



Risk Principles for Public Utility Regulators

Janice A. Beecher and Steven G. Kihm

Risk and risk allocation have always been central issues in public utility regulation. Unfortunately, the term “risk” can easily be misrepresented and misinterpreted, especially when disconnected from long-standing principles of corporate finance.

This book provides those in the regulatory policy community with a basic theoretical and practical grounding in risk as it relates specifically to economic regulation in order to focus and elevate discourse about risk in the utility sector in the contemporary context of economic, technological, and regulatory change. This is not a “how-to” book with regard to calculating risks and returns but rather a resource that aims to improve understanding of the nature of risk. It draws from the fields of corporate finance, behavioral finance, and decision theory as well as the broader legal and economic theories that undergird institutional economics and the economic regulatory paradigm.

We exist in a world of scarce resources and abundant uncertainties, the combination of which can exacerbate and distort our sense of risk. Although there is understandable impulse to reduce risk, attempts to mitigate may be as likely to shift risk, and some measures might actually increase risk exposure. Many of the concepts explored here apply not just to financial decisions, such as those by utility investors, but also to regulatory and utility decision-making in general.

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