



# Consumer Engagement in Regulation: Panacea or Paralysis?

Dr. Mark Jamison



# Consumer Engagement in Context

- **Purpose of regulation and agency**
  - Public interest: Control market power
    - Must serve; Limit rent extraction
  - Rent seeking
    - Powerful groups (including the regulated) seek benefits through regulation
  - Taxation by regulation
    - Politics seeks resources
  - Limit information asymmetry and political opportunism



Celebrating 40 years!  
Since its founding, PURC has grown from a small group hosting one meeting to an internationally recognized research center with expanded training and interdisciplinary development programs.

1972 **40** Years 2012  
PUBLIC UTILITY RESEARCH CENTER

About PURC

# Consumer Engagement in Context

- **Regulatory process in U.S.**
  - Appears quasi judicial
    - Statements of law, findings of fact, decision
  - Substantively quasi legislative
    - Initiates own proceedings; develops own record
    - Investigative powers
  - Led by executive branch “appointees”



# Purposes of Consumer Engagement

- **Integrity and legitimacy of system**
  - Information for regulator
  - Combat corruption and favoritism
  - Educates public
  - Gives consumer voice (due process)
  - Facilitates buy-in
- **Consumer protection (but could be done by others)**



# Consumer Engagement in U.S.

- **Transparency**
  - In some states, anyone can watch everything the regulator does
    - Sunshine laws; broadcasts of meetings; notice of activities; open records
  - Federal is less transparent
    - Open records
    - Decisions in private; ex parte



# Consumer Engagement in U.S.

- **Public communications**
  - Workshops, etc. specifically with public
- **Consumer complaints**
  - Consumer protection
    - First option: Utility resolves
  - Protects and educates consumers



Celebrating 40 years!  
Since its founding, PURC has grown from a small group hosting one meeting to an internationally recognized research center with expanded training and interdisciplinary development programs.

1972 2012

Public Utility Research Center

About PURC

# What's The Problem?

- **Sometimes inhibits adaptive work**
  - Public discussion inhibits open dialogue
- **Who speaks for consumer?**
- **Are we protecting consumers from reality?**



# Dual entitlement

- **Consumers believe**
  - Entitled to reference transaction, e.g., what others paid
  - Firms entitled to reference profit
- **Examples**
  - Consumers: Locked phones in Hong Kong
  - Politicians: OECD broadband benchmarking; Windfall profits tax



# Consumer choice theory

- **Two separate utilities**
  - Acquisition utility ( $V_A$ )
    - Value of owning the product
  - Transaction utility ( $V_T$ )
    - Fairness of the exchange
- **Net consumer surplus =  $V_A + V_T - P$**



### Celebrating 40 years!

Since its founding, PURC has grown from a small group hosting one meeting to an internationally recognized research center with expanded training and interdisciplinary development programs.



About PURC

# Transaction utility

- **Increased by**
  - Paying same as others
  - “Cost-based” pricing
  - Getting a “deal”
- **Decreased by**
  - Others getting a better deal
  - “Unjustified” price differentials
  - “Unfair” treatment of workers



# Norms

- **Customers form expectations**
- **Expectations change if an unusual practice becomes common**
  - Data caps become more accepted over time
  - Real-time pricing



# Meaning for regulators

- **Examples where customers complain when norms are broken**
  - Unlocked phones
  - Regulation of landline telecoms
  - Methods of paying bills
  - Feed-in tariffs
  - Extended area service



# Meaning for regulators

- **Should regulators require operators to follow norms?**
  - For example, by disallowing versioning that is seen as unfair
- **Should regulators encourage operators to break norms?**
  - For example, by not siding with customers



### Celebrating 40 years!

Since its founding, PURC has grown from a small group hosting one meeting to an internationally recognized research center with expanded training and interdisciplinary development programs.



# Conclusions

- **Danger that consumer engagement is overrated**
  - Paralyzes process and progress?
- **Danger that consumer engagement is taken too lightly**
  - Engage in serious discussion?



- **Consumer engagement in the past has been largely about transparency, information and consumer protection**
  - Served a static world
- **Next practice: Stirring and steering**
  - Serves a dynamic world with no easy answers