Lessons from the 13th PURC/World Bank International Training Program on Utility Regulation and Strategy January 13-24, 2003

Teachers learn from their students and students learn from each other. Participants in each training course identify key lessons learned over the intensive two-week period. The 73 participants in the January 2003 course shared their reactions to formal presentations and informal networking during the concluding session of the course at the University of Florida. Lessons are presented in the order they were suggested rather than according to the topical outline of the course: (1) Market Structure Reform and Regulation of Network Industries, (2) Financial Analysis for Utility Regulation, (3) Principles and Application of Incentive Regulation, (4) Non-Price Aspects of Utility Regulation, (5) Managing the Introduction of Competition in and for the Market, (6) Rate Structure, and (7) Managing the Regulatory Process.

We hope that the (slightly annotated) list promotes further discussion among all those involved in these important sectors: regulators, utility managers, government ministries, and consumers. PURC's staff appreciates the dedication and energy exhibited by participants in the 13th Training Program. Attendees shared their expertise and experience with one another. In addition, they asked good questions and followed up with examples from their countries. The participant observations are linked to strategies that promote sustainable systems.

1. Seek Consistency Across Sectors:	Because legal issues often cut across sectors, a broad overview of infrastructure developments and consistency in the treatment of comparable situations are required.
2. Utilize Guidelines:	Regulators should avoid "quick fixes" that address symptoms rather than underlying issues. No absolute answers exist, but guidelines can be developed based on the experiences of other countries.
3. Learn from Others	Economic concepts can be complicated and subject to different interpretations, so organizations must continually be in a learning mode. There is no blueprint for designing infrastructure reform-each nation's institutional situation requires local adaptations.
4. Begin Benchmarking	Investors seek transparency and consistency in the regulatory process since cash flows will be driven by future decisions. Benchmarking represents a tool for developing strong incentives for good performance. Investors can benefit from access to yardstick information regarding relative performance; otherwise, managers are in an excessively strong position to benefit from asymmetric information.
5. Recognize the importance of Transparency, Consultation, and Participation	Sustainable reform requires clarity in the regulatory process, openness to different groups (including citizens who are not currently receiving utility services), and involvement of all stakeholders in the process.
6. Develop Technical Skills and Vision	Although there are no easy solutions to regulatory problems, the application of core principles and methodologies promotes consistency in decision-making. In addition, by communicating a vision of sector performance, different stakeholder groups can appreciate that the regulatory commission is trying to balance a set of important objectives. Sustainable regulation requires both technical skills and vision.
7. Create Workshops for Stakeholders	Regulators, in their role as educators, must communicate their work through meetings and the media. Stakeholders would benefit from exposure to international experience-so local programs can help identify realistic performance objectives and the rationales for current policies.

8. Promote International Collaboration:	New regulators are not alone: they are part of a new trans-national community. Regulatory problems are similar across a wide range of national situations so participation in regional and international activities can promote the sharing of experience and knowledge.
9. Seek Balance in Regulatory Decisions:	Balancing stakeholder interests is key to regulatory success. Because international investors develop scorecards for regulators by evaluating their performance, excessive weight given to short-term political objectives is likely to lead to higher costs of capital and reduced capacity investment.
10. Network within a Country:	Regulators should develop mechanisms for sharing information within a nation: expertise at one commission could be made available to others; joint workshops could stimulate staff collaboration regarding methodologies and policy coordination.
11. Ensure Consistency:	Regulators perform multiple functions (licensing, price reviews, monitoring quality, mediating disputes), so it is important to integrate these activities into a consistent set of policies.
12. Develop a Reputation for Independence:	While total autonomy is impractical, regulators need to be insulated from daily politics. Independence requires that regulators demonstrate technical expertise. With a strong knowledge base, regulators can think and act with some autonomy.
13. Reconcile Regulatory and Pro-Competitive Functions:	The interface between competition agencies and regulatory agencies must be well-understood by both groups to avoid giving mixed signals to incumbents and potential entrants. Policy coordination is essential.
14. Create Opportunities for Continuing Education:	Regulators benefit from having multiple perspectives on issues. They have much to learn from consultants, universities, utilities, and colleagues in other countries-via short courses on specific topics.
15. Seek Resources for Staff Development:	Books and the internet are useful resources, but they require that professionals have a sound basis for asking questions. Meetings on wider issues help organizations develop techniques for thinking strategically about regulatory issues.
16. Update your Knowledge:	Technologies and basic market conditions are continually changing. Regular workshops represent one way to remain aware of the need for potential changes in regulations.
17. Recognize that Performance and Popular Expectations will differ:	Effective regulation appears to be an impossible goal. In practice, regulation may be difficult, but it is not impossible.
18. Implement Incentive Regulation:	Performance-based regulation (PBR), yardsticks, price caps, and carefully designed rate-of-return regulation all create incentives. Regulators must continually evaluate the impacts of existing rules.
19. Seek Renewal:	Regulation is a potentially draining profession where talented people find themselves fighting fires with obsolete fire-fighting equipment. Identify local universities that have the capacity to offer regulation as a specialty: recruit their students, work with faculty, and create workshops that can energize the operations of regulatory organizations.