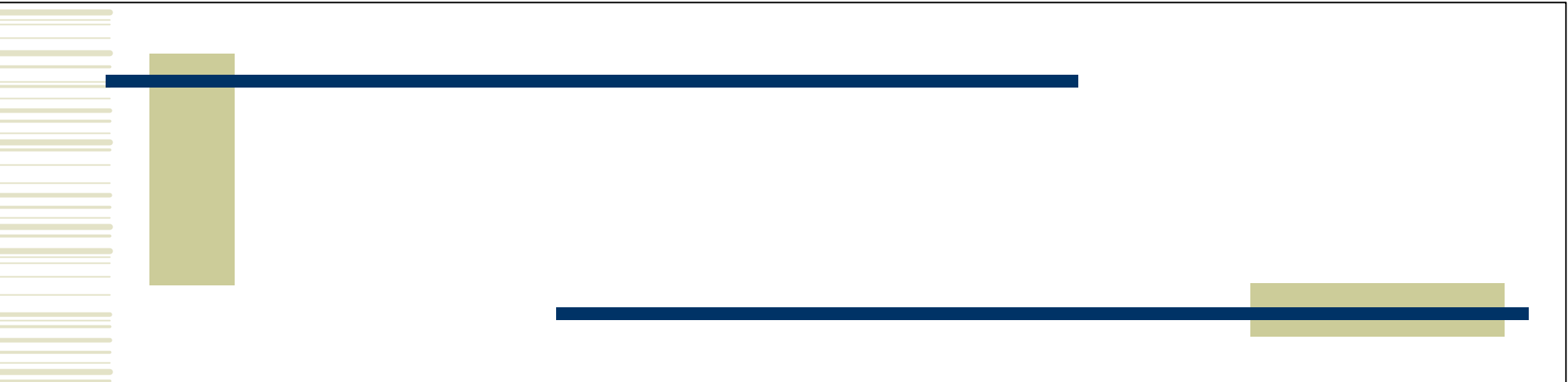


Role of the Regulator



Arnetta McRae, Chair
Delaware Public Service Commission
June 2003



There Would Be
No Need for Regulators
If Markets Worked Perfectly



Historical Context



- ◆ Utilities generally considered “natural monopolies”
 - Economies of Scale
 - Capital intensive
 - Localized market
 - Lack of competitors

Utility Regulation

- ◆ Regulation acts as a substitute for competitive market forces
- ◆ Objective is to achieve competitive prices without sacrificing the benefits of economies of scale and scope
 - Utility pricing uses a Cost of Service Model where prices are set at levels that afford the utility an opportunity to recover costs plus a fair rate of return



Role of the Regulator



- ◆ Balance interests of diverse constituents with competing needs
- ◆ Remain Independent
- ◆ Ensure fairness
- ◆ Protect public welfare



Balance Interests



- ◆ Under Cost of Service Model, regulator focuses on establishing actual costs and appropriate return to set reasonable prices
- ◆ In transitional marketplace where competition is emerging, emphasis is on creating a level playing field for all market participants
- ◆ In both cases, policies and rules must be consistent with objectives

Independence

- ◆ Regulators are not market participants
- ◆ States employ various methods to encourage independence, including public elections
 - The Delaware Public Service Commission is an independent agency accountable to the public
 - Five Commissioners are appointed by the Governor, confirmed by the Senate and serve staggered terms
 - Commissioners are appointed from different parts of the State and by law cannot all be from the same political party

Ensure Fairness

- ◆ Avoid appearance of partiality
- ◆ Be aware of ex parte rules and sunshine laws
 - Commissioners may not have discussions with any party on substantive issues during an active case
 - Meetings must be noticed and conducted in public
 - Very rare occurrence when Commissioners can meet in an executive (closed) session
- ◆ Resist biases that interfere with objective deliberations



Protect Public Welfare

- ◆ Monitor activities of utilities to insure that they do not engage in unfair pricing or other impermissible practices
- ◆ Require utilities to provide safe, adequate and reliable service
- ◆ Investigate complaints
- ◆ Participate in local, regional and national initiatives to improve market efficiency
- ◆ Retain rate-setting responsibility in market sectors where competition is absent or underdeveloped



Key Challenges



- ◆ Myriad of players
- ◆ Lack of consumer education
- ◆ Limited staff resources
- ◆ Complex Issues



In the new environment for electric utilities, there is one constant:
CHANGE

Regulators must recognize this reality and be equipped to meet the challenges it presents.