



Celebrating 40 years!
Since its founding, PURC has grown from a small group hosting one meeting to an internationally recognized research center with expanded training and interdisciplinary development programs.

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Public Utility Research Center

About PURC

Evolution of Regulation and Markets for Energy

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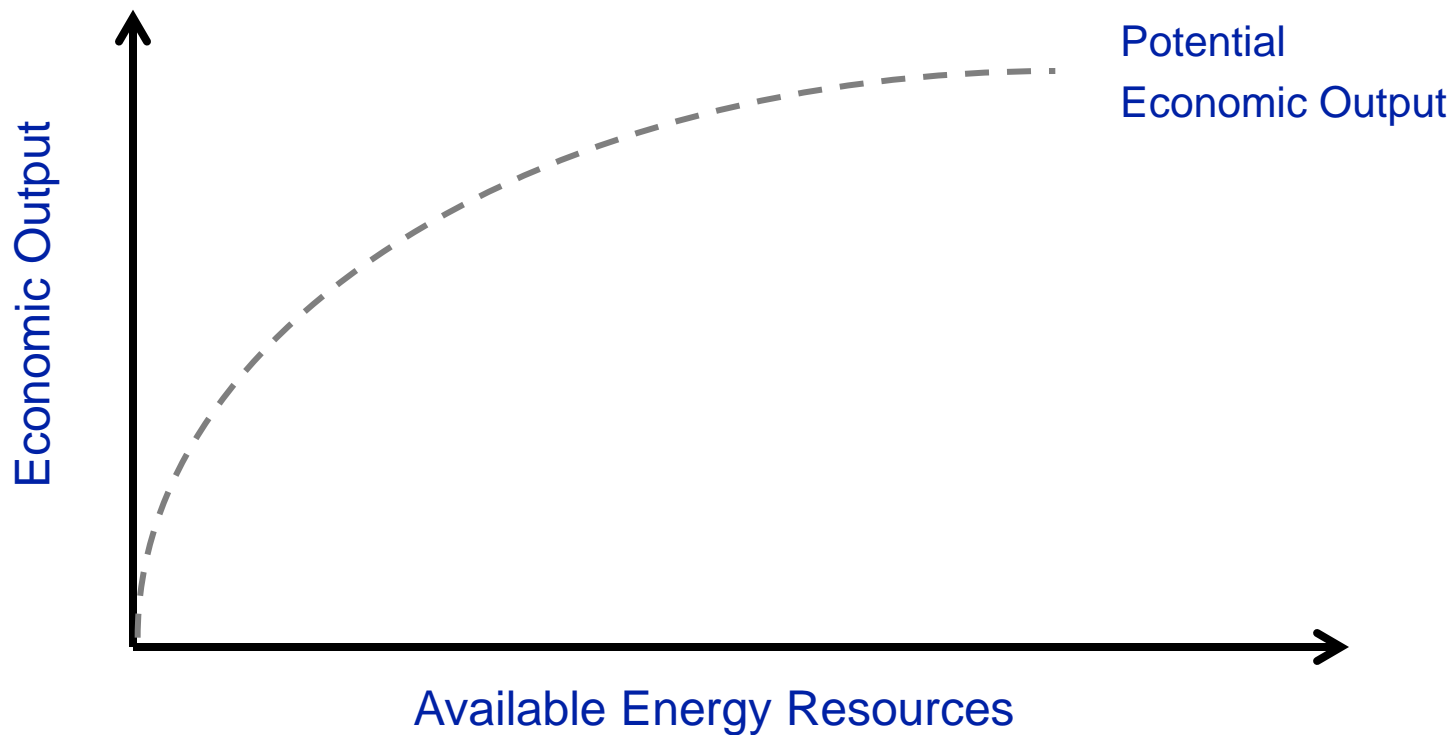
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Overview

- **The challenge**
- **Essential foundations**
- **Economics and pressures**
- **Leadership challenges**

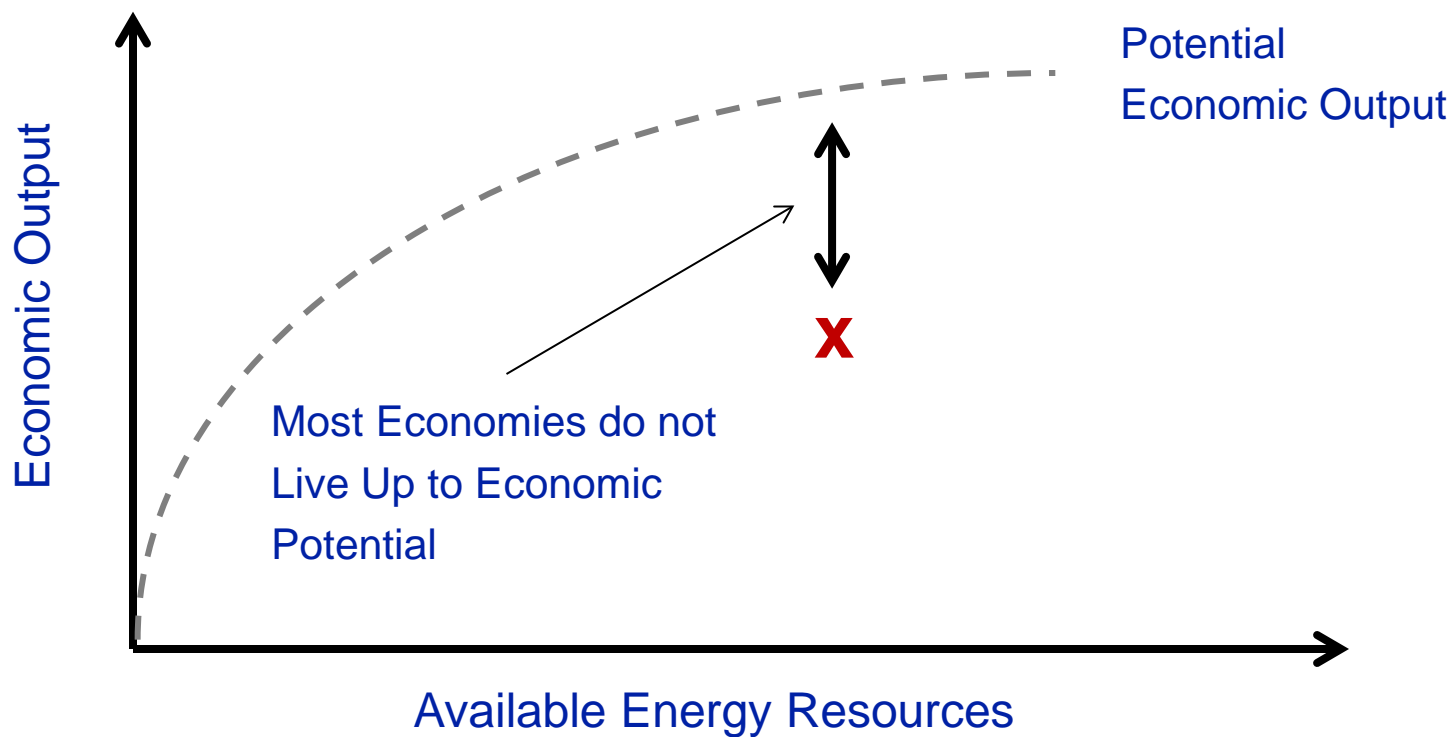


Our Basic Challenge



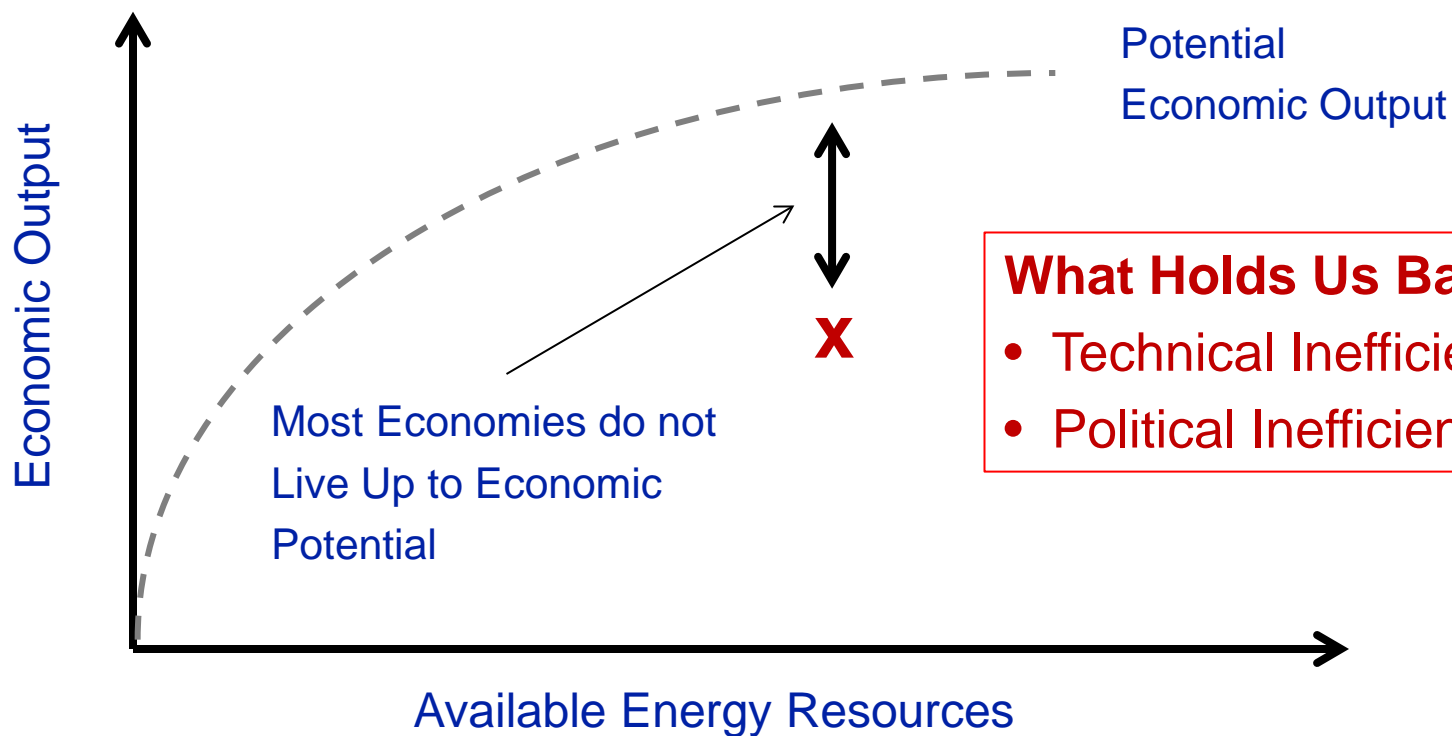


Our Basic Challenge





Our Basic Challenge





What's Special Here?

Energy Politics

- *Important to citizens*
- *Easy to expropriate*
- *Interests groups*
- *Natural resources vary across countries*
- *Results in short run focus*

Energy Economics

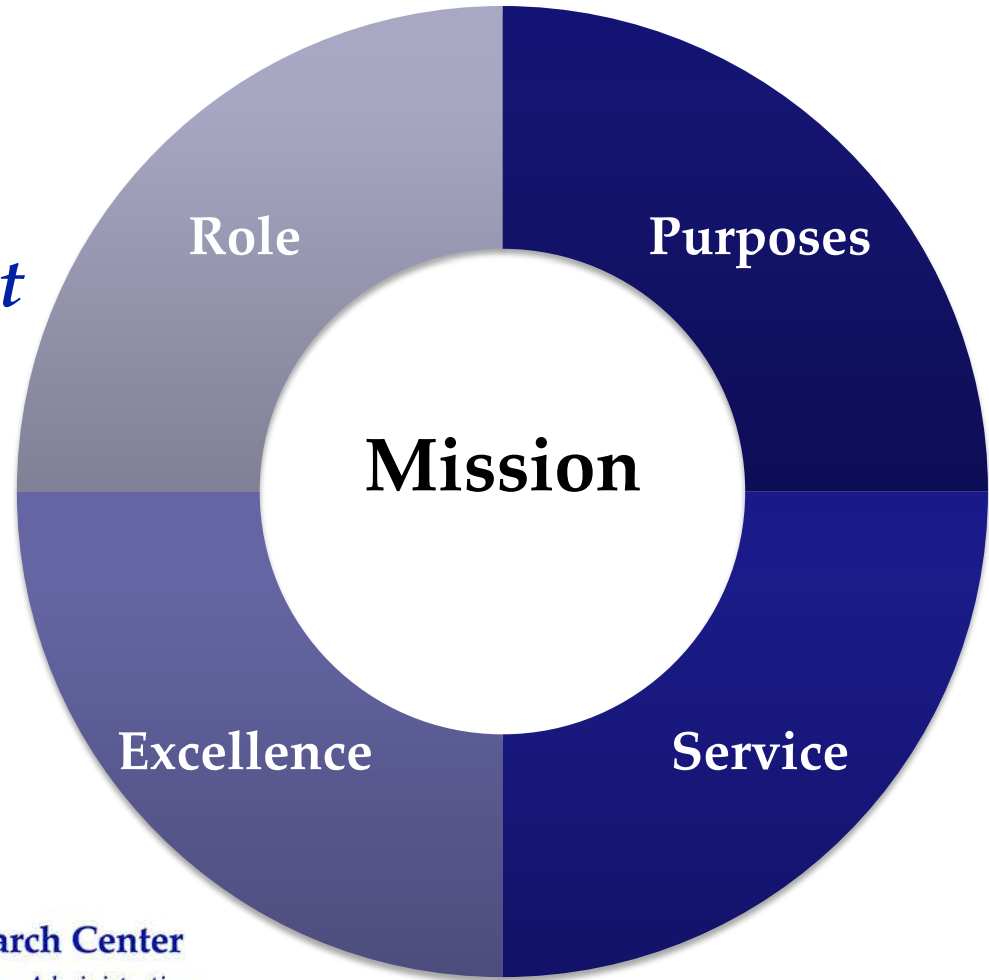
- *Foundational to economic development*
- *Investments*
 - Slow to develop
 - Require broad cooperation
 - Long-lived
 - Sunk
- *Results in long run focus*



Critical Areas for Success

Aspirations

- *Successful development*
- *Solve complex problems*
- *Be leaders*



Challenges

- *Political interference*
- *Too many demands*
- *Technical complexity*



Why regulatory Institutions?

- **Public interest**
 - Monopoly for necessity
 - Limit exploitation
- **Expertise**
 - Most complicated work of government



Why a regulatory agency?

- **Independence**
 - Constrain politically powerful
 - Constrain politics
 - Political credit card



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Ultimate goal

- **Ensure provision of necessary service in way that allows economy and society to flourish**
 - Commercial viability
 - Availability
 - Reliability
 - Affordability



Compensatory price levels

- **Necessary for investment and reliability**
 - **Features**
 - Grounded in reality
 - Represents today
 - Reflects efficiency
- historical bases
current demands
investigations,
benchmarks, incentives



Efficiency incentives

- **Benchmarking**
 - Public comparison incentive
 - Performance target information
- **Commercial profits**
 - Regulatory lag; price/revenue caps
 - Sharing mechanisms
- **Regulatory review**



Price incentives

- **Price signals to customers**
- **Price signals to suppliers**
 - Feed-in tariffs
- **Price signals to operators**
 - Do more/less of



Price in the public arena

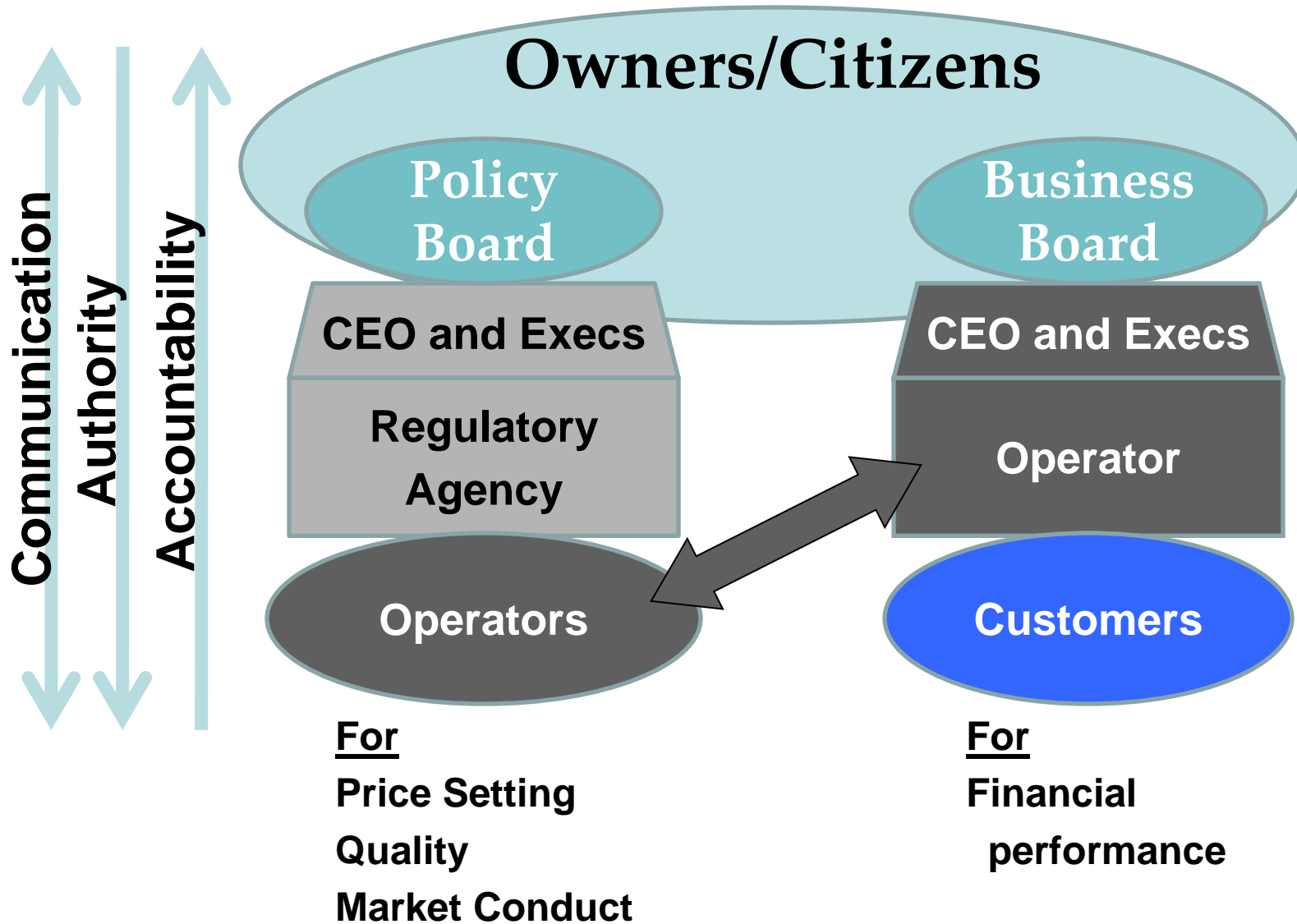
- **Just price**
 - “I shouldn’t have to pay more for the same thing”
 - “I shouldn’t have to pay more than others”
 - “Others should not get a better deal than me”
 - “I should get the best deal”
 - “The operator should be a good citizen”
 - “The operator should not make more money than the rest of us”



Regulation is endogenous

- Goals
- Methods
- Boundaries
- Stability
- **Determined within political, economic, industry context**

Clarifying Roles



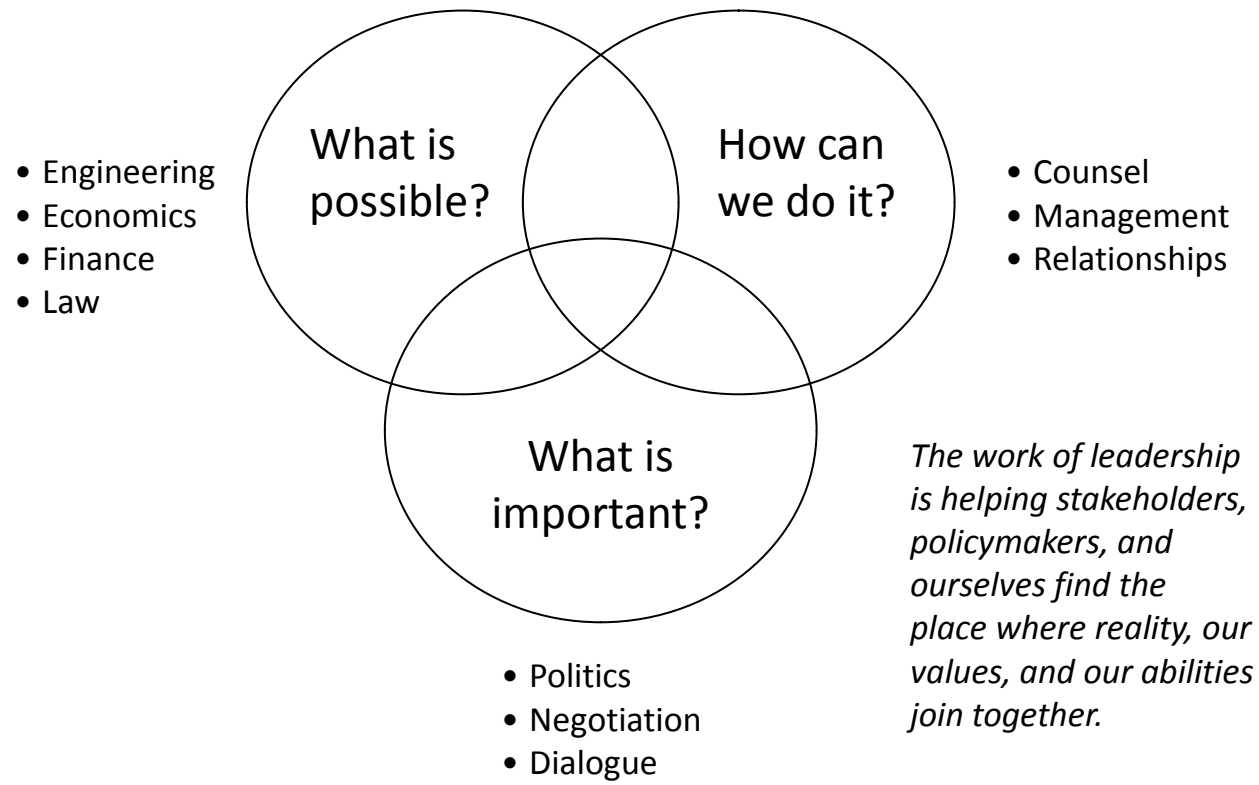


Aligning purposes

- **Ongoing or regular dialogue of operators, key politicians, thought leaders**
 - Where are we?
 - What do we aspire to for our country?
 - What are the difficult tradeoffs between good things?



The Regulatory Practice





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Regulation is dangerous work

- Every change involves someone losing something that is important to him/her
- Disappointing people at a rate at which they can endure