
Dr. Mark Jamison is Director of the Public Utility Research Center at the University of Florida. He provides international training and research on business and government policy, focusing primarily on utilities and network industries. He co-directs the PURC/World Bank International Training Program on Utility Regulation and Strategy. He has conducted education programs in numerous countries in Asia, Africa, Europe, the Caribbean, and North, South, and Central America. Previously he was manager of regulatory policy at Sprint, head of research for the Iowa Utilities Board, and communications economist for the Kansas Corporation Commission. He served in several roles in the National Association of Regulatory Utility Commissioners during his tenure with regulatory commissions.

Araceli Castaneda is Director of Leadership Studies and Director of Business Development of the Public Utility Research Center at the University of Florida. She is responsible for conducting training on leadership topics, developing client relationships and managing business negotiations. Since she joined PURC in February 2003, Ms. Castaneda has been its Assistant Director, Director of the PURC/World Bank International Training Program on Utility Regulation and Strategy, and has coordinated a number of programs and research projects in the U.S. and abroad. Leadership clients include Northwestern Energy and the Florida Public Service Commission in the United States, and the Turks & Caicos Islands Telecommunications Commission and the Uganda Communications Commission. She studied executive leadership at Harvard University, and is a certified neuro-linguistic programming master practitioner by the University of California, Santa Cruz.

Execution and Leadership: Fulfilling Conflicting Responsibilities in Utility Regulation

Utility regulators serve in two potentially conflicting roles: as implementer of policies and as someone providing leadership to effect change. The regulator's success will depend upon his or her ability to properly perform these roles at the appropriate times, manage the pressures that these roles bring to the regulatory system, and limit how the roles sometimes work at cross purposes.

Mark A. Jamison and Araceli Castaneda

I. Introduction

The minister for public utilities of the small island country got to his point quickly. Looking quizzically at the public utility regulator whose agency was but four years old, the minister asked, "The utility has always kept the lights on. And it is always responsive when I need something. Why do I need you?" Why indeed?

Many regulators around the world have found themselves in similar provocative positions. A U.S. governor announced to the media that he would not reappoint commissioners who voted in favor of an electricity price increase. An energy regulator from a developing country received a phone call from his prime minister informing him that his resignation had been accepted.

The regulator had not offered his resignation. Another took his government to court when the government tried to overrule his pricing decision. He won the court case.

Being a utility regulator is dangerous work. Not in the sense that the regulator is at risk of suffering physical harm because of her duties, but because she is in the way when utility managers want policy favors or when politicians want to provide benefits for constituents and powerful special interests. The regulator is also an easy target for the press and the media when they need titillating headlines that induce people to visit news sites or tune into broadcast news. In a nutshell, the regulator is designated to do a job that by its design provides disappointments to important stakeholders, and these disappointments prompt many stakeholders to target the regulator as the cause of the displeasure.

Making matters even more precarious, the regulator serves two potentially conflicting roles. One is a formal role of carrying out policies through price controls, service quality enforcement, market monitoring, and the like. The other is an informal role of influencing policy by advising policymakers, provoking special interests to think more broadly about policy issues and changing economic realities, and providing everyone – even those who oppose the regulator – with credible, understandable information on

how the complex system of utility service and regulation works.

We examine the implications of utility regulators serving these two potentially conflicting roles. We explain that the regulator's success will depend upon her ability to properly perform each role at its appropriate time, to manage the pressures that these roles bring to the regulatory system, and to limit how the roles

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In the regulator's formal role as an implanter of policies and laws, she establishes regulatory rules and processes, and makes regulatory decisions, with authority passed down by the country's lawmakers and policymakers. A successful regulator provides the political authorities with the information they need to be confident that their policies are being implemented faithfully and efficiently. However, the regulator should keep in mind that lawmakers and policymakers are subject to political pressures

and that the regulator's work can at times relieve these pressures and at other times increase them. Understanding the political context of regulation, and understanding what politicians need from regulators in order for politicians to be successful are critical for the regulator to succeed. A regulator who fails in managing these relationships will find himself or herself micromanaged, second guessed, and without adequate support.

As if the formal work of regulation were not hard enough, the regulator also plays a leadership role due to his or her unique position. This leadership role helps stakeholders and policymakers find the nexus of three spaces: (1) knowing and implementing what is possible (the technical work of engineers, financial experts, lawyers, etc.); (2) identifying values and priorities (the work of politics, dialogs, and negotiation); and (3) aligning systems (the work of managing people and organizations). Too often, these three spaces do not overlap. For example, sometimes people want and think they should have things that are not achievable; in other words, they do not understand reality. The work of leadership in regulation is mobilizing people to deal with the challenges of aligning what people want with what can be done.

This leadership role can conflict with the formal role because the act of leadership affects the political authorities and the formal structure. The regulator

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