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Review

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"Leadership in Infrastructure Policy"

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.

Emerging Technology and Trends: Effects on Consumers, Industries and Regulators

Telecommunications speakers at the PURC Annual Conference in Gainesville, February 9 and 10, stressed technology, customers and competition.

Providing a keynote address, Bob Crandall of The Brookings Institution, emphasized what he sees as over-regulation of the transition to competition. He notes that the Federal Communications Commission's (FCC) unbundling requirements and pricing requirements for unbundled network elements have created an artificial economy for new entrants and that many of these entrants' business models will collapse now that the federal rules are changing.

He supported his point with analyses of recent patterns in entry patterns, new entrant investments, and market valuations, and by comparing the United States with other countries.

John Horrigan of the Pew Internet Project and Bev DeMello of the Florida Public Service Commission (FPSC) described changes in telecommunications

consumers. Horrigan presented the results of Pew's broadband adoption survey, which found that broadband usage continues to grow, that price does not seem to be a significant hurdle for most consumers, and that cities lead rural areas in broadband availability and usage.

DeMello discussed the results of several surveys, including those by the FPSC. Competition is growing because consumers are becoming increasingly savvy in their use of alternatives to the traditional telephone. The FPSC's work in consumer protection and in supporting low-income customers' access to affordable service has been important in helping everyone benefit from competition.

In the final telecommunications session of the conference, Sylvia Chan-Olmsted of the University of Florida and Victor Glass of NECA discussed how changes in customers and technology are affecting service providers.

Focusing on the traditional media companies, Chan-Olmsted described investments in cable broadband



University of California Energy Institute Director Dr. Severin Borenstein (left) accepts the 2005 Distinguished Service Award from PURC Director Dr. Mark Jamison during the PURC Annual Conference in February. The award recognizes the cumulative impact of an individual's research and policy analyses on the academic community and regulatory policymakers.

networks, the development of interactive television, and other competition-driven services. These companies are concerned that government intervention might slow their pace of innovation. Glass explained how traditional telephone companies are losing calling minutes and traditional lines to broadband and

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Policy Essentials

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

Watching the swirling controversies in today's regulatory climate, I try to keep in mind what Peter Drucker tells us in his book *The Daily Drucker*: "Precisely because change is a constant, the foundations have to be extra strong." What are the foundations in regulatory policy that we need to keep strong?

One foundation is knowing when to regulate and when to deregulate. In the most recent release of his classic text *The Economics of Regulation*, Alfred Kahn reminds us that the original rationale for regulation in industries where competition is feasible, such as telecommunications and cable television, was a perception that competition was destructive to quality, continuity, and reliability. But if competition promotes these qualities, then the case for regulation is considerably weakened.

Kahn also tells us that consumers are voters, and they expect regulation to give them economic protection. This insight reveals not only that competition must deliver, but consumers must have more faith in markets than in regulation before they will provide deregulation with the political support it needs.

Another essential is to strike the right balance among the competing needs for ongoing investment, price stability and efficiency. Writing 50 years before Kahn, Martin Glaeser explains in his book *Outlines of Public Utility Economics* that utility regulation occurs when competition is infeasible and companies are "affected with the public interest," which means that the rest of the economy is dependent on the utilities' efficiency and adequacy. Glaeser concludes that regulation should treat utilities as "going

concerns" with sufficient cash flows to ensure that new investments are forthcoming and with incentives for management efficiency.

In his classic text *Principles of Public Utility Rates*, James Bonbright expands on Glaeser by emphasizing the importance of ensuring that prices cover the "rate base," encourage efficient investment and service use, and enable customers to predict their bills. These principles help us with issues such as hurricane damage and, for electricity companies, fuel price increases, fuel mix, and compliance with new environmental regulations.

A third foundation is an expert, independent regulatory agency. Glaeser explains that utility commissions are important and must be knowledgeable because the details and complexities of regulation make it impossible for legislatures to make well-informed decisions in a timely fashion.

More recently Nobel Laureate Douglass North in his book *Institutions, Institutional Change and Economic Performance*, explains that formal government institutions, such as utility commissions, are needed to reduce risk for investors and constrain political opportunism. Other economists have shown that well-informed regulators are better able to protect customers than are less knowledgeable regulators.

I could go on, but maybe it is better to encourage you keep our foundations strong by reviewing these classic texts and by making use of the Body of Knowledge on utility regulation at www.purc.org. ♪

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cellular because of pricing problems with long-distance access. He emphasized that regulatory solutions are needed for these difficulties, including regulatory help to small and mid-sized telephone companies in deploying broadband.



Charles Goodman, Senior VP of Research and Environmental Policy for Southern Company, reviews data during an energy session at the PURC Annual Conference.

Energy Issues

Speakers and participants addressed two issues on the frontburners for both regulators and energy executives. A number of regulated utilities around the country are entering into the rate cases. To help participants prepare for such, Hethie Parmesano of the National Economic Research Associates, Inc., addressed this issue in her presentation, "Future Rate Cases & What You Need to Know."

Commission staff and utility managers are finding that necessary information may not have been collected because of the long period of no filings.

"Heading into rate cases, many utilities are facing more issues with less expertise and information than they've had in 30 years," Parmesano said. She identified key technical, organizational, and logistical skills that would be

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Leadership in Infrastructure Policy

Wayne Brunetti, Chairman and CEO of Xcel Energy, Inc., shared his thoughts about leadership issues in energy utilities during the PURC Annual Conference luncheon.

After a warm welcome from University of Florida President Bernie Machen, Brunetti examined the numerous challenges energy companies face, including how to continue to make improvements in environmental protection while waiting for a new national policy, increase system reliability in the wake of Florida's hurricanes and the blackout of 2003, and keep prices reasonable while investing in environmental protection and dealing with fuel cost increases.

He also described the need for leadership outside the industry, including the need for a national policy that provides a vision for the country's

energy use in the future, and for flexible rules that enable companies to make economic trade-offs.

Following the luncheon, Brunetti, a graduate of the UF Warrington College of Business, returned to the college with wife Mollie to speak with students about the keys to business success.

In the final session of the conference's first day, Balhoff & Rowe Senior Partner Bob Rowe discussed leadership challenges that regulators face at all levels in regulatory agencies and between regulatory agencies.

Rowe emphasized forces that are increasing tensions between regulators and companies, the changing role of regulation, and people's personal roles in hanging on to what is important from the past while adjusting to new realities. ☞



Xcel Energy, Inc. Chairman and CEO Wayne Brunetti discusses challenges in the industry at the PURC Annual Conference.

Executive Education Workshop

The Public Utility Research Center and Cambridge Leadership Associates (CLA) will sponsor the executive education workshop, "Leadership in Utilities Policy," Saturday, July 23, 2005, between 1:30 and 4:30 p.m. at the Hilton Austin. (This event precedes the start of the NARUC Summer Meeting in Austin, Texas.)

The workshop is designed to help regulators by engaging in a dialogue about the knowledge and skills that are necessary for exercising leadership in regulation. Through a combination of case studies, discussions and personal reflection, participants will discover new tools, resources and paradigms for facing what many see as insurmountable challenges.

Workshop faculty includes PURC Director Dr. Mark A. Jamison and Bob Rowe, Senior Partner at Balhoff & Rowe, LLC.

This workshop is funded by PURC and is offered free of charge to commissioners. As seating is limited, advanced registration is required. Register online at www.purc.org. ☞

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needed by firms and regulators.

Energy sessions at the conference concluded with presentations by Dallas Burtraw of Resources for the Future, and Charles Goodman of Southern Company. Both emphasized how important it is that energy sector regulators and environmental regulators recognize the interactions associated with their rules.

Burtraw examined the Clean Air Interstate Rule (Clear Skies), mercury regulations, and regional greenhouse gas initiatives. He summarized RFF's integrated assessment of SO₂ and NO_x emissions and compliance costs. Goodman provided an overview of

how Southern Company is addressing these issues.

"We have the coal. Gas prices are volatile. Nuclear power needs public support. Renewable options can supplement, but fall far short of meeting the worldwide rise in energy demand," said Goodman. "The environment will get cleaner as we make investments to reduce emissions, but long term, we need policies that deal with the carbon issue while keeping multiple options available for meeting energy demand at an affordable cost to consumers."

Conference presentations can be found online at www.purc.org. ☞



UNIVERSITY OF
FLORIDA

Public Utility Research Center
P.O. Box 117142
Gainesville, FL 32611-7142
www.purc.org

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Conference Center
Gainesville, FL

For more information, call
352/392-3655.

July 23, 2005

PURC/CLA Executive
Education Workshop for
Utility Commissioners:
Leadership in Utilities Policy
Hilton Austin
Austin, Texas
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January 9-20, 2006

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Public Utility Research Center
Web site: www.purc.org
E-mail: purcadmin@cba.ufl.edu
Ph: 352/392-6148
FAX: 352/392-7796