

**Key Lessons from the
26th PURC/World Bank International Training Program on
Utility Regulation and Strategy
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As in the past, the 72 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 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.

In the context of a training course, those presenting material benefit from questions and examples provided by participants. Teachers learn from their students. In addition, course participants teach one another, as they share experiences and clarify concepts for one another. A program that builds upon everyone's expertise results in motivated students and inspired teachers. Participants and formal presenters at this particular training program demonstrated a commitment to mutual learning. The atmosphere promoted networking between individuals and new friendships across nations.

Note that while most of the lessons refer to regulatory agencies and to those developing infrastructure reforms, the principles apply to operators as well. Organizations face the same types of challenges: creating a sustainable infrastructure system where all stakeholders have confidence in the integrity of the process and have a shared vision of improved infrastructure performance.

PURC's Director, 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 lessons stimulates further discussion among all those involved in these important sectors.

- 1. Context:** Infrastructure concepts and regulatory strategies have to “fit” the local situation. Concepts and principles can apply across nations, but the unique national settings (traditions, legal mandates, and public perceptions) require tailoring principles of autonomy participation, and transparency to the national context.
- 2. Independence:** Autonomy is earned over time not “granted”. The creation of a regulatory system results in some groups losing authority they had previously exercised. By demonstrating professionalism and impartiality, the new “player” can earn legitimacy. Full independence is impossible, since agencies must be accountable to stakeholders.

3. **Teamwork:** The activities of regulatory commissions and of operators require many skills associated with a variety of disciplines, including law, engineering, accounting, finance, and management. Such work requires that teams be created to address technical and organizational issues.
4. **Transparency:** Sunshine has been called the best disinfectant. Processes that facilitate participation promote public understanding of decisions. In the area of infrastructure policy development and implementation, transparency is crucial to establish credibility with different stakeholders. Without public access to the rationales behind decisions, citizens will tend to view rulings as based on political considerations.
5. **Global Lessons:** The world is smaller than it was three decades ago. Best-practice regulation takes advantage of lessons from around the world. It is important to learn from one's own mistakes. It is even better to learn from the mistakes (and successes) of others.
6. **Preparation:** Developing and implementing strategies requires careful preparation. When the foundations for decisions are based on evidence and experience, the decisions are likely to have better impacts (and to be more acceptable to affected parties). Similarly, participants get more out of training programs when they prepare in advance for the experience.
7. **Timely information:** Decisions that are delayed are costly since the plans of others are affected when deadlines are not met. This means that the data for decisions need to be available in a timely manner. Without knowledge of recent trends, current relative performance, and reasonable targets, regulators are not in a position to make informed decisions.
8. **Art and Science of Regulation:** Technical expertise is necessary but not sufficient for good regulation. Art involves creativity: most regulatory decisions require a deep awareness of political forces as well as creative problem-solving. Negotiation strategies and interpersonal skills are important for identifying and addressing issues. Thus, both operators and regulators need the "soft" skills of generalists who can manage teams and bring people together. As Albert Einstein wrote: "Imagination is more important than knowledge."

- 9. Governance:** Organizational effectiveness and legitimacy depend on identifying who makes decisions and on the processes supporting those decisions. Sound decisions are coherent (logical and well-reasoned), cohesive (internally consistent), and clear.
- 10. Regulatory consistency:** Infrastructure tends to be capital intensive, involving links and nodes in networks. If regulatory rules are viewed as being made in a haphazard way, both operators and customers will have a difficult time planning. Furthermore, the cost of capital is higher when there is uncertainty regarding future rules.
- 11. Change Agents:** Regulators should be viewed as implementing policy, since developing and articulating policy is the responsibility of the key political leaders in the executive branch and the legislature. However, regulators often have expertise lacking in other branches of government. Thus, regulatory reports and public meetings provide platforms for identifying issues and the implications of alternative approaches to resolving those issues. Similarly, operators can take initiative in reforming internal processes and external rules affecting their performance.
- 12. Partners vs. Adversaries:** The service provider is not necessarily the adversary of the regulator. In fact, the two parties can have complementary roles: one meeting the needs of citizens (for a fair and affordable price) and the other monitoring performance and educating political leaders and citizens to the rationale behind existing incentives.
- 13. Stakeholder Communication:** All those affected by infrastructure should be clear about their objectives and processes used to meet those goals. Regulators need to work with stakeholders to educate those affected by price, quality, and network coverage. The press represents one vehicle for communicating with those groups interested in infrastructure performance.
- 14. Balance:** The job of the regulator can be viewed as balancing the interests of consumers, operators, and government. Stakeholders have legitimate concerns: some citizens may not be receiving service, the financial sustainability of operators may be problematic, and elected political leaders have concerns regarding regional development or may seek low prices for current customers. It has been said that “the role of the regulator is to disappoint all stakeholders equally.”
- 15. Consumer satisfaction:** A key goal of regulation is to ensure that citizens receive quality infrastructure services at affordable prices. Of course, consumer expectations should be based on reality, not political rhetoric nor on misinformation. Ultimately, the evaluation of sector performance will consider both efficiency and fairness.

- 16. Pragmatism:** There is no simple recipe for effective regulation. The questions are: What works? And what doesn't work? Given the enabling legislation and context for decision-making, the regulatory system will have best performance when participants maintain high principles and recognize the benefits of procedures that are both practical and effective.
- 17. Evolution:** To some extent, regulation is an evolutionary process whereby the principles of natural selection apply. Institutional survival requires that appropriate niches be found for activities and ways to confront (or avoid) predators be found. Those procedures and incentives that improve performance should be maintained, winnowing out less effective approaches. Thus, regulation is dynamic in nature, evolving over time.
- 18. Sharing Experience:** Networking within the regulatory community and among operators represents a mechanism for disseminating best practice. For example, regional regulatory associations act as clearinghouses for studies and reports. They promote capacity building through conferences and technical workshops. Regional working groups for operators serve a similar function, facilitating the exchange of ideas across national boundaries. Learning from counterparts around the world represents one way to strengthen organizational performance.
- 19. Stakeholder Relations:** Many groups are affected by regulatory decisions, so these stakeholders need to be brought into the process early on. Regulatory problems are "managed not solved." If they were easy to resolve, that would have been done long ago. However, the scale and scope of industry challenges mean that participants must all be engaged in addressing issues. In particular, stakeholders can assist in identifying win-win options.
- 20. Regulation and Politics:** Regulation is not divorced from politics, but it should not be married to politics either. One lesson emphasized in PURC Training Courses is that "regulators need to think politically without being political". Given the social importance of access to infrastructure, those involved in making the regulatory system work cannot ignore politics.
- 21. Legal Mandates:** Existing legislation enables some activities and limits activities as well. In some cases, agencies are excessively constrained by current laws, as when they lack access to data. Regulators should work to increase the resources available for decision-making, including access to information, appropriate levels of staffing, and

effective tools for reaching decisions (such as standard systems of accounting and benchmarking studies).

22. Cross-Sector Lessons: Some infrastructure issues are common across sectors, so broad experience can be useful (within multi-sector agencies, across agencies within a nation, or across national boundaries). One advantage of having staff familiar with issues in a number of industries is that problems faced at one point of time in one industry can arise in other industries later on—as with interconnection for telecommunications or distributed energy.

23. Financial and Operating Indicators: Operators can only manage what they measure. Lack of data can be taken as evidence of mis-management. Data on trends over time and across operators at a point of time establish baselines for evaluating operators and the sustainability of current prices. Publication of benchmarking data provides stakeholders with information on relative performance and serves as the basis for yardstick competition.

24. Good Outcomes: “Perfection is the enemy of the good.” No system is perfect; there is always room for improvement. The role of incentives in promoting good performance cannot be overemphasized. The key is to work towards good outcomes and then to continuously improve performance.

A few quotations that seem appropriate for those participating in the regulatory process:

If your actions inspire others to dream more, learn more, do more, and become more, you are a leader.
(John Quincy Adams)

It is difficult to remove by logic an idea not placed there by logic in the first place. (Anon)

The most secure prisons are those we construct for ourselves. (Anon)

“If you haven’t got all the things you want, be grateful for all the things you don’t have that you don’t want.” (Anon)

“Give us the grace to accept with serenity the things that cannot be changed,
Courage to change the things that should be changed,
And the wisdom to know the difference.” (Reinhold Niebuhr)

“I’ve learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel.” (Maya Angelou)

“A man travels the world over in search of what he needs and returns home to find it.” (George Moore)