

Through the generous support of 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.

Is the Tail Wagging the Dog in Communications Policy?

Making communications policy in the U.S. has become dangerous work. Issues such as network unbundling and service subsidies seem like zero sum games and any “loser” on a particular policy decision has an incentive to fight back. A lack of clear direction in U.S. communications policy only complicates matters.

Will market forces shape the communications future? Which specific infrastructure goals, such as broadband targets or services, are being pursued for specific groups? Is the market driven by stakeholder interests, or is it ensnared in a Gordian knot of multiple drivers: market forces, industrial policy, and stakeholder preferences? How are regulators and policy makers to make decisions in such a highly charged environment in which priorities are unclear?

Speakers and participants addressed these and other tough questions at PURC’s first Fall Roundtable, “Is the Tail Wagging the Dog in Communications Policy?” in September. The lively exchange of ideas led to some consensus on themes and hot issues for future deliberations.



PURC Director Mark Jamison fields questions from the audience during the PURC Fall Roundtable in September.

After being welcomed by PURC Director Mark Jamison and Tallahassee Mayor John Marks, attendees heard from keynote speaker Professor Martin Cave, Director of the Centre for Management under Regulation at the Warwick Business School.

Professor Cave outlined policy developments in Europe and drew lessons for the United States. He emphasized that regulators in Europe are required to demonstrate the need for regulation before imposing it, and to tailor remedies to the perceived problems. He observed, however, that it has been hard to get the European regulatory authorities to follow the spirit of these requirements.

Susan Masterson, an attorney at

Sprint, applauded PURC’s ability to “put together a fresh program with interesting speakers and topics. I particularly enjoyed and learned from Professor Cave’s talk; he piqued my interest and I intend to do further research on the difference in the structure of administrative agencies in Europe and the United States.”

Roundtable sessions that followed examined both the growth of competition and innovation in Florida, as well as access to new technologies and services by key end users.



Dr. William Lehr, MIT, (standing) serves as moderator during the Roundtable’s first panel session.

A complete report of Roundtable highlights, including a list of the key communications policy challenges for Florida as observed by event participants, is available at www.purc.org. ☞

Information Rules: Part 1

Mark A. Jamison, Ph.D., PURC Director

What did the president know and when did he know it?” has been a popular question since it was first asked about 30 years ago.

A similar question, “What does the regulator know and when does he know it?” is the key question in regulation because the decision, “Should we regulate?” and the decision, “How should we regulate?” both hinge on information. When it comes to making regulatory policy, information rules!

Let me explain. Suppose the regulator knew as much as company managers about what customers want, what they are willing and able to pay, and the most efficient means of supplying the market. In such a world, the regulator could micromanage the company – telling the employees when to roll the trucks, buy PCs, advertise, etc. – because the regulator knows just as much as anyone else. Furthermore, by micromanaging the company, the regulator can ensure that the company achieves the regulator’s objectives. This is a clear win for the regulator.

But in today’s world, the regulator is not an expert on the best ways to diversify risk, choose technologies, advertise, negotiate contracts, fix software glitches, etc. Company managers are the experts in these areas. This means that these managers have an information advantage over the regulator, and this is what makes regulation challenging.

The regulator can address this information advantage in three ways, by learning about the sector, introducing competition, and using incentive regulation schemes such as price cap regulation. The regulator learns about the industries he regulates by reading the trade press, talking with industry managers and customers, studying financial statements, etc. More channels of communication and more time using them mean more information. However, the regulator can never absorb

all the knowledge embedded in a company, so competition and incentives remain key instruments for the regulator.

When it comes to making regulatory policy, information rules!

Competition has become a favorite tool for telecom regulators. In the best case scenario, it can completely overcome the company’s information advantage. Once competition takes hold, the telecom regulator can pretty much step aside, except to deal with market structure issues of interconnection, anticompetitive conduct, and the like. Of course, applying these instruments also requires information.

In water and energy, competition generally plays only a limited role, so

incentive regulation schemes matter more in these sectors than in telecommunications. Incentive schemes reward company managers with extra profit when they improve performance – for example, by accepting lower prices, delivering higher quality, or expanding service. This overcomes the regulator’s need to know how to improve performance, but it comes at a cost to customers, namely, higher profits for companies.

To sum up, one of the jobs of the regulator is to get customers the best deal possible. The regulator can do this by facilitating competition, but to do this well, the regulator needs to know how the industry works. The regulator can also get customers more bang for their buck through incentive regulation. The more the regulator knows, the better incentive regulation works. Information rules!

A more complete analysis of the role of information in infrastructure regulation is available online at www.purc.org. ☞

Industry Outreach

In December, PURC Director of Energy Studies, Dr. Paul Sotkiewicz, was a speaker at the 5th AES IU Regulatory Working Group Workshop in Miami for regulatory staff from AES subsidiaries.

He made two presentations to staff from AES’s Western US Generation Group, Indianapolis Power & Light (IPL), and various international subsidiaries.

The presentation of “A Summary of Regulatory Mechanisms, Their Respective Incentives, and Relative Advantages and Disadvantages” summarized the properties of regulatory mechanisms used to regulate transmission and distribution. “Transmission

Tariff Issues: Considerations for Distribution Companies and Generators” considered the rate impacts for users and revenue impacts for transmission companies of widely used short-run and long-run tariff mechanisms, including nodal, zonal, flowgate, and MW-mile methodologies.

Along with Dr. Sotkiewicz, other speakers included Dr. Stephen Littlechild (former UK chief energy regulator); Dr. Tooraj Jamasb of Cambridge University; Dr. Peter Cramton of the University of Maryland and an advisor to ISO-New England; and Mario Damonte, President of Quantum-America. ☞

Activities Update

Center News

PURC Director of Telecommunications Studies Mark A. Jamison was named Director of the Public Utility Research Center in May. Former PURC Director Sanford V. Berg stepped down to devote more time to a program on water policy studies, as well as to a book on infrastructure management and regulation. Dr. Berg was named PURC's Director of Water Studies and remains its Florida Public Utilities Professor.

This winter, PURC is gathering feedback from its constituents regarding the demand for advanced online training in utility regulation and policy. Readers are asked to complete a brief online survey at www.purc.org.

Dr. Jamison and Lanzillotti-McKethan Eminent Scholar in Economics, David Sappington, participated in the "Formulating a Research Agenda for Communications Policy" workshop at the Federal Communications Commission in December.

Presenters examined broadband and advanced services issues, media concentration issues, and network interconnection. The discussion of international benchmarking in broadband adoption challenged the conventional wisdom that the US is falling behind the rest of the world. The workshop was sponsored by PURC, the UF Public Policy Research Center and the Quello Center at Michigan State University.

Dr. Jamison spoke at recent meetings of the National Association of Regulatory Utility Commissioners and the Organization of Caribbean Utility Regulators about the importance of leadership skills for regulators. He emphasized the importance of leadership in effecting meaningful change in regulatory policies and the dangers regulators face when exercising leadership.

Leadership News

The PURC Leadership Advisory Council met for the first time in September to talk with PURC leaders and offer advice on leadership, management and strategic issues. PURC Director Mark Jamison formed the group during the summer to serve as a sounding board for leadership and strategy issues. Dr. Jamison extends his thanks to those volunteering to serve: Attorney Susan Clark, Radey, Thomas, Yon & Clark, P.A.; Skip Everitt, President of Everitt and Associates; Julia Johnson, President of NetCommunications; J. Paul Morgan, Director General of the Office of Utility Regulation in Jamaica; and UF Associate Professor Marilyn Roberts.

Now online

◆ "Practical Lessons for Performance Monitoring in Low-Income Countries: The Case of National Water and Sewerage Corporation, Uganda," by PURC Visiting Scholar Silver Mugisha, Sanford Berg, and Heather Skilling, and "Success for Uganda from a Series of Short-Term Initiatives," by Silver Mugisha, Dr.

Berg and Gaddi Ngirane Katashaya (both papers published in *Water21*, in October and June 2004, respectively).

◆ "Survival Guide for the Independent Regulator," "Leadership and the Independent Regulator," and "Leadership in Regulation," three papers by Dr. Jamison.

◆ Two papers by Dr. Sotkiewicz and PURC Visiting Scholar, J. Mario Vignolo: "Allocation of Fixed Costs in Distribution Networks with Distributed Generation" and "Allocation of Loss Costs in Distribution Networks with Distributed Generation: The Nodal Factor Pricing Method."

Coming Soon

PURC is partnering with Cambridge Leadership Associates (www.cambridge-leadership.com) to develop leadership workshops for regulators and policymakers in 2005. Watch the PURC web site (www.purc.org) and the *PURC Review* for announcements.

PURC is developing plans to offer advanced training on regulatory issues online. Details to be announced. Contact PURC at 352-392-6148 for more information. 

32nd Annual PURC Conference

Register online at www.purc.org for the 2005 PURC Annual Conference, "Emerging Technologies and Trends: Effects on Consumers, Industries and Regulators," scheduled February 9-10, 2005, at the Hilton University of Florida Conference Center in Gainesville.

Speakers include Severin Borenstein, University of California Energy Institute; Robert Crandall, The Brookings Institution; UF President Bernie Machen and Xcel Energy, Inc. Chairman and CEO Wayne Brunetti, among others.

A complete agenda and registration form can be found online at www.purc.org. Checks and credit cards accepted. For more information, call 352/392-8677.

Water Conference

PURC will co-host the 2005 Water Conference with the Reubin O'D. Askew Institute, March 31 and April 1, 2005, at the Orlando Marriott Downtown.

Speakers include Governor Askew and International Water Association Executive Director Paul Reiter, among others. Register online at www.purc.org. Checks and credit cards accepted. For more information, call 352-392-3655. 



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Calendar of Events

February 9-10, 2005
2005 PURC Annual Conference
"Emerging Technologies and
Trends: Effects on Consumers,
Industries and Regulators"
Register online at www.purc.org.
See page 3 for details.

February 24-25, 2005
Joint Telecommunications
Conference with the
London Business School
Gainesville, FL
For more information, call
352/392-6148.

March 31 - April 1, 2005
Joint Water Conference with
the Askew Institute
Orlando Marriott Downtown
Register online at www.purc.org.
See page 3 for details.

June 6-17, 2005
18th PURC/World Bank
International Training
Program on Utility
Regulation and Strategy
Hilton
University of Florida
Conference Center,
Gainesville, FL

For more information,
call 352/392-3655.

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