

Thanks to our sponsors and friends, the Public Utility Research Center continues to provide programs that are mutually beneficial to the energy, water, telecommunications, regulatory and academic sectors.

When is Competition the Regulator?

Is Voice over Internet Protocol (VoIP) the technology that launches the next generation of phone services? Or is it simply a way to bypass telephone access charges?

Regardless of how you view it, VoIP – using Internet networks to carry traditional voice telephone calls – is attracting a lot of attention in telecommunications policy circles, as participants learned at the Public Utility Research Center Annual Conference in February.

The conference generated much debate and considerable consensus. Dr. Robert Pepper, Chief of Policy Development at the Federal Communications Commission (FCC), opened discussion on VoIP with an explanation of the pricing dilemma facing regulators, the industry and customers.

Dr. Pepper noted that regulated prices for calls received by local telephone networks range from several cents per minute for international and some in-state long-distance calls – to about one cent per minute for interstate long-distance calls – to perhaps one-tenth of one cent per minute for local calls. These discrepancies exist even though there are essentially no technical differences in the ways local telephone networks handle

these calls.

The session provided a timely discussion of the issues, given the FCC's initiatives on VoIP and telecommunications pricing and Florida's recent efforts to lower access charges. Read more about this issue through the Publications link at www.purc.org.

Energy Restructuring

The electricity sector in the U.S. is at a crossroads, according to Dr. Diana Moss, who spoke at an annual conference session that examined challenges to a comprehensive policy on electricity restructuring. Dr. Moss, Vice President and Senior Research Fellow at the American Antitrust Institute in Washington, D.C., argued that reliability issues, as well as political barriers, are major challenges to restructuring on a national level.

She questioned whether policy standardization had become excessive to the point of inhibiting competition in distinctly regional markets, and if certain federal policies were also failing to promote competition along these same lines.

She concluded with suggestions for moving forward, including identifying and enforcing abuses of market power in the industry and



Annual Conference attendees listen as Vonage Chief Financial Officer John Rego discusses the family of applications and platforms using Internet Protocol.

encouraging structural remedies. Her presentation can be found through the PURC Annual Conference link at www.purc.org.

PURC Honors Elizabeth Bailey

Professor Elizabeth Bailey of the University of Pennsylvania's Wharton School was presented the 2004 Distinguished Service Award at the Annual Conference in February.

The award recognizes Dr. Bailey's contributions to understanding the interplay of economics and politics in determining regulatory

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Policy is Dangerous Work

Mark A. Jamison, Ph.D., PURC Director of Telecommunications Studies

Ron Heifetz and Marty Linsky, authors of *Leadership on the Line*, coined the phrase, “Leadership is dangerous work,” because people exercising leadership suffer if they fail to recognize the risks inherent in their work.

It seems fair to say that infrastructure policy is also dangerous work, because the making of communications, energy, or water policy contains many opportunities to stumble or fall victim to circumstances.

Some cases in point: After three years of political debate, the U.S. Supreme Court is now considering a case about who-talked-to-whom while the Bush Administration was creating its energy policy.

The U.S. Congress debated updating the 1934 Communications Act for 11 years before passing the Telecommunications Act of 1996 and now the implementation of this act has been the subject of more court cases and congressional

debates than I would care to count.

On the international side, a regulator in Eastern Europe denied an electric utility a price increase that was required by law and investors pulled out of the country. In Africa, an electricity regulator did the opposite – he approved a price increase, also required by law, and was promptly fired by his country’s president.

The key is to manage the political context within which technology policy issues are hammered out and implemented.

Why is infrastructure policy so dangerous? Communications policy is critical in an information-based economy and an information society, but it pits large, conflicting economic interests against each other. Energy policy involves hard trade-

offs between economic growth, consumer affordability, the environment and international affairs, each with its distinct interest groups. Water policy is central to numerous environmental policies, but it digs into everyone’s pocketbook and affects where economic growth occurs, namely in Florida.

How should we deal with this? The key for the person exercising leadership in infrastructure policy – whether he or she is in industry, government, academia or elsewhere – is to manage the political context within which technical policy issues are hammered out and implemented.

Managing the political context includes:

- ◆ maintaining substantive links with their supporters;
- ◆ understanding what their adversaries are saying;
- ◆ monitoring the temperature of the debate;
- ◆ identifying common ground;
- ◆ and asking “What happens next?” at each step, just to name a few.

There are no guarantees of success – it may be that the regulators and policy makers cited above did everything to the best of their abilities – but that possibility only underscores the notion that “Infrastructure policy is dangerous work.” ☞

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decisions and the performance of regulated firms. Her research on contestability has contributed to deregulation initiatives in several industries.

Previous award recipients can be found at www.purc.org. To nominate an individual for the 2005 award, e-mail Mark Jamison at mark.jamison@cba.ufl.edu. ☞



Above, PURC Director Sanford Berg, right, presents the 2004 Distinguished Service Award to Dr. Elizabeth Bailey during the Annual Conference.

PURC strives to help stakeholders in energy, communications and water policy develop and implement effective policies. We'll continue to keep you informed through additional public forums, executive education programs and publications, as we help you toward success and learn from your feedback.

Activities Update

Research News

In January, PURC Director of Energy Studies Paul Sotkiewicz received the American Economic Association Transportation and Public Utilities Group's Annual Dissertation Award in Utilities for his dissertation on "The Impact of State-Level Public Utility Commission Regulation on the Market for Sulfur Dioxide Allowances, Compliance Costs, and the Distribution of Emissions."

Dr. Sotkiewicz's paper on "Efficient Market Clearing Prices in Markets with Non-Convexities" is forthcoming in the *European Journal of Operational Research*.

Dr. Sotkiewicz is collaborating with J. Mario Vignolo, an engineer affiliated with the energy regulator in Uruguay (URSEA) and a graduate of the 2003 PURC/World Bank International Training Program on Utility Regulation and Strategy. Mr. Vignolo visited PURC this April to continue their joint research addressing capital cost recovery, the impact

of intermittent distributed resources, and the potential savings from reducing the need for upgrades.

PURC Director Sanford Berg's paper on short-term initiatives implemented by the Ugandan National Water and Sewerage Corporation was written in collaboration with two associates from Uganda's Makerere University, Gaddi Ngirane Katashaya and Silver Mugisha, a graduate of the 2002 PURC/World Bank training program. The paper, forthcoming in the June 2004 issue of *Water 21*, the magazine of the International Water Association, can be found online at www.purc.org.

Two other PURC papers are under review at scholarly journals: one on telecommunications policy (applied to China) and another on electricity distribution efficiency of public and private utilities (applied to Ukraine).

PURC Executive Director Mark Jamison and PURC staff are con-

tinuing work with researchers from the Universite de Toulouse and Pontificia Universidad Catolica del Peru in preparing a Body of Knowledge (BoK) for utility regulation. The material is designed to assist in the training of regulatory professionals. When completed, the BoK will serve as a valuable resource for educational programs and as reference material for commissions and companies. This project is funded by the World Bank.

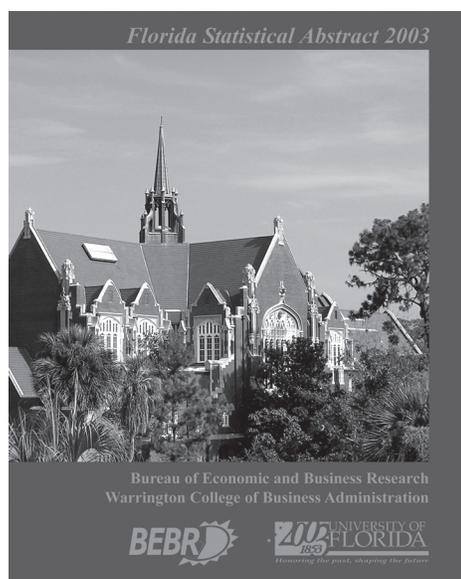
Training and Development News

PURC provides the delivery of customized training programs that address specific industry needs and regulatory concerns for small groups in public, private and nonprofit organizations in the U.S. and abroad.

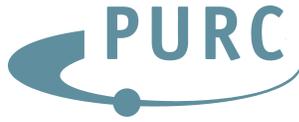
This spring, Dr. Jamison presented a technical program in Abuja, Nigeria for the Nigerian Communications Commission (NCC). The workshop on the economics of regulation, competition, interconnection and universal access was attended by 17 economists, engineers and attorneys from the NCC.

PURC Associate Rich Gentry, a doctoral student in Management at the University of Florida, led sessions on the use of models and other economic tools to examine market competition and anticompetitive conduct.

Dr. Jamison also traveled to Kampala, Uganda, to deliver a training program on price reviews, cost studies and interconnection in telecommunications. Photos and details about these training courses are available at www.purc.org. ☞



Need to know how many barrels of crude oil were produced at Bear Island Field in South Florida in 2001? (The answer is 179,102!) How about the minimum customer charge on electric rates imposed by the municipal utility in Mount Dora compared to the Sumter Cooperative? These data and more are found in the pages of the *Florida Statistical Abstract*, published annually by the Bureau of Economic and Business Research (BEBR) at the University of Florida. Visit www.bebr.ufl.edu.



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Calendar of Events

June 7 - 18, 2004

16th PURC/World Bank International Training Program on Utility Regulation and Strategy

Hilton
University of Florida
Conference Center,
Gainesville

For more information,
call Virginia Hessels at
352/392-3655.

Wed., September 29, 2004

PURC Fall Roundtable
"Is the Tail Wagging the Dog in
Communications Policy?"

Topics to be addressed include
the effect of competition on
telecommunications services and
user groups, customer demand,
legacy public policies, technology
changes in the communications
sector, uncertainty in national
policies, and mergers and
divestitures.

Tallahassee-Leon County Civic
Center, Tallahassee, Florida
Registration: \$75
(includes lunch and materials)
Register online at www.purc.org
or call 352/392-3655.

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