

Resolving Utility Issues Facing Florida

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Utility Issues

Florida, like many states, faces a number of policy challenges related to utility services. A few are summarized below.

- **Electricity demand and supply** – Florida's growing population is increasing demand for electricity. Are there reasonable steps, such as improved energy efficiency and demand-side management that might reduce demand growth? Increasing supply to satisfy demand raises issues of infrastructure development, utility financing, price increases, and environmental impact.
- **Energy infrastructure development** – Reliable and well-positioned infrastructure for generating and transmitting electricity, as well as providing natural gas service, to population and business centers is important if Florida is to avoid the supply disruptions and related price volatility experienced in other parts of the country. Chronic supply issues would limit Florida's economy, quality of life, and ability to enhance environmental protections.
- **Utility financing** – Providing utility infrastructure requires investment in long-lived assets and ongoing upkeep. Investor confidence in proper regulatory and legislative treatment of investments is critical for ensuring adequate financing. Outcomes such as what recently happened in Maryland, where utility bond ratings were reduced to nearly junk bond status, should be avoided. At the same time, regulatory scrutiny of and incentives for efficiency should remain.
- **Energy price volatility** – Consumers and businesses are all feeling the impact of rising energy prices. Mechanisms are crucial that help customers, utilities, and policy makers to adapt to this new reality while balancing the state's infrastructure, financing, economic development, affordability, and environmental goals.
- **Environmental protection** – Environmental concerns affect electricity and natural gas prices, supplies, and future investment. Recent EPA rules will add costs to energy provision, but proper regulatory policies can mitigate price impacts for customers. Siting and permitting new transmission and generating facilities can be complex and costly, which ultimately limits supply and increases prices for consumers. Are there less costly ways to address environmental concerns with respect to facility siting? Also, uncertainty regarding climate change policies raises investment risk, which ultimately increases costs for consumer.
- **Water pricing** – Current water prices in Florida do not reflect the opportunity costs of water use. Water used by one sector is unavailable for other sectors, or for environmental remediation. How can policies be created to ensure that customers and suppliers make economically appropriate decisions with respect to water use and reuse, and wastewater disposal?
- **Assistance to low-income households** – In telecommunications, assistance programs for low-income households appear to have little impact. Are these programs relevant for the future? Are energy assistance programs adequate for the new environment of volatile energy prices?
- **Deregulation of telecommunications** – New technologies (e.g., broadband, WiFi, VoIP, and IP television) challenge legacy policies in telecommunications. What reforms are possible and how can companies that have built their businesses on old models adapt? How effective are deregulated telecommunications markets in informing customer and business decisions?
- **Telecommunications mergers and divestitures** – Industry restructuring is a natural consequence of the technological revolution. Companies are merging to find new synergies and divesting lines of business that might better stand apart. Some governments respond by trying to regulate this transition, but most antitrust concerns with telecom mergers have eventually proven to be unimportant. What should be the role of government in this transition?
- **Hurricane hardening** – Florida is a world leader in hardening its electric infrastructure to better withstand and recover from severe weather. Its utilities, under direction from the Florida Public Service Commission, have launched a research and development effort to better understand hurricanes and to develop more effective and economical methods for protecting the infrastructure.

Technical and Adaptive Challenges

The above list of issues is not intended to be comprehensive. Nor is it meant to identify issues that need legislative attention. Rather it is meant to provide a sampling of challenges that Florida faces. If the state is to avoid the severe problems recently experienced in Maryland and other states, leadership in government, industry, and education must carefully consider the nature of the each issue and respond appropriately. The following describes how this can be approached.

Utility issues, like all public policy and business issues, include technical and adaptive challenges.

- *Technical challenges*, which are the bread and butter of utilities policy and regulation, occur when there is general agreement on the existence and nature of the problem, the alternative solutions are clear, and work can be completed by subject matter experts. Examples include establishing incentive mechanisms for environmental regulations, developing procedures for enrolling low-income households in the Lifeline discount program, evaluating proposals for rate increases, and hardening the electric infrastructure to better withstand and recover from hurricanes. Such issues are often demanding and complex, requiring significant amounts of expertise to resolve, but they are largely technical in that solving them is the work of subject matter experts, such as lawyers, engineers, accountants, and economists.
- In contrast, *adaptive challenges* arise when fundamental changes in a group's (or an individual's) environment call for the group to rethink basic goals and strategies to thrive or even just survive. Examples might include resolving electric infrastructure siting issues, which challenge traditional views of electricity supply and deeply felt perspectives on environmental protection. Similarly, water distribution issues call into question historical approaches to governance, pricing, economic development, environmental protection, and standards of living. Adaptive challenges are characterized by disagreements on the nature and existence of the problem. With adaptive challenges, only people who are part of the problem can be part of the solution, so the work of adaptive change can only be done by those whose values and traditions are challenged. Subject matter experts can only provide short-term patches that do not solve the real problem.

Tackling *technical challenges* is the central work of experts in regulatory agencies, legislative bodies, other government organizations, industry, think tanks, and universities. Numerous university research centers around the world are looking for solutions to the technical challenges of utilities policy. For example, PURC at the University of Florida is coordinating research on hurricane hardening and has conducted extensive research on environmental regulation, water pricing, and telecommunications Lifeline and competition.

Addressing *adaptive challenges* requires leadership that exposes threats and engages people in rethinking basic assumptions and traditions. University centers, such as PURC, and others conduct research that exposes problems and provide forums that promote dialogue and an exploration of new possibilities. Examples for PURC include energy and telecommunications roundtables in Tallahassee, co-sponsored conferences (e.g., Florida's Water Supply, in conjunction with the Askew Institute), and contributions to national and international regulatory summits and other events. Excellent university programs bridge principles and practice, while recognizing the underlying technological, political, and social developments.

Leadership also emphasizes the interplay of issues. For example, energy policy needs to consider other uses/industries that are part of the overall supply and demand picture, such as transportation, land use, and efficiency (reflecting architectural and engineering standards). The challenges presented by the infrastructure sectors must be explicitly and carefully addressed if we are to leave a sound legacy to our children and grandchildren.