The Regulation of Public Utilities

Theory and Practice

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subsidized by earnings on high-density routes). More recently, conservation and new entry have resulted in a growing emphasis upon cost-based rates, thereby forcing commissions to re-evaluate the use of internal subsidies to achieve this objective.

4. Commissions have often promoted the development of an industry. Rate structures have been designed to promote growth (declining block rates), or subsidies (from Congress) have been given to achieve this objective (rural electric cooperatives and rural telephone service). Federal public power projects have been undertaken to promote the industrial development of specific regions.

5. Commissions, in some instances, have been — or are rapidly becoming — concerned with ensuring maximum public safety and management efficiency. Safety has been an important objective in the provision of natural gas and in the country's nuclear power program. Concern about the efficiency of management has resulted in countless "management audits" since the early 1970s and in numerous attempts to introduce incentive regulatory schemes.

These are not the only possible goals or objectives for regulation. Some have argued that regulation should seek "social," as opposed to "business" or "economic," objectives. The term is difficult to define, but generally refers to "any policy of rate control designed to make the supply of utility services responsive to social needs and social costs, and rejecting as even tolerable measures of these needs and these costs the prices that consumers are able and willing to pay for the services and the money costs that the enterprise must incur in their production."[4] A larger number have argued that regulation is too often conceived of as a restrictive or negative force; that it must become more dynamic with greater emphasis on achieving (1) maximum economic performance, by providing explicit incentives to reward efficiency and penalize inefficiency, and (2) proper resource allocation.[5]

Public utilities are no longer, if they ever were, isolated from the rest of the economy. It is possible that the expanding utility sector has been taking too large a share of the nation's resources, especially of investment.[6] At a minimum, regulation must be viewed in the context of the entire economy — and evaluated in a similar context. Public utilities have always operated within the framework of a competitive system. They must obtain capital, labor and materials in competition with unregulated industries. Adequate profits are not guaranteed to them. Regulation, then, should provide incentives to adopt new methods, improve quality, increase efficiency, cut costs, develop new markets and expand output in line with consumer demand. In short, regulation is a substitute for competition and should attempt to put the utility sector under the same restraints competition places on the industrial sector.