Evolution of Regulation and Markets for Energy

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Overview

• The challenge
• Essential foundations
• Economics and pressures
• Leadership challenges
Our Basic Challenge

- Potential Economic Output
- Available Energy Resources

Economic Output
Our Basic Challenge

Most Economies do not Live Up to Economic Potential

Available Energy Resources

Potential Economic Output

Economic Output
Our Basic Challenge

Most Economies do not Live Up to Economic Potential

Available Energy Resources

Economic Output

Potential Economic Output

What Holds Us Back?
- Technical Inefficiency
- Political Inefficiency
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

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“Leadership in Infrastructure Policy”
Critical Areas for Success

Aspirations
- Successful development
- Solve complex problems
- Be leaders

Challenges
- Political interference
- Too many demands
- Technical complexity

Mission

Role

Purposes

Excellence

Service
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
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
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

What is possible?
• Engineering
• Economics
• Finance
• Law

What is important?
• Politics
• Negotiation
• Dialogue

How can we do it?
• Counsel
• Management
• Relationships

The work of leadership is helping stakeholders, policymakers, and ourselves find the place where reality, our values, and our abilities join together.
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