

**Lessons from the
21st PURC/World Bank International Training Program on Utility Regulation and
Strategy
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Teachers learn from their students and students learn from each other. Perhaps because the University of Florida was celebrating the victory of its football team in the National Championship game the first night of the Program, attendees from around the world brought a celebratory attitude to the 21st Program. As in the past, the 79 participants in this training course identified the key lessons learned over the intensive two-week period. During the concluding session of the program, they shared their reactions to formal presentations and informal networking. The PURC's staff appreciates the dedication and energy exhibited by participants: they brought energy, insight and understanding to the sessions, and shared their ideas with all of us.

Mark Jamison noted that the lessons tend to be strategic rather than technical in nature—suggesting that many of the important ideas involved how regulators, representatives from government ministries, infrastructure managers, and consumer advocates needed to “get on the balcony.” Intentionally stepping back from the “give and take” of regulation allows leaders to see how various stakeholders limit or promote reform. We hope that the annotated list of twenty-six lessons stimulates further discussion among all those involved in these important sectors.

1. **We can learn from experiences in other countries.** Even though each nation has its own institutional constraints, legal systems, and developmental prospects, each regulatory commission addresses issues including utility finance, the regulatory process, and balancing efficiency and fairness. We need not repeat the mistakes of others: we have an obligation to share our lessons with colleagues around the world.
2. **Relationships among regulatory agencies, consumers, policy-makers, and utilities are complex.** Commissions need to understand how to develop and manage sound relationships—building trust, expertise, and shared visions where possible.
3. **Given the existence of many stakeholders, regulators are continually balancing the pressures from these groups.** Ignoring key groups or marginalizing their contributions to discussions is a recipe for court challenges and the creation of ill-will. Since delays are not neutral to market participants, it is necessary to anticipate concerns and engage stakeholders in meaningful dialogue from the start of the process.
4. **Regulation is as much an “art” as a “science”.** We can identify contributions from many disciplines: law, engineering, economics, management, and public administration. Yet none of these fields of study provide a fully comprehensive framework for developing (and implementing) strategies that can improve infrastructure performance. Political leadership,

public education, and consensus-building require more than *critical thinking* (technical expertise): they require *creativity* and *communication skills* as well.

5. **Regulatory decisions are based (at least partly) on “numbers” so agencies need to recruit, develop, and retain skilled staff.** In addition, agencies may need to seek a legal mandate in order to obtain financial, accounting, and technical benchmarking information. Spreadsheets, simulations, and scenario-tests are all components of a regulator’s tool-kit. Skills in quantitative methods must be present in any effective regulatory commission—if only to evaluate the work of consultants who provide supporting studies.
6. **Business and social considerations need to be brought into “balance” in regulatory decisions.** If the utility does not have prices that enable financial sustainability, consumers will experience reduced service quality and delays in network expansion. Similarly, if consumers do not perceive sector performance as “fair” or as meeting crucial social needs, the system will lack legitimacy—leading to conflicts.
7. **There is no single recipe (or even cookbook) that provides a unique set of ingredients for improving infrastructure sector performance.** Nevertheless, regulators can read about processes and incentive systems that worked elsewhere, adapt those experiences to their country conditions, benchmark their utility performance with that of nations in comparable situations, and revise their strategies based on what has been learned.
8. **Other stakeholders must be engaged early in rate reviews or other investigations.** By involving non-governmental organizations (NGOs), Task Forces, Citizen Watch Groups, and university research centers in the evaluation of performance and design of new incentives, these groups can become educated about the issues, base their own positions on a common pool of facts, and contribute creative approaches to resolving disputes.
9. **Some issues go beyond national boundaries.** Not only can agencies in one country borrow ideas from other nations, they may need to collaborate with neighbors to harmonize policies and develop shared strategies for attracting (or funding) investment. For example, transmission grids are regional in nature and spectrum allocation has cross-border implications.
10. **Decision-makers must be perceived as being totally ethical.** If citizens do not think that regulators have integrity, the entire process loses credibility. This implies that agencies must cultivate good relationships with the press and other groups that report on regulatory actions and interpret agency decisions.
11. **The regulatory process is not static: mistakes will be made.** If the system gets it wrong, those with responsibility for improving infrastructure performance must retreat or adjust and fine-tune policies so that errors are not continued. For example, the California Energy Crisis stemmed from political interventions that modified an initial regulatory reform. Delays in correcting the price freeze (and magical thinking) ultimately cost the state (and its citizens) substantial sums of money and a loss in regulatory legitimacy.
12. **Credibility with investors and political leaders is crucial.** Regulatory agencies influence private and state investments through the use of consistent (or inconsistent) methodologies

that affect the predictability of decisions. Uncertainty leads to reduced capital flows into these sectors.

13. **Numbers are factual but people are emotional.** Even if decisions are based on numbers, the way decisions are communicated to the public affects the acceptability of the outcomes. The media will tend to find a technocratic approach to be excessively impersonal (and uninteresting). So the “story” behind the numbers needs to be communicated.
14. **Political interference is a reality everywhere.** Since interference cannot be eliminated, it must be managed. Disagreements can be based on authority conflicts, factual conflicts, values conflicts, interest conflicts, or some combination of the above. Establishing a common ground for moving forward can limit political intrusions.
15. **Political power of consumers creates pressure for low prices and economic power of monopolies (and incumbents) creates pressures for higher prices.** Both types of pressures create problems for regulators. Unserved citizens do not benefit from low prices. And quality can suffer as well. The exercise of monopoly power creates inefficiencies and creates a backlash from consumers who pay those high prices. Establishing strong incentives for cost-containment can meet the concerns of current consumers; utilities may find that a sharing of cost savings plan is win-win (both investors and consumers benefit from greater managerial effort directed towards cost-cutting—while maintaining quality).
16. **Decisions must reflect careful consideration of the impacts on all stakeholders.** Thus, analytic studies must forecast impacts on different groups and regions so the interests of different constituencies are factored into the decision. When examining the multiple impacts, one may find that technical decisions fail the test of political sustainability.
17. **Because sound regulation is not a “science”, it must incorporate the art of compromise into the equation.** Finding a middle ground becomes essential, but that compromise must be based on reality, not on unrealistic targets or financial projections. For example, if revenues do not even cover operating costs and there is evidence that the firm is performing well in terms of cost-containment, a compromise that holds price constant cannot also place strong network expansion targets onto the firm.
18. **Some lessons from one infrastructure sector are applicable other sectors.** Network industries have production nodes, links, and dispersed consumption points. Regulators of capital intensive industries can apply principles across infrastructure sectors. Of course, some sectors, such as telecommunications, are much more dynamic in terms of technological opportunities and the potential for new service introductions. Others, like sewerage services, are expensive and seldom attract private investment. Nevertheless, the principles of good management and the use of sound regulatory processes apply across these sectors.
19. **Data is like gold, though the mining techniques differ.** With the internet, we have (potential) access to vast information sources. Regulatory networking can help professionals identify studies, select data, and apply concepts in analyses. The key is to ask the right questions. In some cases, regulators lack the legal authority to collect necessary information or the enterprise refuses to share data required for regulatory oversight.

20. **Any organization needs clear strategies for training of new staff and continuing education for others.** Given the complexity of emerging issues and the resources available for tackling tough regulatory programs, agencies cannot afford to live in the past. Changing times requiring new knowledge bases for decision-makers. Knowledge is power. (And of course, “Power corrupts.”)
21. **New resources are available for in-house training and for university courses preparing people for positions of responsibility** (www.regulationbodyofknowledge.org). Regional networking and training programs can add to an organization’s knowledge base. However, there must be incentives for staff and leaders to undertake the effort required to stay abreast of best practice. Furthermore, new material must be added to existing resources.
22. **Both ministries and sector regulators have roles in the development and implementation of public policy.** Regulators bring expertise to the table that can help more politically-oriented government ministries eliminate policy options that are excessively costly relative to benefits or that ignore important technological realities. Usually agencies will be promulgating rules that refine national policies; in reality, such rules can amount to micro-policies.
23. **It is not clear whether education can make regulators smarter, but it can certainly make them more aware of basic conditions that constrain decision-makers.** Thus, the key reason for promoting continuing education is to improve the knowledge-base for agency decisions. Furthermore, decisions based on solid analysis, transparent processes, and the participation of affected parties are more likely to stand the test of time.
24. **Regulatory professionals can feel isolated—within their own organizations and within their own narrow fields of study.** However, there are basic principles and lessons that are universal. Networking with colleagues in other countries is one way to expand ones field of vision and to share ideas. There is always room for improvement: the key is to find friends and colleagues who share your vision and can support your efforts at improving sector performance.
25. **Consult with specialists, conduct research that addresses key issues, and create task forces that can integrate the results of different disciplines.** In terms of external constituencies, the resulting decisions must balance the concerns of different groups, but they must also be part of a long term plan to ensure that costs are contained, service quality is improved, and network expansion is financially feasible.
26. **Friendships can sustain us when we feel overwhelmed by the issues we face. No one can operate effectively alone; we all need to draw upon (and contribute to) the skills and emotional resources of colleagues.** The PURC/World Bank Training Program illustrates the benefits of networking. Each of us is more confident of our own skills and more aware of the talent that might be drawn upon when we find ourselves in need of help.

Appendix: African Proverbs presented by PURC

In writing a paper with Silver Mugisha, “Turning Around Struggling State-Owned Enterprises in Developing Countries: The Case of NWSC-Uganda,” I looked for some African Proverbs that contained useful lessons for decision-makers. I read a number of them at the start of the concluding session in June 2006. A number of participants from the 20th delivery of the program requested that the list be included in the packet sent to PURC alumni. I believe that the proverbs contain deep wisdom and fresh perspectives on a number of topics relevant for infrastructure reform, so I include them here for the 21st delivery. Others were included in Session 20w this past delivery.

“A person, who never travels, believes his mother’s cooking is the best in the world.”
(*Kiganda, Africa, Proverb*)

“The hunter in pursuit of an elephant does not stop to throw stones at birds.” (*Ugandan proverb*)

“Between imitation and envy, imitation is better.”
(*Ekonda proverb, Democratic Republic of Congo*)

“A forest cannot be cut with a broken axe.”(*Bantandu proverb*)

“If you do not listen to good advice, you will be embarrassed in public.” *Oshiwambo (Namibia)*

“If you want someone more knowledgeable than yourself to identify a bird, you do not first remove the feathers.”(*African Proverb*)

A family is like a forest, when you are outside it is dense, when you are inside you see that each tree has its place. (*Akan, Ghana*)

“Do not throw away the oars before the boat reaches the shore.” (*Mpongue Proverb*)

The new moon cannot come until the other has gone.”
(*Bahunde or Hunde Proverb, Democratic Republic of Congo*)

“If you refuse the elder’s advice, you will walk the whole day.”(*Ngoreme, Tanzania*)

“Water that has been begged for does not quench the thirst.” (*Soga, Uganda*)

“There are forty kinds of lunacy, but only one kind of common sense.” (*African Proverb*)