Natural Gas Yearbook* provides a very useful summary of developments in a rapidly changing industry. The book should be of interest and information to a range of readers in the natural gas industry seeking an overview of developments in familiar areas and a well-written introduction into less familiar areas. The chapters vary widely in degree of detail and scope, but overall provide a useful, sometimes very detailed, discussion of major developments. Particularly helpful is the inclusion of chapters dealing with matters that are not traditionally considered to be "natural gas" topics, but which are of increasing significance to the industry, such as environmental law and cogeneration developments.

Perhaps because the intended audience are non-lawyers, the book is designed to be "user-friendly" and, by and large achieves the goal. The only noted weakness in this regard is the number of typographical and other proof-reading failures which, particularly in the final chapter, occasionally impede intelligibility. That quibble having been laid to rest, it should be noted that the footnotes are few and separated from the text and the format is attractive. Although it is unusual to praise a table of contents in a book review, the *Yearbook* makes the device a particularly useful tool by providing at the outset a very detailed guide, including each heading and subheading for the entire book. Given the disparate subjects of each chapter and the unavoidable overlapping discussion of developments, such as the Federal Energy Regulatory Commission's (FERC) Order No. 500, this feature greatly aids a reader who is seeking information on particular points.

* Partner, Morgan, Lewis & Bockius, Washington, D.C.

Necessarily, both the style of writing and narrative organization vary from chapter to chapter, but on the whole it is clearly written and organized. Nevertheless, a survey of this type cannot escape some degree of unevenness in the individual chapters. The discussions of producer issues, scope and royalty problems, environment issues, cogeneration and legislative efforts are especially informative and well organized. The section on rates is clear and objective. Its identification of developing tensions in ratemaking that have arisen in the wake of open access transportation is thought provoking. Similarly, the discussion of the purpose and mechanics of the regulation of cogeneration is clear and comprehensive and identifies developing issues as well as summarizes present developments.

The discussions of take-or-pay issues, accounting changes, and transportation are helpful and informative, although less comprehensive and focused than the other sections. It is striking that a chapter on take-or-pay would not mention the prudence and other passthrough developments associated with that issue. Nor does it note the repeated efforts made by pipelines to have the FERC define its authority to reform producer contracts or to declare take-or-pay payments a violation of title I of the Natural Gas Policy Act, although it discusses take-or-pay defenses at length. The transportation chapter, although a cogent summary of Order No. 436, the reviewing court's decision in *Associated Gas Distributors v. FERC*,¹ and the ensuing Order No. 500, does not address the issues created by their actual implementation. Examples of questions that proliferated in 1987 and 1988 that are of interest to all segments of the industry would include the FERC's evolving resistance to and conditioning of traditional section 7(c) transportation certificates, the claims of bypass through the new transportation mechanisms and questions of title and capacity brokering. Similarly, although the discussion of the future of the natural gas industry provides a good review of historical trends in energy consumption and production, it evinces some confusion about the meaning of particular facts it presents and advances relatively little discussion of long-term market or regulatory trends.

On balance, *The 1988 Natural Gas Yearbook* should be a welcomed addition to the resources of many in the industry. As an annual survey, this volume will certainly have the opportunity to expand and to polish over time.

1. *Associated Gas Distributors v. FERC*, 824 F.2d 981 (D.C. Cir. 1987), cert. denied, 108 S. Ct. 1468 (1988).

PRINCIPLES OF PUBLIC UTILITY RATES by Bonbright, Danielson, and Kamershen (2nd Edition).

Reviewed by *William B. Tye* *

Bonbright's *Principles of Public Utility Rates* (1961) is a classic volume that has been relied upon as an authority for nearly thirty years. Along with Kahn's *Economics of Regulation* (1970-1971), it has served as a starting point for a literature search on any topic in the field. Both texts, however, have become quite dated and no equivalent volume has been forthcoming in the 1980s.

Both volumes have been recently updated and the new texts provide an interesting basis for comparison. Kahn's MIT Press (1988) edition leaves the original text intact and provides a "seventeen years after" introduction which allows the reader to determine what the author wishes to revise or reaffirm, as the case may be.

The Bonbright text, on the other hand, has been substantially rewritten. The catch is that Bonbright did not do the rewriting himself and saw only portions of the final text before his death. If the two editions differ, there is no way of knowing for sure if Bonbright would have recanted his earlier statements. This means that the 1961 Bonbright text is likely to continue to serve as an authority for "what Bonbright said" and that it is unlikely the 1988 edition will command the authority of Bonbright in the 1980s and 1990s, as did the original.

In reviewing this volume, it is easy to see the difficulty the authors faced in writing a new edition that will command the same authority as the original. Perhaps no one could write such a document in this day and age. Simply too much knowledge in too many specialties has been produced in the field since 1961. A review of the new volume identifies terms not even in the vocabulary in 1961, such as transaction costs, contestable markets, the theory of multi-product market structure, rent-seeking behavior, and public interest versus other theories of regulation. Most experts are developing knowledge within narrow specialties, but writing a definitive text requires the mastery of an enormous volume of knowledge in numerous fields.

The text then should be judged primarily as a new work seeking to achieve the same claim to authority as the previous volume. Here the good news is that the 1988 Bonbright text retains many of the classic forthright conclusions that go to the heart of difficult regulatory problems. For example, Bonbright's conclusion that "fairness" means a "moral obligation, to avoid deception and to live up to previous commitments, expressed or implied" (p. 185) and that the test is not "how onerous or how profitable these terms may prove to be in the light of hindsight" (p. 186). Similarly, the new edition contains his "wise, practical rule" that price discrimination "should not be per-

* Principal, Putnam, Hayes & Bartlett, Inc., Washington, D.C.

mitted unless [value-of-service differentials] can be expected to result in lower rates even for those customers discriminated against" (p. 531).

However, readers seeking authoritative answers to many other issues will be disappointed. For the most part, the authors present opposing points of view and leave the choice to the reader.

The firm recommendation to exclude accumulated deferred taxes from the rate base is an exception. One yearns to see the authors take a similarly decisive stance on some important new problem (say, the prudence and used-and-useful tests surrounding nuclear plants) and provide us with a solid set of authoritative conclusions. The reader will likely find a useful survey of the issues and references to the appropriate literature, but no pretense of authoritative answers. The cited literature, nevertheless, could become a useful starting point for readers seeking such answers. An example is the discussion of flow-through versus normalization of deferred taxes. This section contains a series of references to the various positions without really coming down one way or the other.

Every reader will have something to agree and disagree with. This reviewer found a chief problem in the fact that the discussion of rate base methodology seems stuck on the original cost versus "fair value" debate of a couple of generations ago and does not reflect the new literature or the debate over these issues in the oil pipeline industry at the Federal Energy Regulatory Commission. The authors note that rate base and rate of return concepts must be integrated and that fair value does not equate to what has become known as "Trended Original Cost." They also note that an allowance for inflation should be purged from the allowed rate of return if applied to an inflating rate base. But the "countervailing-fallacy" discussion that follows does not really do justice to the many compelling reasons for trending the rate base, particularly for competitive markets or those regulated industries undergoing a transition to deregulation. Similarly, although other authors describe the stand-alone cost test as one of the most important economic innovations that moved from theory to practice,¹ the new Bonbright text mentions it only in passing, and the authors clearly do not believe it has much of a role in rate regulation.

Apart from critiquing the substance, a few other observations are in order. Some readers will find the frequent references to authorities such as Yogi Berra and Woody Allen enjoyable; others will find them somewhat distracting. The volume also seems to contain some surprising typographical and technical errors.

Finally, the reader should be reminded that the subject of this work is rates. The book is not an "economics of regulation" where other issues such as mergers and entry are addressed. Nevertheless, most practitioners will find it a useful addition to their bookshelves as a starting point for researching current issues in regulatory ratemaking.

1. See, e.g., Faulhaber & Baumol, *Economists as Innovators: Practical Products of Theoretical Research*, 26 J. ECON. LITERATURE 577-600 (1988).