From regulatory games to customer service

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The prompts

- Focus on regulation, strategy, and the gaps between theory and practice [TCs]
- What should companies consider when setting policies to meet regulatory compliance? [More lawyers]
- How is regulation changing what instruments can we expect in the next decade? [Performance]
- What is the right price in the next decade recognition of costs beyond base capex/opex (e.g. climate change, social responsibility, carbon)? [Market prices]

The economics of regulated utilities: Principals and Agents

The problems of asymmetric information:

- Customer (as principal) doesn't know costs or quality
- Regulator (as agent) may fail to deliver or not care
- Regulator (as principal) doesn't know costs or quality (again!)
- Utility (as agent) may fail to deliver or not care (again!)

What do utilities want?

Revenue, profits, stability and respect BUT...

- Lazy ones avoid performance measurement (compliance)
- Diligent ones target goals (right or wrong)
- How do we know who's performing or not?

Competition "solves" laziness and information problems because customers can compare and switch.

But monopolies don't compete, and customers can't switch.

Is the solution more information?

Traditional information solutions

There are many bureaucratic indicators, e.g.,

- Profits based on ROI, RPI-x, etc.
- Customer service based on phone call pickup, etc.
- Asset and operations based on "industry standards"

BUT customers care about outcomes not indicators

A short aside on the energy-water nexus

Academics, regulators and politicians have their knickers in a knot.

Their solution is to manage BOTH energy and water efficiency.

That terrible idea spreads water problems to energy.

Do we have a beer and bitterballe nexus? Why not?

They are managed independently, so...

1. Set energy policy and prices as normal
2. Set water prices for financial and environmental sustainability – as SHOULD BE normal!

Bottom line: Handle water, and the rest will follow.

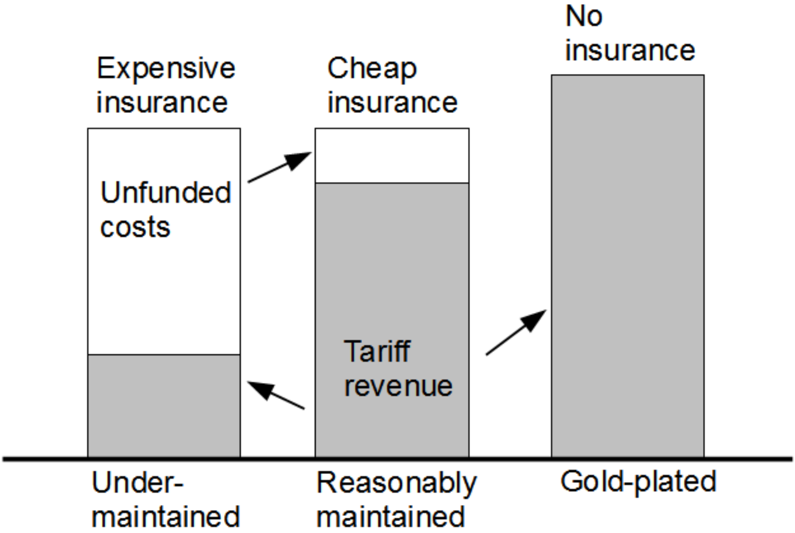
Back to regulated performance

Information is a mess, but what about competition?

Here's an idea:

- Regulator requires insurance against specified failures
- Insurers compete (ex-managers as underwriters)
- Insurers monitor managers, maintenance, systems, etc.
- Customers pay tariff plus premium
- Insurers – not customers – pay for breaks

Now we see real price signals



Results

- Good managers rewarded objectively
- *Ceteris paribus* competition among utilities – and rewards
- Customers get "efficient" rates and smoother changes
- Regulators can work on useful problems

Bottom Line: Utilities can find creative ways to deliver results, not just ROI on concrete, but use of different technologies and techniques (including green infrastructure, NRW water management, etc.)

Questions? Advertising!

Paper: `http://tinyurl.com/c254amg`

Blog: `aguanomics.com`

Book: `endofabundance.com`

Data: `waterdatahub.org`

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