

[REINVENTING REGULATION]



# Lead, Follow or Get out of the Way

## TAKING A NEW APPROACH TO REGULATION

By Donald L. Mason



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OVER THE PAST year, there has been a generous amount of dialogue regarding decoupling energy utility earnings from volumetric throughput equations. The concept is based at least partially on the theory that the present regulatory policy for earnings places the utility and its shareholders in an adversarial position with the residential customer and our national interest to reduce energy consumption.

Public utility commissioners have the unique opportunity to coordinate economic policy with our national energy and environmental policies. However, to achieve this, commissioners need to work with commission staffs, stakeholders and the regulated community.

In the 15 years of my involvement in energy regulation, I have yet to see a more important time for encouraging the harmonious coordination of environmental public land-use and economic policies. While most advocate for a cleaner environment, there are differences of opinion regarding timing.

The supply side of energy is filled with debate over whether accessing areas in Alaska or off the coastal waters of America are appropriate. Fuel diversity as well as renewable and nuclear generation are also a part of the equation. The siting of liquefied natural gas facilities, refineries, and natural gas transportation and electricity facilities is difficult, and can often result in increasing the cost of providing energy to the end user. Energy awareness awakened nationally, shortly after last summer's dramatic and deadly hurricanes. Natural gas prices virtually doubled in several months, but it was rare that the total bill to the consumer doubled. Prior to the start of the winter heating season, I found it important to stress to consumers the impact of increasing home heating costs in terms of dollars per household, rather than percentages of increase.

As we saw last summer and early fall, many talk about energy conservation, but most seem to do little to apply it until the rising costs of energy forces action.

An informal review of Ohio residential natural gas consumption shows that over the last 20 years, natural gas use per household has been reduced from 140 thousand cubic feet per year to approximately 92 thousand cubic feet per year. This year the drop has been even more dramatic, as an additional 12 percent to 13 percent reduction in



natural gas consumption is fairly typical. Some of the demand destruction is due to warmer winter weather; however, a large portion is due to the consumer response to high prices.

I cannot think of a better time in our nation's history for economic regulators to consider taking the lead in seeing that their regulatory policies promote an agenda that is in our nation's best interest. We should not lose the opportunity to promote regulatory policies that support conservation. We have the momentum to act now.

It is important that our regulatory policies and programs encourage energy conservation. We need to partner with interest groups, consumer advocates, and energy providers. All interested must act in concert to promote policies that benefit our national interest. It's important to encourage regulatory programs that are neutral in terms of being tied to volumetric indicators, and utility regulators need to be open to reviewing and studying decoupling programs.

I call upon consumer advocates, public interest groups, regulatory bodies and energy companies to determine what program works best in their respective states. However, these stakeholders must also recognize that depending on increasing supply as a way of achieving energy self sufficiency is not a likely scenario. Balancing conservation and supply requires proactive leadership at the regulatory level; and given the delicate balance between natural gas supply and consumption, there is no better time to start than today.