



Celebrating 40 years!
Since its founding, PURC has grown from a small group hosting one meeting to an internationally recognized research center with expanded training and interdisciplinary development programs.

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PUBLIC UTILITY RESEARCH CENTER

About PURC

Regulating State-Owned and Municipal Utilities: Information, Incentives and Governance

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With the Assistance of Dr. Mark Jamison



Some Thoughts

**Spare us from cowardice that shrinks
from new truths;**

**Spare us from laziness that is content
with half-truths; and**

**Spare us from arrogance in thinking
that we know all truth.**



Critical Challenges for Water Regulators

- Aging infrastructure, production inefficiencies, Non-Revenue Water, Collections
- Weak economic incentives for SOEs
- Customer Expectations
- Citizen Expectations

Evidence from Recent Reports



World Bank Report on Infrastructure in Caribbean (2005)

- **Overstaffing (and lack of professional capacity)**
- **Non-Revenue Water**
- **Below-cost Revenues (Prices & Collections)**
- **Lack funds for capital investments/maintenance**
- **Political interference (patronage)**

A. K. Jha (205) "Institutions, Performance, and the Financing of Infrastructure Services in the Caribbean" WB Working Paper 58



IDB and IWA AquaRating Initiative (in Spanish)

13 Companies from Latin America participating

Rating Areas (plus Reliability of Information):

Access to Service, Quality of Service, Operating Efficiency, Planning & Investment Execution Efficiency, Business Management Efficiency, Financial Sustainability, Environmental Sustainability, Corporate Governance

www.aquarating.org



OECD Study of *Water Governance in Latin America* (2012—13 nations)

Policy Gap: over-lapping/unclear responsibilities

Administrative Gap: resource management boundaries

Information Gap: data silos, non-transparency

Capacity Gap: lack technical skills, professionalism

Funding Gap: unstable or insufficient funding

Objective gap: lack of coordination

Accountability Gap: lack of information/participation

<http://www.oecd.org/gov/regional-policy/watergovernanceinlatinamericaandthecaribbeanamulti-levelapproach.htm>



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CEPAL Study: Best Practice (Berg, 2013)

- **Regulation** less effective (ineffective?) without supporting institutions
- **Governance Structure** (rules of the game)
- **Substantive Actions** (play of the game)
- **Regulatory System**—many stakeholders (is the regulatory agency an “umpire” or “player”?)
- **System** requires coherence, creativity, communication, consultation, & credibility

<http://www.eclac.org/publicaciones/xml/1/49891/Bestpracticesinregulating.pdf>



Ultimate Goals

Ensure provision of necessary services in ways that allow economy and society to flourish

- Commercial viability (financial sustainability)
- Availability (Network Expansion & Access)
- Service Quality (Reliability, Customer Orientation)
- Affordability (Targeted Subsidies?)



Scope of “Solutions”

“Inside game” approaches

“Independent” Boards of Directors

Improving management/commercial practices

Introducing strong economic incentives

“Outside game” approaches

Improving governance system (accountability & role clarity)

Reviews of Business Plans & Benchmarking

Prioritization of & Coherence among Objectives



Commercial Practices

Managerial focus on...

Financial performance

Staff incentives

Strategic business plan

Coherence of objectives

Best practices in technical efficiency

...within bounds of regulatory rules



Commercial Practices

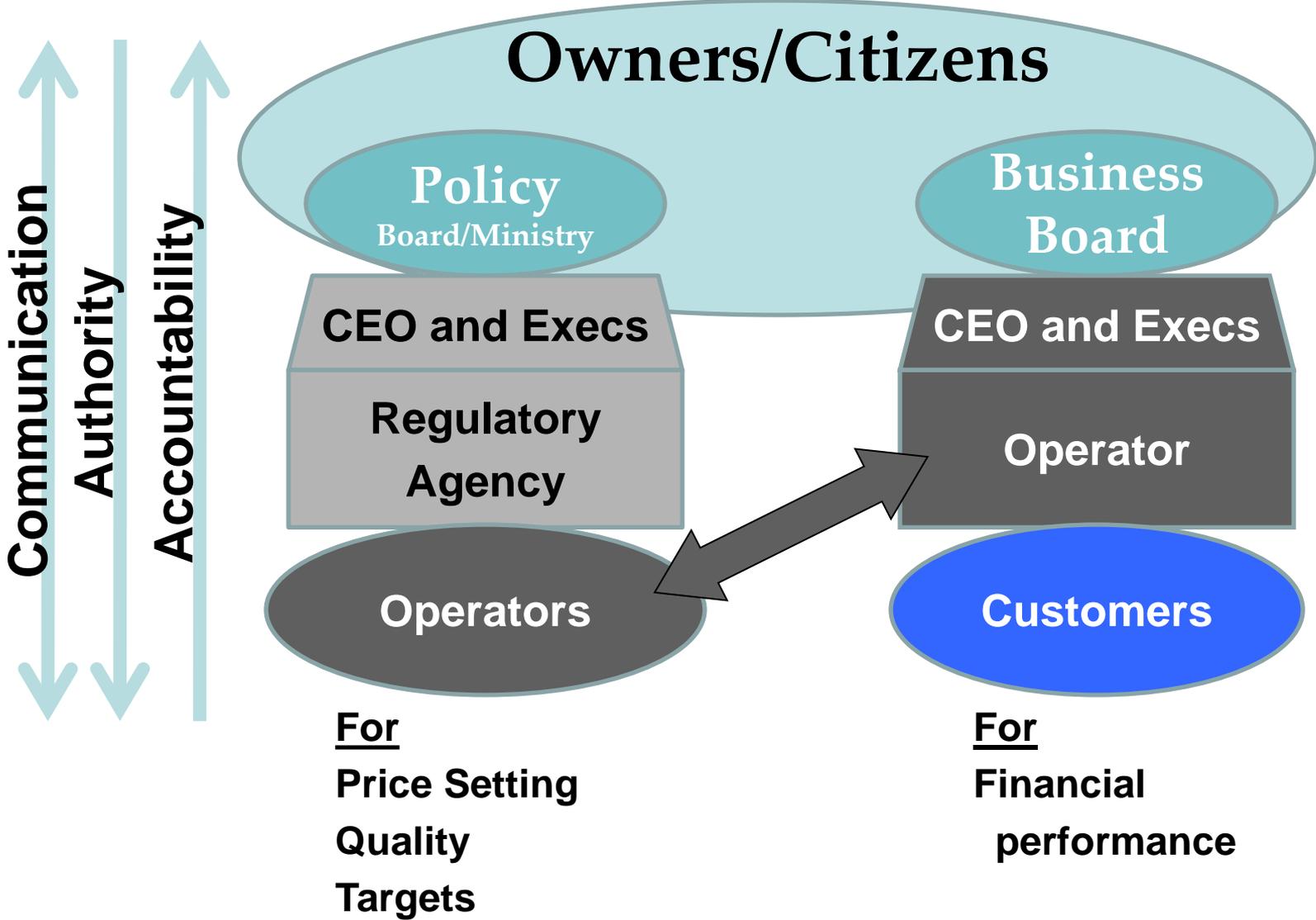
- **Adaptive organization**
- **Challenging culture**
 - Open debates
 - Distributed authority
 - SMART goals (Specific, Measureable, Attainable, Relevant, Time-bound)



Regulatory Practices

- **Managerial audits**
 - Overcome information asymmetries
- **Benchmarking**
 - Quantitative and qualitative
 - Transparency
 - Ongoing dialogue with multiple viewpoints and outside views

Clarifying Roles with SOEs





Board Roles...

Reflect on outcomes

Refine vision and strategic plans

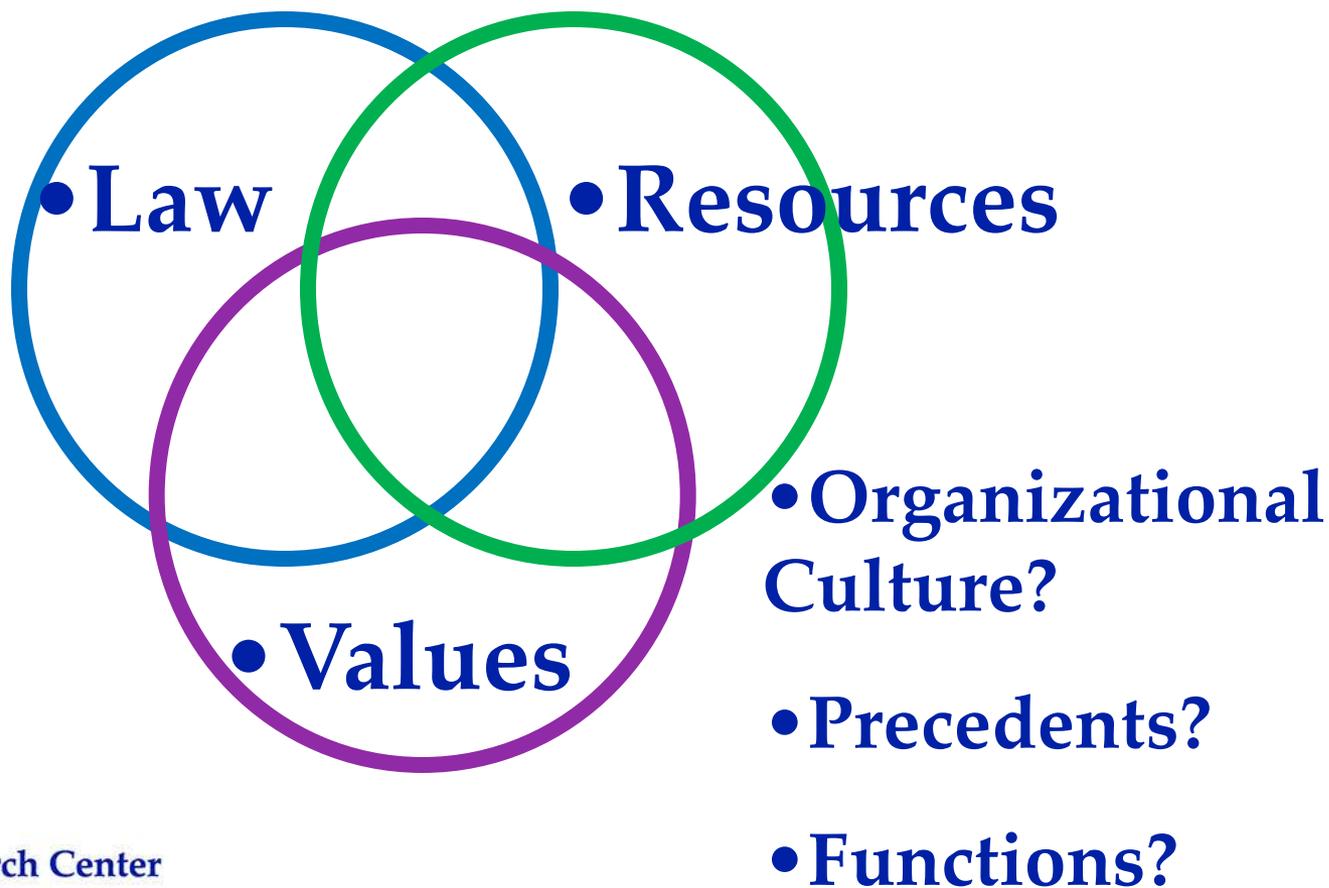
LR goals while staying in the game

Holding regulator or operator accountable

...outside the political arena

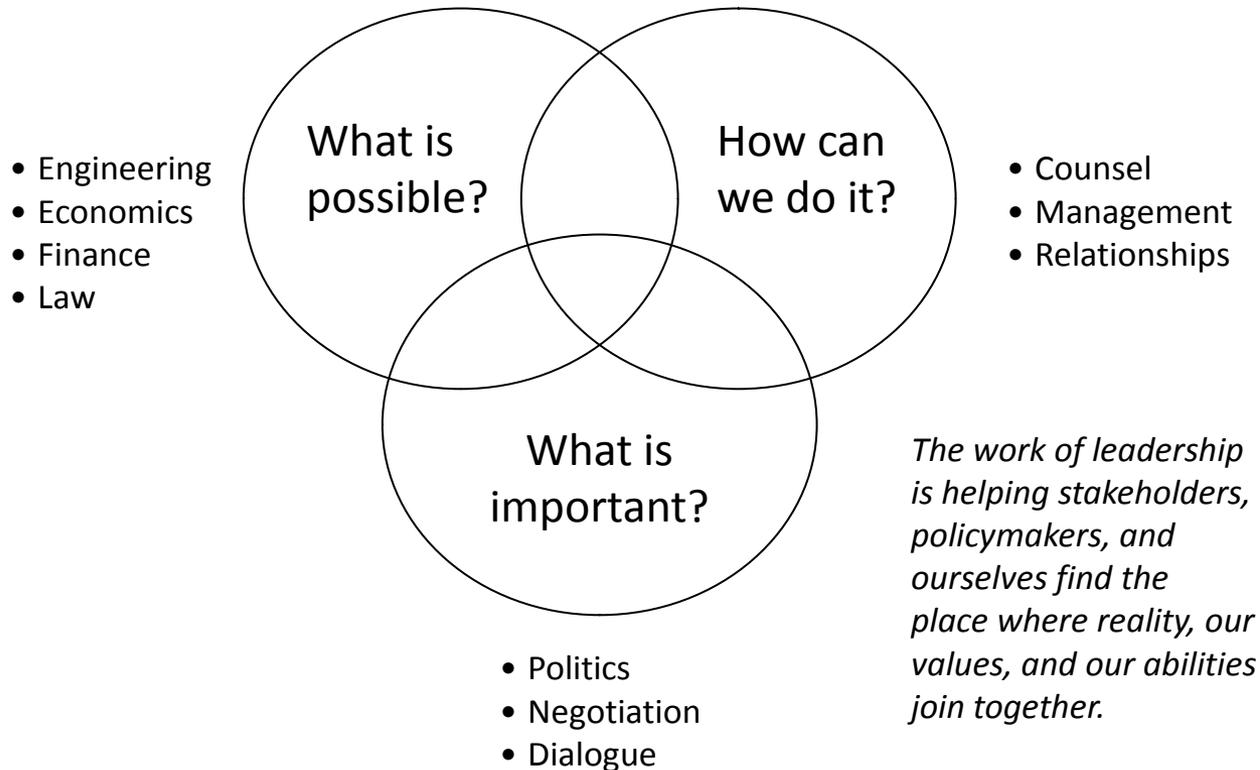


Constraints Facing Regulators





The Regulatory Practice





Aligning purposes

Ongoing or regular dialogue of operators, key politicians, thought leaders

Where are we?

What do we aspire to for our country?

What are the difficult tradeoffs between good things?



Regulation is dangerous work

- **Every change involves someone losing something that is important to him/her**
- **Regulation is disappointing people at a rate they can endure**



Thank You

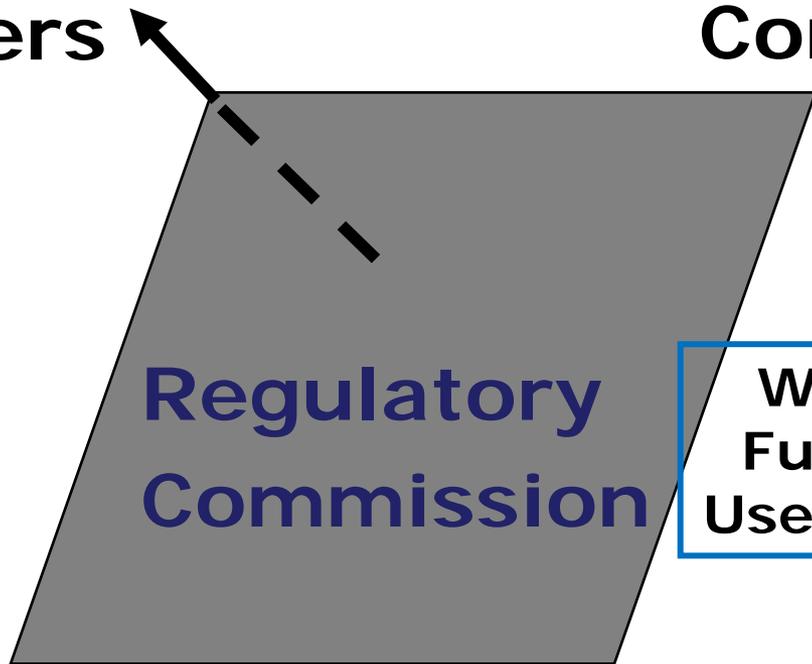
The Appendix Introduces a “Revisionist” View of Regulation and the Regulatory Functions that provide instruments for improving sector performance.



Appendix: "Revisionist" View of Regulation: Active Player in Conflict Resolution

**Future
Consumers**

**Current
Consumers**



**Regulatory
Commission**

**What Regulatory
Functions Provide
Useful Instruments?**

Government

Utilities



Ten Regulatory Functions

- 1. Issue licenses:** certificates of use, siting approval, contractual arrangements
- 2. Set performance standards:** service quality has implications for cost, price, & health
- 3. Monitor the performance of regulated firms:** collect and analyze data on costs, revenues, and performance (benchmarking)
- 4. Establish the price level and the structure of tariffs:** enable recovery of prudently incurred costs via a *transparent process* that yields coherent prices (that are “just and reasonable”)



Ten Regulatory Functions (2)

5. Establish a Uniform Accounting System: income statements, balance sheets, statements of cash flows, and operating statistics

6. Arbitrate disputes among stakeholders: ensure that facts are well documented and that different interests are well represented.

7. Perform management audits and/or Evaluate Business Plans (often via independent consultancy):

Are goals being met?

Can targets be met with current prices?



Ten Regulatory Functions (3)

8. Develop human resources: staff training and competitive compensation policy for recruitment and retention of infrastructure professionals.

9. Coordinate Activities with Other Agencies: Water often involves multiple authorities, including water resource agency and environmental protection agency. Make recommendations to Legislature (pro-active or reactive?)



Ten Regulatory Functions (4)

10. Report sector performance and commission activities to appropriate government authorities:
providing

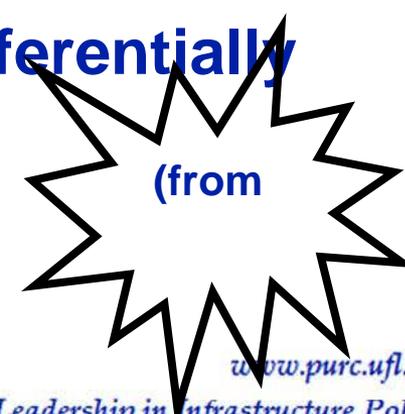
- ***clarity*** in regulatory priorities,
- ***transparency*** for sector stakeholders, and
- ***accountability*** to political structures (via *clear appeals procedures* and *inter-governmental coordination*)



Sources of Conflict and Sector Performance

1. Authority Conflicts: lack of clarity of roles
2. Cognitive (Factual) Conflicts: disagreements regarding current or historical facts and causal linkages
3. Value Conflicts: conflicting priorities and different weights on outcomes
4. Interest Conflicts: stakeholders benefit differentially from decisions

Shabman, 2005)





Addressed
By Research

**Technical
Work**

**Adaptive
Work**

Conflict Over Facts	Conflict Over What is Important
Conflict Over Distribution of Gains & Costs	Conflict Over Jurisdiction or Authority

Addressed by
Engaging
People with
Adaptive
Challenges
in Research
And Dialogue

Addressed
By Research
And Negotiation

Conflict Resolution Matrix

• From Mark Jamison



Informal Survey: Answer the following:

- 1. Authority:** Is the regulatory agency used to help resolve key issues or is it by-passed? Are you in the middle of “turf wars”?
- 2. Facts:** Has benchmarking been used to improve sector performance? Are contracts and targets based on reality?
- 3. Values:** Does the regulatory agency help clarify how the targets reflect goals or stated political objectives?
- 4. Special Interests:** Have regulatory decisions been inconsistent due to the influence of special interests (including the political party in power)?



Nine Best Regulatory Practice Principles

(Australia--ACCC)

1. **Communication** Information to stakeholders on a timely and accessible basis.
2. **Consultation** Stakeholder participation in meetings promotes legitimacy.
3. **Consistency** Across market participants and over time (affects cost of capital).





Nine Best Practice Principles (continued)

4. **Predictability** A reputation that facilitates planning by suppliers and customers.

5. **Flexibility** Use appropriate instruments in response to changing conditions.

6. **Independence** Autonomy - free from undue political influence.





Nine Best Practice Principles (continued)

7. **Effectiveness & Efficiency** Cost-effectiveness emphasized in data collection and regulatory policies.

8. **Accountability** Clearly defined processes and rationales for decisions. Clear appeals procedures.

9. **Transparency** Openness of the process.





Evaluate Your Regulatory Commission

(not to be shared)

Nine Best-Practice Principles

Grade Performance: Assign Values to each:

1 = extremely weak

3 = not very acceptable

5 = adequate (or acceptable)

8 = good

11 = outstanding

Policy must move beyond the Process to consider

Performance Outcomes



Complete Your Survey

What would be a passing score: 50?

Has your score improved significantly in recent years?

Should each principle have equal weight?

eg. If the first two principles had weights of .5 each, then the weighted score would be the average of those two.

Do the weights stay the same over time?

