Developing Regulatory Institutions: A Leadership Perspective

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Leadership in Infrastructure Policy

• Goal: Improve Sector Performance
  • Policy goals and policy change both matter

• Address Market Power
  • Better prices for customers
  • More service
  • Better quality service

Reasons for regulation

Efficiency

Investment
Reasons for regulatory agency

• **Investment**
  • Opportunism and predictability

• **Expertise**
  • Inform stakeholders
  • Operator performance and incentives
    • Operator’s innate ability or level of effort
    • Regulator’s expertise fills gap partially
    • Regulatory incentives complete the task
Key Features – Independence

• Independent agency – arm’s length from politics and stakeholders
  • Legitimate
  • Stability when politics change
    • Authority
    • Personnel
    • Budget
  • Judicial, not political review
Key Features – Accountability

- Accountable agency – public oversight
  - Statutory or constitutional controls
  - Transparency
    - Communicate and deliberate in public view
    - Explain fact-based decisions
    - Listen
Key Features – Expertise

- Expert agency – professional and well trained
  - Accounting, Finance, Economics, Law, Engineering, etc.
  - Professional peers
  - Trained and experienced
Key Features – Governance

• Organized system – alignment of authority, accountability, communication

• Scope of work
  • Price setting
  • Quality
  • Market structure and conduct
Regulatory Governance Model

- Citizens
  - Policy Makers
    - Commissioners
      - Regulatory Agency
        - Operators

Communication
Authority
Accountability

Adapted from “The Imperfect Board Member”
Key Features – Structure

• Organized industry and markets – economies and pressures
  • Small system realities
    • Opportunities for competition are limited
      • Scale economies limit number of operators
      • Markets can be complex and costly to monitor
      • Poorly performing markets worse than no competition
    • Opportunities for diversity are limited
    • Outside events have greater impacts
Summary of Key Features

- Independent agency
- Accountable agency
- Expert agency
- Organized regulatory system
- Organized industry
Can we do this?

- All systems are perfectly aligned to get the results they get
  - The system doesn’t want to fix the problem
- Mapping stakeholders
  - What would each have to give up to close the gap?
  - What would YOU have to give up?
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Thank you

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Appendix
Regulatory Governance Model

Citizens

Policy Makers

Commissioners

Regulatory Agency

Operators

Adapted from “The Imperfect Board Member”
Authority Scope

• In general, higher level groups hold lower level groups accountable for results
  – Without managing how results are achieved
  – With consideration for circumstances
Authority Scope

• Policy makers
  – Reflect on outcomes
    • What is the system supposed to produce?
    • Why does it or why doesn’t it?
  – Respect citizen expectations
    • Long run and short run
  – Select commissioners
  – Define and refine vision and mission
    • Evolving circumstances, but long-lived investments
Authority Scope

• **Regulators**
  – Establish prices, service standards, and market rules
  – Enforce decisions

• **Operators**
  – Determine means to achieve service vision subject to regulator decisions
Regulatory Governance Model

- Citizens
- Policy Makers
- Commissioners
- Regulatory Agency
- Operators

Adapted from “The Imperfect Board Member”
Accountability for performance

- **Operator rewarded/punished based on**
  - Costs and price performance
  - Investment
  - Service quality

- **Regulator held accountable for sector performance and for system performance**
  - Prices and services
  - Stakeholder engagement
Regulatory Governance Model

Citizens

Policy Makers

Commissioners

Regulatory Agency

Operators

Communication

Authority

Accountability

Adapted from "The Imperfect Board Member"
Communication Line Exceptions

Within the context of the proper role

Policy ideas and feedback

Adapted from “The Imperfect Board Member”
Operator Governance Model

Adapted from "The Imperfect Board Member"
Operator Governance Model

Adapted from “The Imperfect Board Member”
Authority Scope

- In general, higher level groups hold lower level groups accountable for results
  - Without managing how results are achieved
  - With consideration for circumstances
Authority Scope

• Board of Directors
  – Reflect on outcomes
    • What financial outcomes is the operator supposed to produce?
    • Why does it or why doesn’t it?
  – Respect owner expectations
    • Citizens? Lenders? Ministry?
  – Select operator leaders
  – Define and refine vision and mission
Leadership in Infrastructure Policy

Operator Governance Model

- Owners
- Board
- CEO and Execs
- Operator
- Customers

Adapted from “The Imperfect Board Member”
Accountability for performance

- CEO and executive team rewarded/punished based on
  - Financial performance
  - Long term viability
    - Relationship with regulator
    - Financing
    - Investments
    - Efficiency
Accountability for performance

• What are the best forums and methods for discussions with CEO/execs about performance?
  – Costs, revenues, innovation
  – Long term
    • Relationship with regulator
    • Financing
    • Investments
    • Efficiency
Infrastructure Governance: SOE

Owners/Citizens

Policy Makers

Commissioners

Operators

Board

CEO and Execs

Operator

Customers

For Price Setting
Quality
Market Conduct

For Financial performance

Communication Authority

Accountability

Communication Authority