1. List three reasons for regulating utilities. (12 points)

- Full credit
  - Limit opportunism
  - Control market power
  - Overcome information asymmetries
  - Improve sector performance
  - Improve transparency

- Partial credit
  - Promote competition
  - Improve efficiency or quality
  - Universal service
  - Stakeholder benefits
2. List two reasons for a regulator to develop and use a uniform system of accounts. (8 points)

• Full credit
  – Improve consistency; comparisons; streamline data collection
  – Meaningful data for pricing, separations, etc.
  – Monitor performance
  – Decrease information asymmetry

• Partial credit
  – Improve management

3. Suppose a regulator does not have authority to enforce a uniform system of accounts. What are some other options for the regulator to address the needs you listed in Question 2? (10 points)

• Full credit
  – Media
  – Web site
  – Market research
  – Shareholder reports
  – Work backwards from conduct or prices
  – Ask for what the operator actually does
  – Investor analyses
  – Incentive regulation
  – Use a carrot to induce disclosure
  – Require standards for price review

• Partial credit
  – Reasons why information is important
  – Recalculate or modify existing data
4. **Telecom**: Briefly describe two tools that a regulator can use to assess the competitiveness of a telecommunications market. (10 points)

- **Full credit**
  - SSNIP and Hypothetical Monopolist tests
  - Market concentration measures (HHI, etc.)
  - Analyze entry barriers
  - Signs of collusion (parallelism, communication)
  - Operators reveal information to consumers

- **Partial credit**
  - Price trends and comparisons
  - Price levels and service quality

4. **Energy**: Briefly summarize two energy issues that are important in the Caribbean. (10 points)

- **Full credit**
  - Cost of energy
  - Scale economies
  - Renewable energy
  - Fuel mix
  - Efficient pricing
  - System loss
  - Competition in generation; generation capacity
  - Interconnecting islands; cross-border sales
  - Financing infrastructure

- **Partial credit**
  - Independence of regulator
  - Environmental awareness
5. Summarize ways that a regulator could overcome information limitations when attempting to apply total factor productivity analyses in establishing X-factors. (10 points)

- **Full credit**
  - Benchmarking with other firms
  - Simplify by focusing only on significant factors
  - Hypothetical firm model

- **Partial credit**
  - General information asymmetry problems
  - Limit price review period
  - Switch to using financial information
  - Benchmarking with other countries
  - Hybrid systems, like sharing
  - Menu of options