



Developing Regulatory Institutions: A Leadership Perspective

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Reasons for regulation

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

- **Address Market Power**

- Better prices for customers
- More service
- Better quality service

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

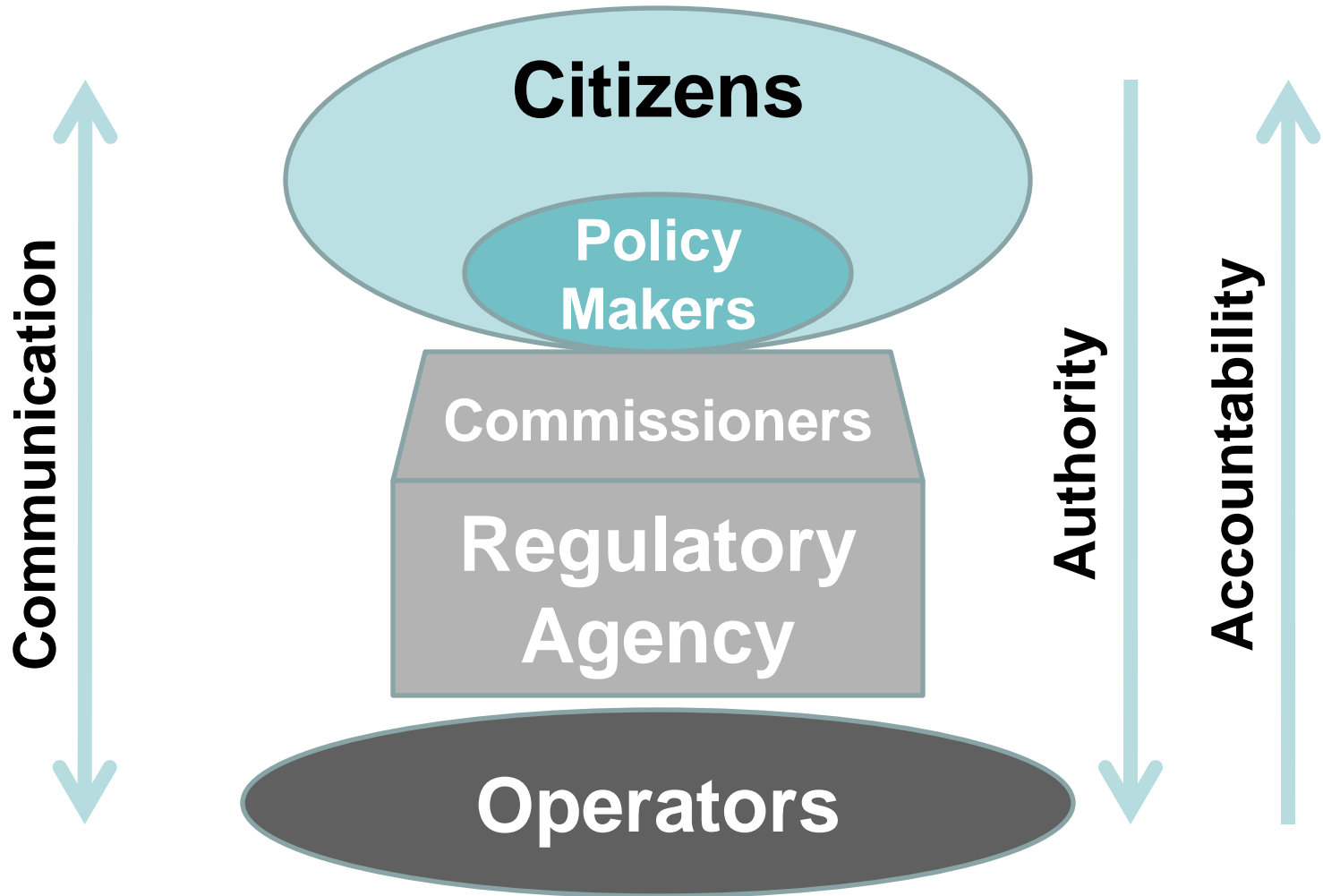
- **Expert agency – professional and well trained**
 - **Accounting, Finance, Economics, Law, Engineering, etc.**
 - **Professional peers**
 - **Trained and experienced**



Key Features – Governance

- **Organized system – alignment of authority, accountability, communication**
- **Scope of work**
 - **Price setting**
 - **Quality**
 - **Market structure and conduct**

Regulatory Governance Model





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

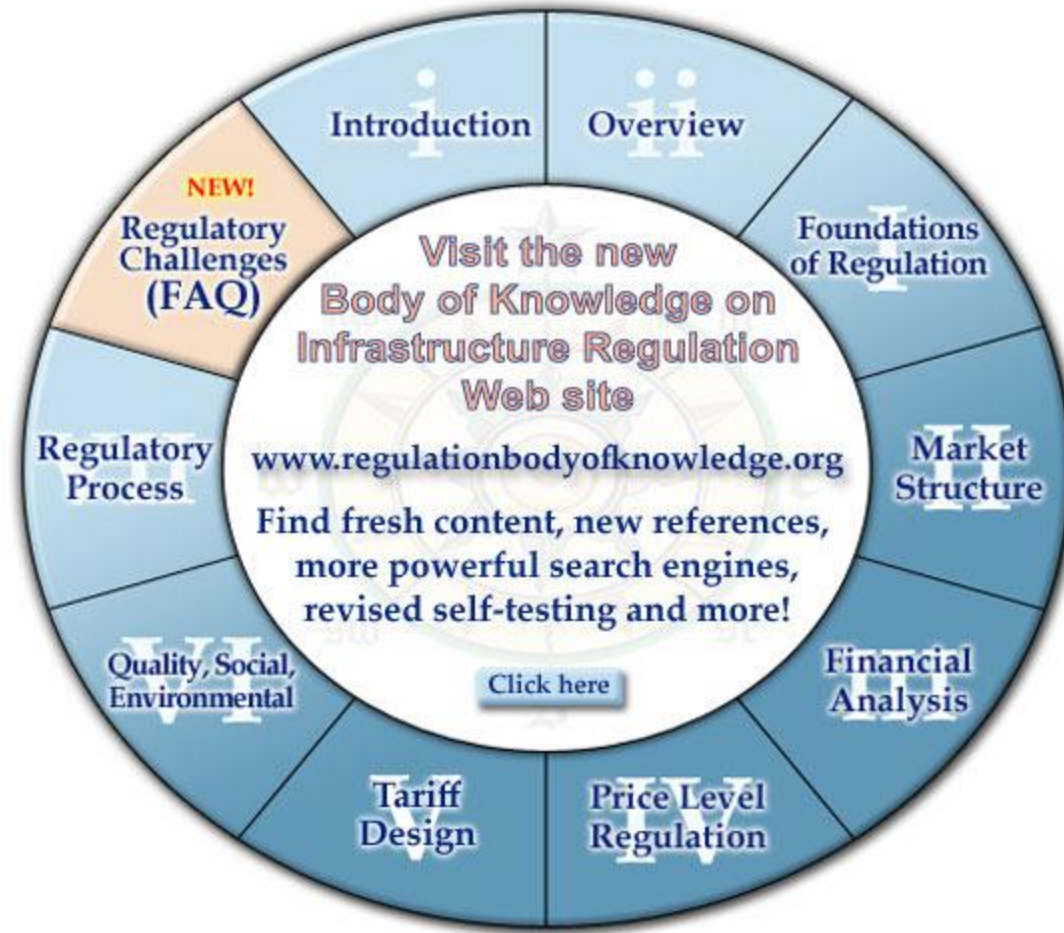


Can we do this?

- 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?

The Body of Knowledge on Infrastructure Regulation

www.regulationbodyofknowledge.org





Thank you

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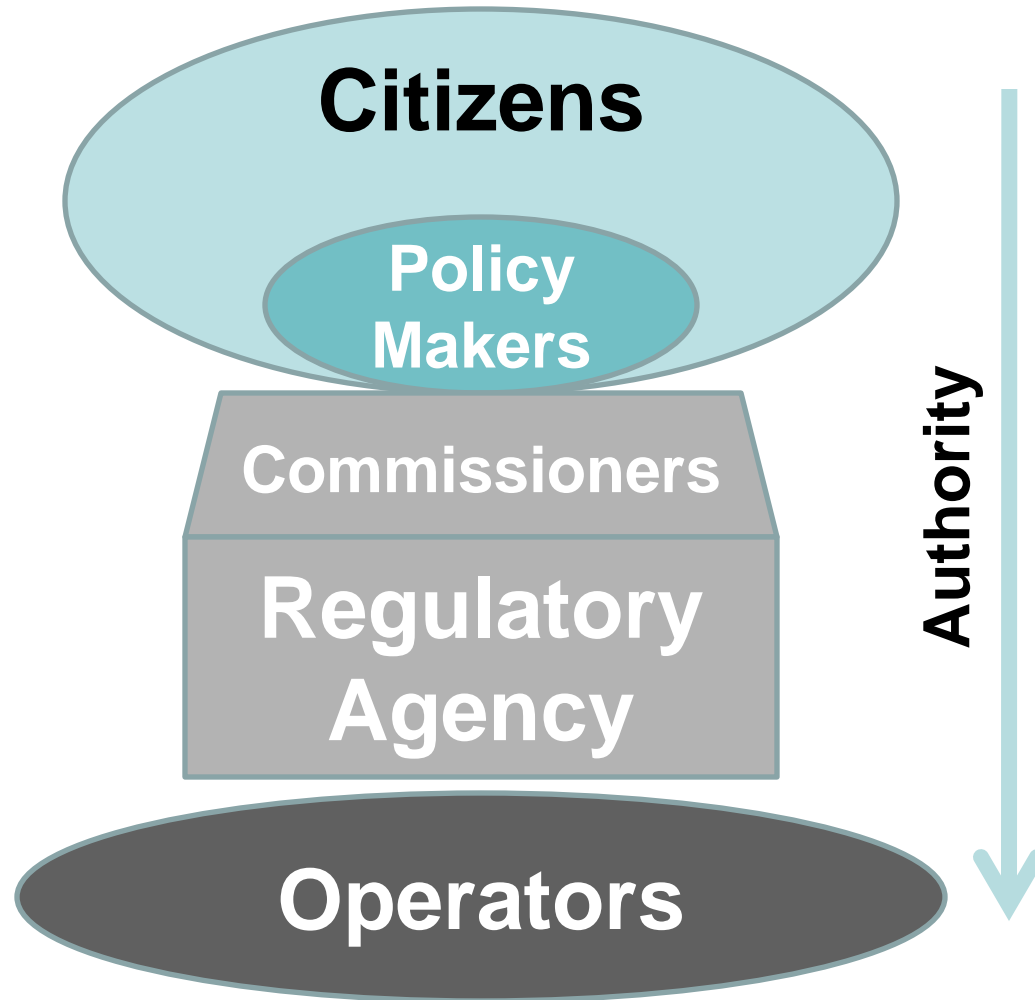
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Appendix



Regulatory Governance Model





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

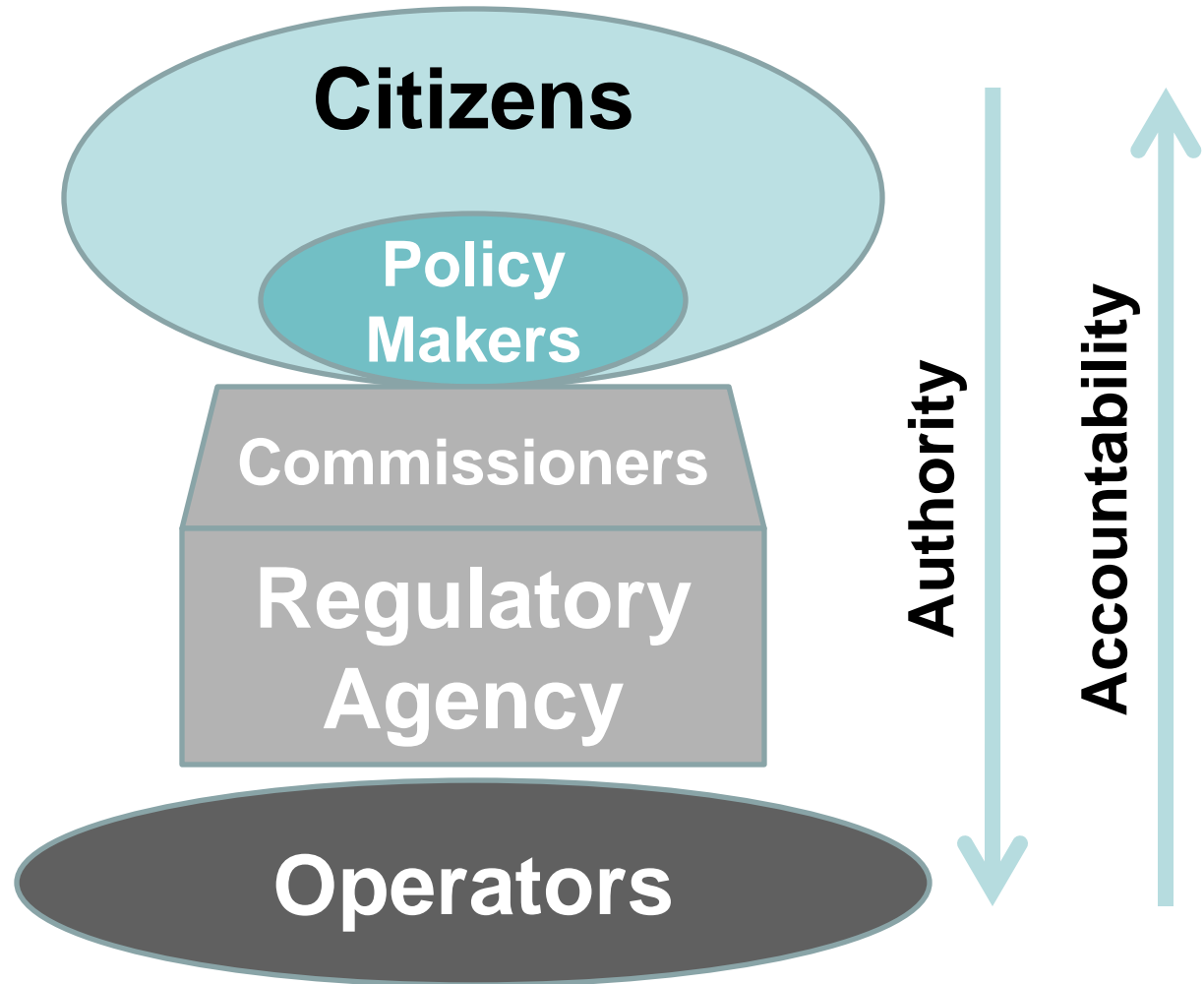
- **Policy makers**
 - **Reflect on outcomes**
 - What is the system supposed to produce?
 - Why does it or why doesn't it?
 - **Respect citizen expectations**
 - Long run and short run
 - **Select commissioners**
 - **Define and refine vision and mission**
 - Evolving circumstances, but long-lived investments



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

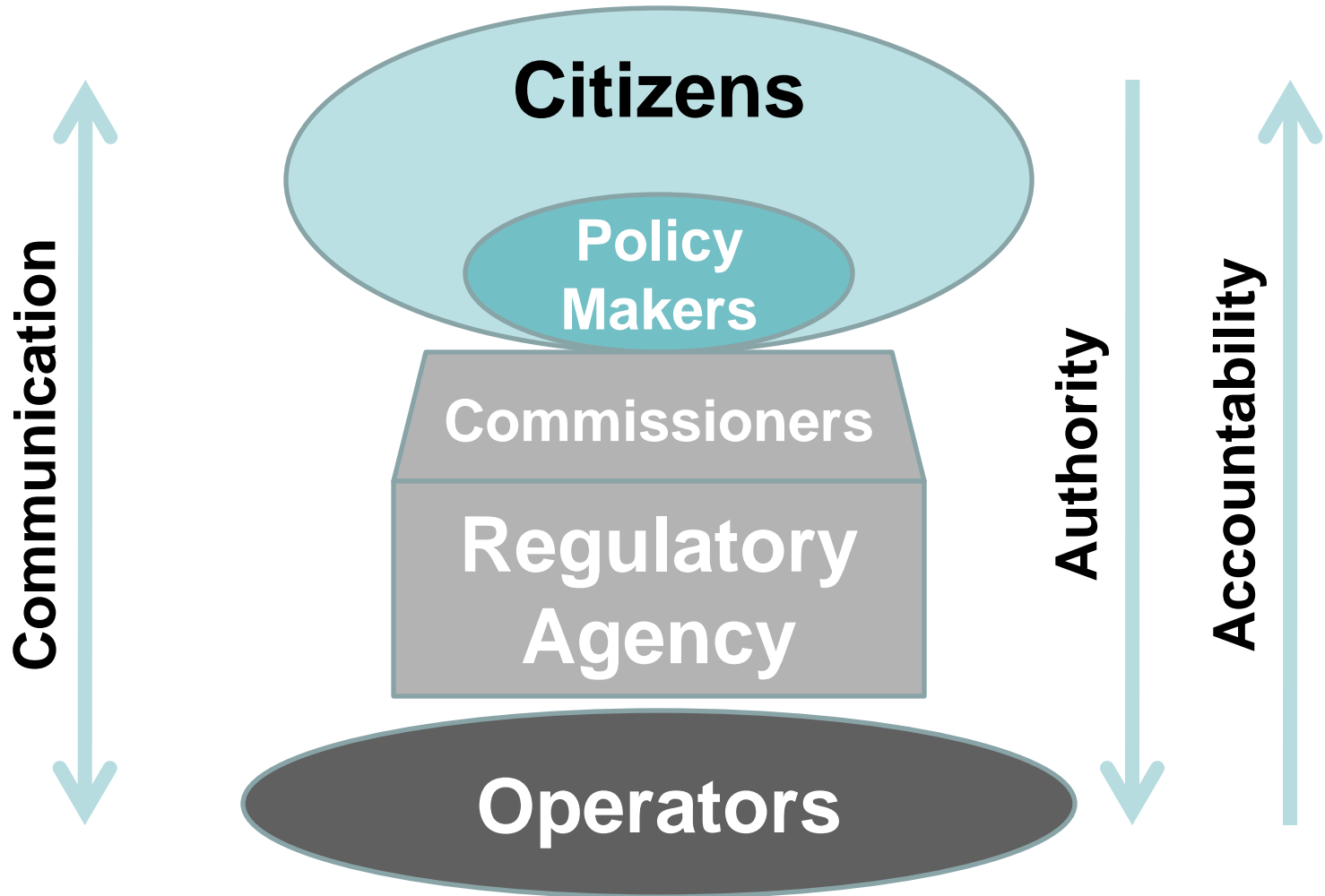




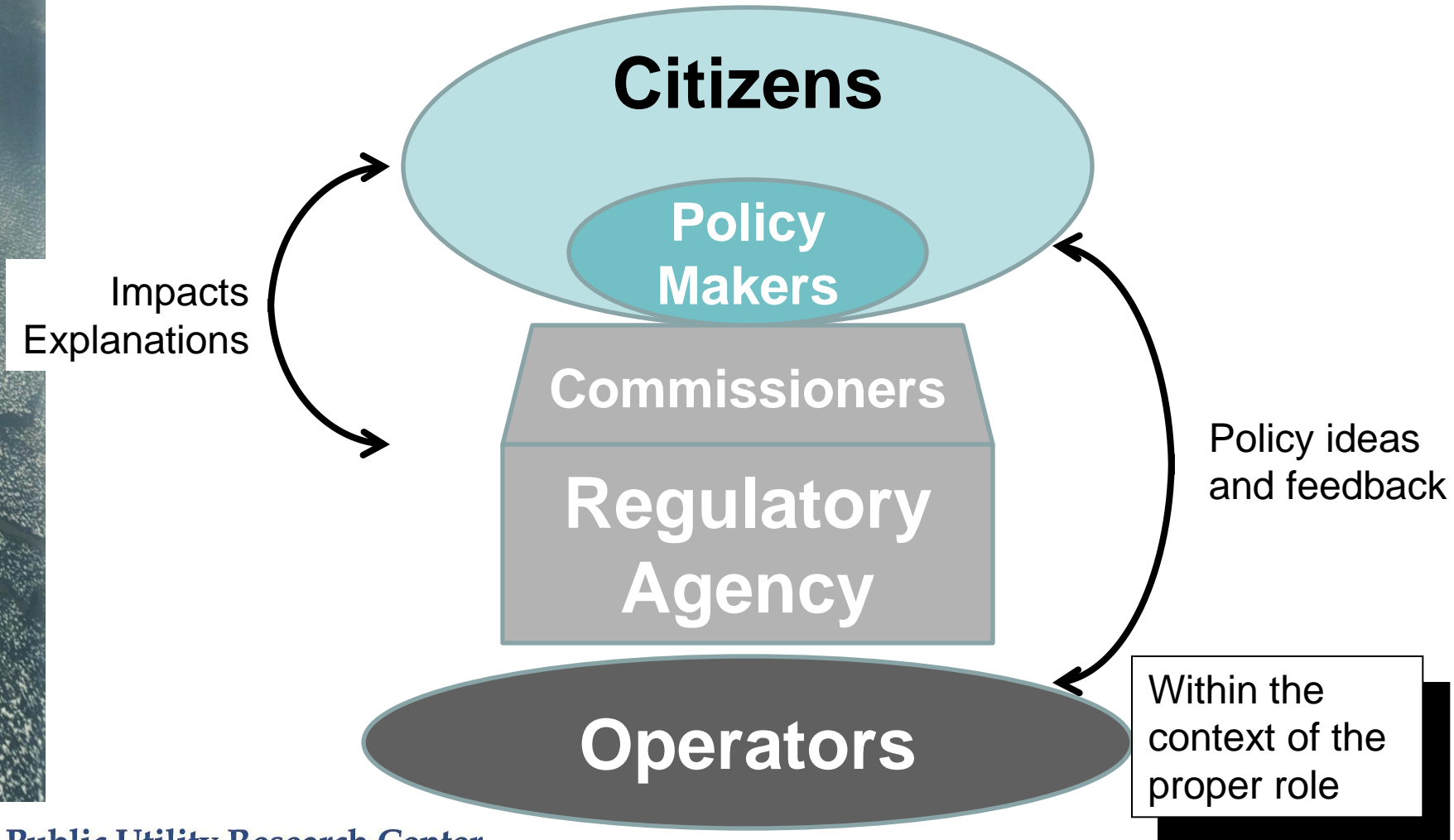
Accountability for performance

- **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

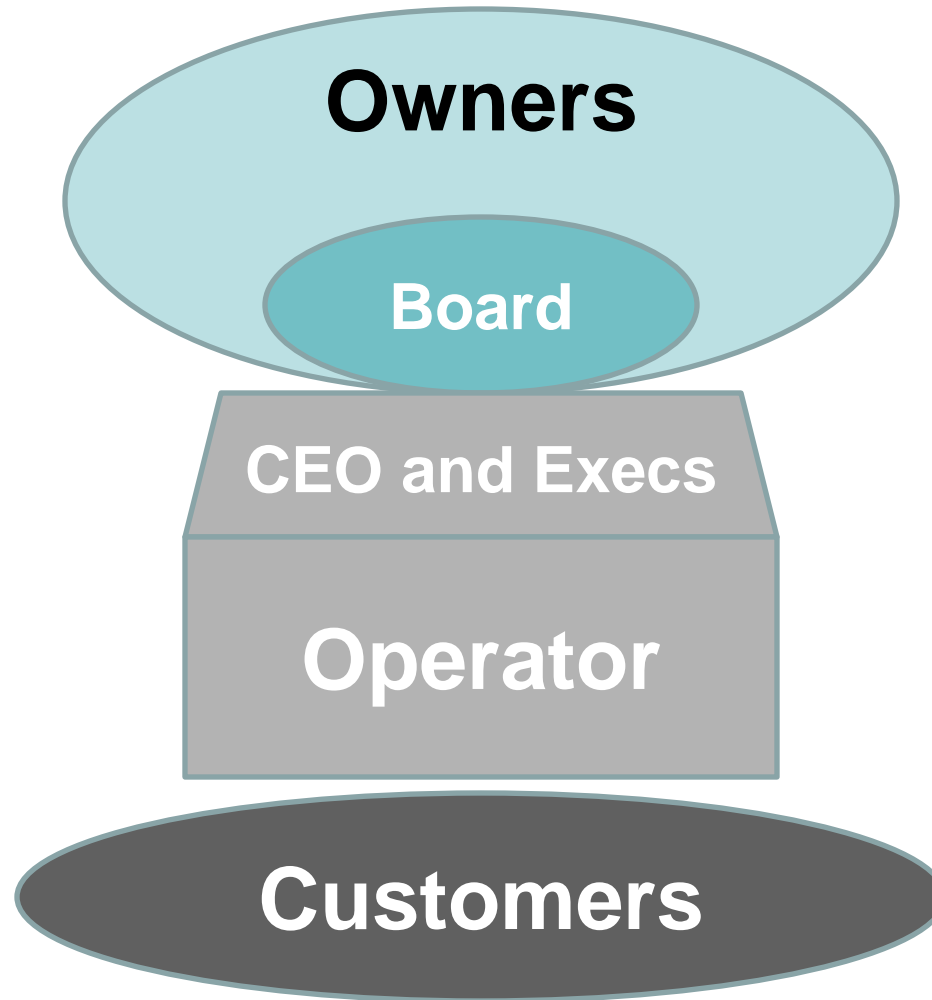


Communication Line Exceptions

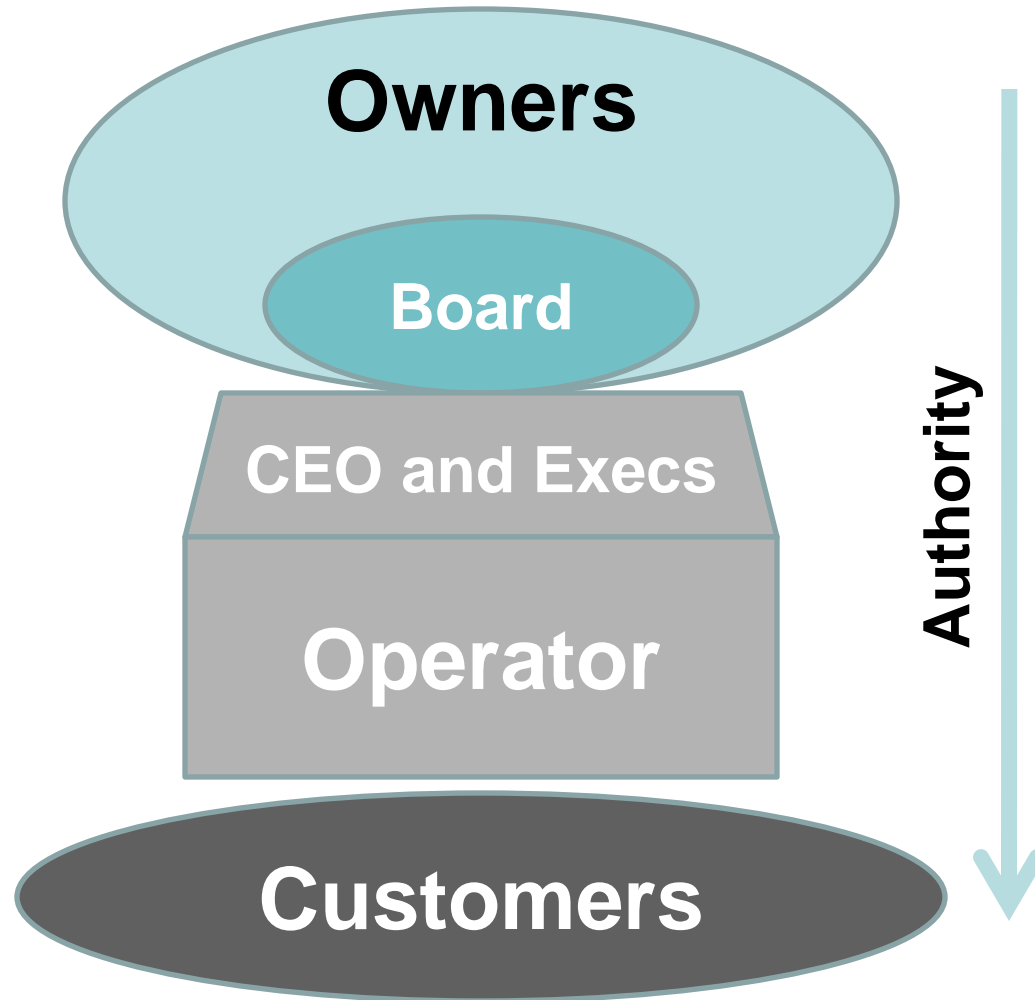


Operator Governance Model

Relationships for
Financial
performance



Operator Governance Model





Authority Scope

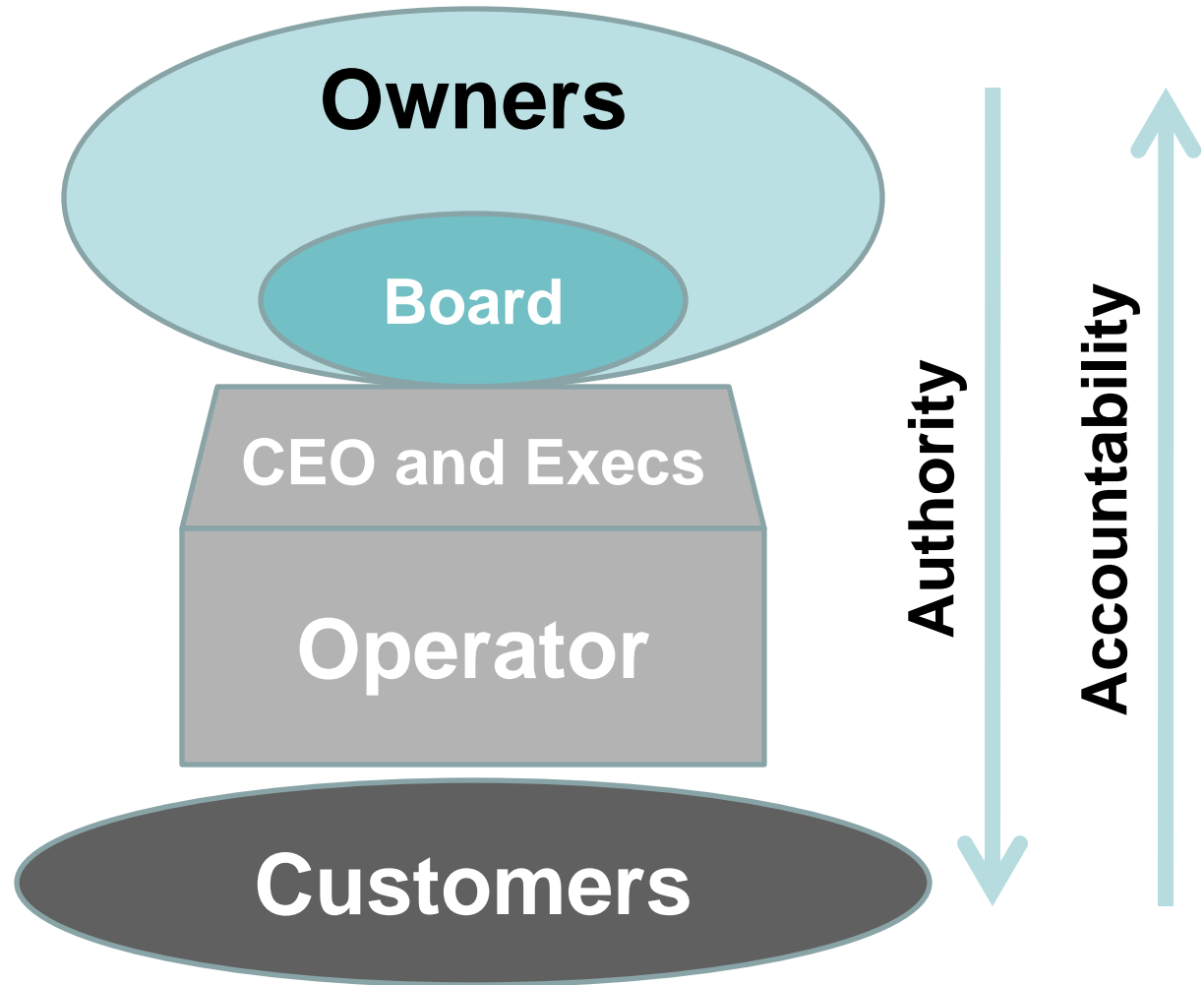
- In general, higher level groups hold lower level groups accountable for results
 - Without managing how results are achieved
 - With consideration for circumstances



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**

Operator Governance Model





Accountability for performance

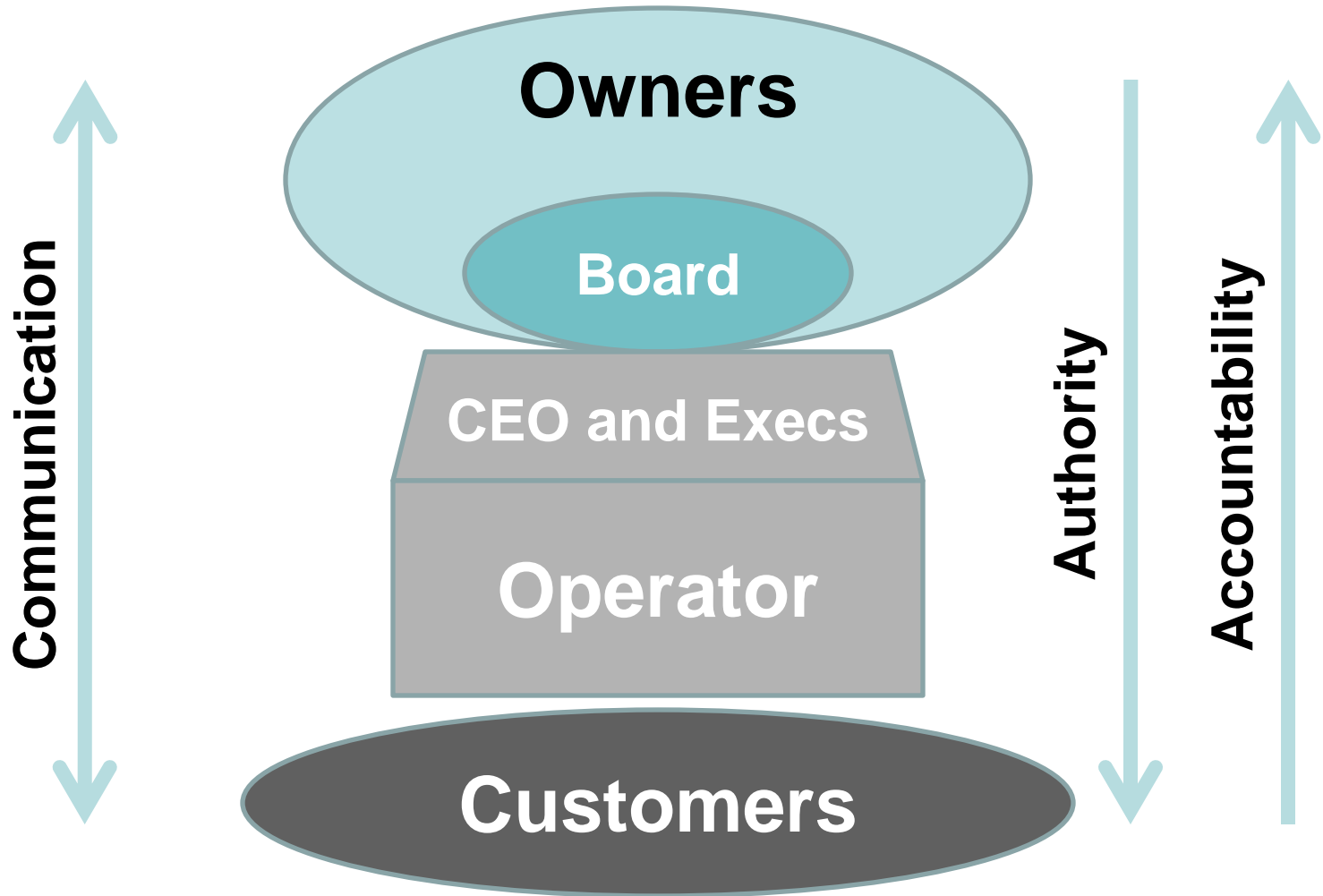
- CEO and executive team rewarded/punished based on
 - Financial performance
 - Long term viability
 - Relationship with regulator
 - Financing
 - Investments
 - Efficiency



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

Operator Governance Model



Infrastructure Governance: SOE

