

**Key Lessons from the
42nd 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. As in the past, the 55 participants from 25 nations in this training course identified the key lessons learned over the two-week period. During the concluding session of the program, they shared their reactions to formal presentations and informal networking. The PURC team appreciated the dedication and energy exhibited by participants: attendees brought insight and understanding to the sessions and shared their ideas with all of us.

Note that while most of the key lessons refer to regulatory agencies and to those developing infrastructure reforms, the principles apply to operators as well. Organizations face the same 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.

As PURC’s Director, Mark Jamison, observed: “Many of the lessons tend to be strategic rather than technical in nature – suggesting that many of the important ideas involve how regulators, representatives from government ministries, infrastructure managers, and consumer advocates need 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 those involved in these important sectors. Some of the elaborations on the points identified by participants are drawn from Key Lessons from previous course deliveries. I take full responsibility for errors of interpretation in this summary of *Key Lessons*. In addition, I recommend that readers check out the shorter list, but longer write-up for the 41st delivery of the Training Program.

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We learned that

1. **Regulation is data-driven:** Decision-makers manage what they measure, making access to information central to creating realistic targets and effective incentives.
2. **Consultation is important** because it brings more issues to light and adds important perspectives from key stakeholders—including those who often lack “voice”.
3. **Key concepts need to be applied** through the use of multi-disciplinary teams: no single discipline provides the framework necessary for efficient operation or effective regulation.

4. **Regulators play an important role in development:** widespread access to energy, water, telecommunications, and transportation infrastructure provides a foundation for economic growth and social equity.
5. **Sound regulation requires that leaders navigate** among different interest groups, engaging with, listening to, and educating groups affected by legal structures and rules that are implemented.
6. **Regulation must go beyond technical work,** to include “soft” skills—like adaptive leadership, negotiation, and communication.
7. **Price reviews involve both the regulator and the operator:** the latter has far more information about what is possible, and the former must establish prices that move towards long term cost recovery.
8. **Negotiation is about identifying the legitimate interests of all the stakeholders** and requires compromise by the various parties, recognizing that some parties may be better off if the proposed rule is not adopted.
9. **Engage all stakeholders in the process** to enable the creation of a more comprehensive, politically acceptable, and effective agreement.
10. **Miscommunication is the cause of many problems,** which places a premium on sound analysis, clarity, and careful listening.
11. **With power goes responsibilities** since the long term impact of regulatory decisions are significant.
12. **Participants in the “regulatory arena” must get on the balcony** to obtain a 360° view of what is going on.
13. **The regulatory framework matters:** the legal system, agency funding, quality appointments, effective staffing, clear process, and other features can promote outcomes that balance the interests of stakeholders.
14. **There is no single recipe for sound regulation**—just good ingredients that are available, depending on the architecture of the regulatory framework..
15. **Reducing system losses saves capacity and reduces operating costs,** but incentives must be carefully designed—both within the firm, and by the regulatory commission.
16. **Incentives for effective conservation and for expanded infrastructure coverage** can be achieved through tariff designs and well-drawn incentives for network expansion.
17. **Decision-makers would do well to avoid excessive emotion** in implementing rules and interacting with other stakeholders—though that does not mean that intuition must be ignored.
18. **The evolution of infrastructure markets** depends on technological developments (affecting scale and scope) as well as income growth: with these supply and demand elements conditioned by the legal framework and government support for efficiency and fairness.
19. **Clarity in role and responsibilities of regulators** is crucial to avoid conflict among bureaucracies affecting infrastructure since oversight of health, safety, and environmental impacts is often allocated to different agencies.

20. **Agencies should seek independence**, limiting the impact of undue political interference; this is achieved not just “in the law” but by actions (roles and interactions) of affected parties.
21. **Balancing interests presents challenges** since no party “gets its ideal outcome”, but it promotes the long term sustainability of the regulatory system.
22. **Regulatory processes** require transparency, clear schedules, careful analysis, stakeholder engagement, leadership, time-tables, and other elements that promote legitimacy for citizens, credibility for public and private investors, and efficiency for operators.
23. **Service quality** matters as much as price in terms of providing value for customers.
24. **Regulators can learn from their counterparts** around the world: particular attention could be given to networking within the region.
25. **No simple blueprint for improving infrastructure performance exists**, but decision-makers must have a vision—a set of realistic objectives that benefit the country.
26. **Both operators and regulators need to understand the impacts of alternative methodologies** that might be used utilized in developing prices.
27. **Good regulation requires** multiple skills, authenticated information, and stakeholders participation.
28. **Rate-making requires careful analysis**, with data on business plans, network expansion, demand forecasts and operating costs.
29. **Procedures for establishing prices** need to be clear to all parties, so the role of regulator, operator, and others focus on customers for today and in the future.
30. **Think strategically:** consider how other parties are likely to react to your behavior, incorporate those predictions into decisions, and adapt to changing external conditions.
31. **Communication** may be the most important element of regulation (after data).
32. **While an arms-length relationship is necessary**, regulatory attitudes toward operators should not be adversarial: both entities are partners in public service—each with different roles and responsibilities.
33. **Strengthen the regulatory framework** through a reform process that is inclusive and that focuses on long term outcomes..
34. **Regulators face many challenges** that Operators need to appreciate and understand.
35. **Learn from others:** regulatory progress is achieved locally, but learning from the successes and mistakes of others reduces the number and scope of local mistakes!
36. **Rate design sends signals** to customers about the opportunity costs of consuming additional services today.
37. **Each of us needs to set goals and agendas** that promote our own professional development and our personal growth.

For additional details, check out the Key Lessons from previous PURC/World Bank International Training Programs on Utility Regulation and Strategy.

Concluding Observations

Here are six elements that (in my opinion) are necessary for strong regulatory performance:

Information—*Information matters*: the collection and authentication of data is necessary to identify trends, understand current patterns of performance, and determine realistic targets for utilities; technical skills and on-going capacity-building can support such initiatives.

Institutions—*Organizations matter*: the sector regulatory commission is one component of the regulatory (and governance) system, which includes the legislature, courts, utilities, unions, and the laws that establish roles and responsibilities for these institutions; inter-institutional collaboration is essential for improved sector performance.

Incentives—*Incentives matter*: decision-makers behave in accordance with payoffs associated with different outcomes; every regulatory rule rewards or penalizes actions affecting utility performance.

Ideas—*Ideas matter*: each of us brings a conceptual framework to our decisions; new perspectives can serve as catalysts for activities that improve the operation and financial sustainability of water utilities.

Ideals—*Values matter*: when we are clear about our objectives and communicate those priorities to stakeholders, the resulting dialogue can clarify our goals and promote greater consensus regarding sector objectives.

Individuals—*People matter*: ultimately, leadership is essential for improved sector performance; no matter how dysfunctional or inefficient current arrangements are, someone is benefiting from them—which implies that overcoming institutional inertia requires strong leadership.

Policies are not self-implementing. They require leadership. Some of the leaders who will make a difference in their nation's economic and social growth participated in the PURC Training Program. Hopefully, the discussions equipped them to be more effective when they returned to their nations—to continue the *initiatives* identified during their stay at the University of Florida.

Additional Resources

[Handbook for Evaluating Infrastructure Regulatory Systems](#) by Ashley C. Brown, Jon Stern, and Bernard Tenenbaum, The World Bank, 2006. This volume provides an overview of why, what, and how to evaluate regulatory systems. A CLASSIC!

Check out other web-links at www.purc.ufl.edu and at www.regulationbodyofknowledge.org.