Commission Budgets:
How Do We Know—and Explain—that We're "Worth It"?

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Government budget-cutters want commissions to justify their costs. How can commissions respond?

Traditional, quantifiable benefit-cost criteria don't work, because the benefits of great regulatory decisionmaking aren't quantifiable. Number of dockets opened and closed, decisions issued, hearing days per proceeding: These items are relevant to budgeting because they signal the need for resources, but by themselves they do not distinguish effective from ineffective regulation. Rate levels are poor indicators of regulatory quality: Two equally effective agencies might have different rate levels simply because their utilities' embedded cost-based prices reflect rate bases of different vintages, or because their capacity surpluses differ due to different time points on the capacity-demand curve. Or because one commission is raising rates now to fund demand-management actions that will reduce future costs, or avoiding future environmental penalties by investing in clean technologies now.

Quantification difficulties aside, the public deserves to know that commissions earn their keep. But how? There are two main questions: (1) Are we doing the right things and doing them well? (2) Are our actions having a positive effect? Reversing the sequence: What effects do we want to have? What actions are most likely to have those effects? Measuring effectiveness boils down to identifying the desired outputs and the necessary inputs. Responding to a commissioner's question a few years ago, I attempted an analysis in the essay "Commission Effectiveness: Is It Measurable?" Here are some additional thoughts.

Outputs

The purpose of regulation is performance. The evidence of regulatory effectiveness, then, is the performance of our utilities and their customers. Are the utilities carrying out best practices and doing so cost-effectively? Are consumers behaving responsibly—meaning, do they understand the costs they cause, do they bear those costs, do they act to minimize their costs, and do they avoid behaviors that cause costs for others?

Inputs

Given those outputs, what are the essential inputs? Here are six question areas to help commissions probe their priorities and practices.

Best utility practices: Does the commission research, identify, and publish, regularly and continuously, those utility practices that represent excellence? For each of the major areas—

operations, capital planning and construction, financing, safety, quality of service, customer relations—has the commission (1) identified the top performers and top practices, and (2) acted to induce its utilities to adopt those practices cost-effectively?

Best customer practices: Same questions. Customers are not passive recipients of utility services. They create the demand that causes utilities to incur costs. Just as individual driving habits ease or impede the traffic flow, smoothing or slowing everyone else's trip, customer consumption influences the utility's cost structures, operations, capital plans, and financing. Alert customers help make markets competitive, while indifferent customers support inertia—that powerful force whose heavy hand benefits the incumbent. Does the commission regularly research and identify the best customer practices, then act to induce those behaviors?

Customer trust: To influence customer behavior, commissions need customer trust. Testing that trust will be upcoming tough decisions on cost increases, infrastructure (like water and gas pipes, advanced meters, and broadband), and new rate designs needed to induce behavior change. (For more on customer relations, see the essays "Low Rates, High Rates, Wrong Rates, Right Rates" and "Protect the Consumer—From What?"). There is risk of resistance, leading to legislative override. Resistors see commission versus the public; the commission must show how its actions serve the public—by persuading the public that each policy serves a public goal. Persuasion requires more than packaging; it requires deep understanding of how customers and their neighborhood networks absorb and share information (and misinformation—much citizen anger about advanced meters flows from misunderstandings, multiplied and inflamed by the speed and breadth of network communications). Commission effectiveness therefore requires answers to these questions: Does the commission know, and use, state-of-the-art practices in customer communication and customer education? Does the commission understand customers' souls?

Market structure: Market structure determines who buys and sells what products and services. It's a question not only of monopoly versus competition but also of which monopolists and which competitors. As much as any regulatory policy, market structure affects cost, innovation, responsiveness, accountability, even political muscle. Yet market structure is more often accepted or assumed than questioned and tested. Does the commission continuously assess whether its current reliance on a specific market structure is producing the best possible performance? (To answer this question, the commission must have identified the performance it wishes to produce. See the paragraph above on utility practices.) Does the commission track economies of scale and scope, entry barriers, pricing behaviors, pace of innovation, and customer satisfaction to see if the market is producing the best possible mix of products and services?

Legislative relations: Successful utility regulation hangs on productive relations between commissions and legislatures, because policy flows from both forums. Commission-legislature overlaps are unavoidable; the question is whether those overlaps lubricate or irritate. (See the essays "It's April—Do You Know Where Your Legislatures Are?" and "More on Legislative-Regulatory Relations: Layers, Protections, and Cost-Effectiveness.") Can the commission paint a picture of productive relations with its legislative counterparts? Given that picture, does the commission take regular actions, backed by expert staff, to create and maintain those relations, both institutionally and personally? Does the legislature regularly consult the commission before taking action? Does the commission regularly assess its authority, seeking revisions as necessary?

Skill sets, recruitment, and succession: While many commissioners leave their posts each year, most staff professionals stay for a career. That stability is a positive force—if accompanied by professional growth. Does the commission continuously recalibrate its staff's skill sets to the new issue demands, recruiting new talent when those demands outpace current skills? Does it plan succession in the key leadership roles?

Two Quantifiable Metrics

While most quantitative metrics don't connect well with commission success, here are two that do.

Reading time: Do commissioners and staff spend at least half their time studying objective public-interest materials, rather than reading parties' private pleas? Doing so ensures that decisionmakers' mental contexts have objectivity at their core.

Meeting time: It is unavoidable, and desirable, that decisionmakers meet with interested parties and their materials. But of that time, is at least half spent with people who -make things work—fuel buyers, plant designers, builders and operators, land buyers—the doers rather than the position-takers? This is an alternative way to build objectivity into our knowledge.