

## FOREWORD

*In the framework of the Human Capital and Mobility programme, the EEC Commission has promoted the creation of an international research group in the field of utilities network regulation (Contract n. CHRX-CT93-0239 (DG DSCS)).*

*The researchers of the Utilities Regulation Network belong to 9 different institutions in 8 different countries: University of West London, Brunel, which acts as a co-ordinator; CERIS-CNR, Turin; Deutsches Institut für Wirtschaftsforschung (DIW), Berlin; Academy of Sciences of the Czech Republic, Prague; Institute of Economics, Hungarian Academy of Sciences, Budapest; Universidade Nova de Lisboa; Università Cattolica del Sacro Cuore, Milan; University of Piraeus, Research Center; Université des Sciences Sociales, Toulouse.*

*Network industries, including energy and telecommunications, as it is well known, provide the essential infrastructure for economic development. Traditionally, network industries were state owned and organised as monopolies. Over the past 10 years there have been substantial regulatory reforms to network industries in Europe. In many cases operation and regulation have been separated. In some countries, national and international competition has been allowed.*

*The scientific basis for these reforms has been little explored, and a few attempts have been made within Europe to conduct a comparative analysis of how, why and when regulatory change works. The aim of the research is to fill this gap by bringing together the activities of research centres already working in this field in order to analyse regulatory regimes and network industries. The general aim of the network is to introduce an essential internationally comparative approach to the study of regulatory institutions, the selection of regulatory instruments and their effect on the performance of the regulated energy and telecommunications industries.*

*In order to achieve this aim, the researchers have identified four theoretical and empirical projects on different aspects of the regulation of energy and telecommunications networks, both at the national level and European level, and prepared an account of the principles and practice of regulation in the energy and telecommunications sectors in their own country. The responsibility for the co-ordination of each single project has been entrusted to one or two Centres, while each Centre has contributed to each of the projects, with either a theoretical work on the specific issue or an account of its country's regulatory policies and experience.*

*The first project was carried on under the co-ordination of Universidade*

*Nova de Lisboa and its results were examined in a workshop held in Lisbon in June 1994.*

*The project described and analysed the way in which the regulatory function is discharged. An account has been given of the legislative and political framework of regulation, the location of the regulatory function (Ministry or independent agency), the staffing levels of the regulatory function and the previous employment of the regulators, and their opportunities for public exposure. When changes were proposed, both the current and the prospective system have been described. The sources of political legitimacy and power of the regulators have also been examined.*

*The second project, co-ordinated by Brunel and Piraeus, has investigated and evaluated the efficiency properties of a number of incentive structures for regulated firms, including rate of return regulation, profit sharing, price-caps, plan-contracts, etc. This has been accompanied by an empirical examination of the incentives for efficiency inherent in the regulatory structure of the telecommunications industry in a selection of European countries. The project examined the extent to which existing regulatory frameworks exhibit any of the theoretical properties of the models, and investigated the degree to which informal bargaining between regulator and regulatee weakens or refocuses the incentives of the theoretical schemes. The results of the project have been discussed in a workshop held in Prague in December 1994.*

*The third meeting, organised by the Catholic University of Milan and by CERIS-CNR of Turin, was held in Milan on the 7th and 8th of April of this year, and concerned Interconnection Pricing. The objective of the project was to investigate the competition and welfare implications of using local networks for common carriage, allowing competitors' interconnection in the energy and telecommunications sectors. The main aim of the project was to compare the properties of networks run on a monopolistic basis with those run on a common carriage basis. At the theoretical level a general framework has been provided which identifies the relevant pricing principles and their effects, which are studied in the empirical part.*

*The fourth meeting will be held in Berlin in October 1995, and will discuss the results of the fourth project, which concerns a theoretical overview of the general issues, examining European wide regulation policy in that respect.*

*The «Rivista internazionale di Scienze sociali» is pleased to publish the papers presented at the Milan conference.*

*The first section of the issue includes papers, which analyse the theoretical problems and practical methods envisaged to set access prices under different market conditions.*

*The content of these papers draws from theory, and therefore they do not distinguish between differently regulated sectors. However, some distinctions exist, which are highlighted in Catherine Waddams' paper, which evaluates*

*similarities and distinctions between telecommunications and energy, the two major network sectors. The second section includes papers, which outline the ways of regulating interconnection prices in various countries, from UK - which has a long experience in the field - to others, like the Czech Republic, which are only now establishing for the first time interconnection rules. The final section includes a paper dealing with aspects related to competition law and interconnection, and others loosely related to the main subject, but nevertheless crucial for regulating utilities, such as the mechanisms to pay universal services and the relationship existing between Community regulation and the national one in telecommunications.*

*The impression which I have gathered from the different contributions is that many issues on the topic of interconnection pricing are still controversial and, therefore, need further thought from operators, regulating authorities and the academic community.*

*What, however, emerges clearly from the various contributions has been summarised in a very convincing way by Chris Doyle, when he points out that «if regulatory resources are inadequate, the introduction of efficient competition into network industries could be compromised by setting of incorrect access charges». Therefore, regulation has to be strengthened and must be supported by an effort of continuous research and analysis. This is even more crucial in Italy, as this journal's issue is the first publication ever directed to interconnection pricing.*

*I hope that the Utilities Regulation Network activity paves the way to reasonable solutions and contributes at avoiding failures not only in Italy, but in all those countries, which so far have no significant experience in such matters.*

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