

## Preside or Lead?

The Attributes and Actions of Effective Regulators

# 44. “Prudence”: Who’s Minding the Store?

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### Excitement Causes Costs

Regulation has its equations: for the annual revenue requirement, for rate design, for cost of capital, for “grossing-up” taxes. Here’s another:

$$PE + PIO + URR + CC = CO,$$

where PE is policy excitement, PIO is private investment opportunity, URR is under-resourced regulators, and CC is captive customers. CO is, of course, cost overruns. Also known as “taking risks with other people’s money,” the equation predicts accountability slippage and dollar disappointment when four factors exist . . . .

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