

REPORT ON THE 45TH PUBLIC UTILITY RESEARCH CENTRE/WORLD BANK INTERNATIONAL TRAINING PROGRAM ON UTILITY REGULATION AND STRATEGY 14-25 JANUARY 2019, GAINESVILLE, FLORIDA

1 INTRODUCTION

The Public Utility Research Centre in collaboration with World Bank conducted the 45th International Training on Utility Regulation and Strategy successfully from 14-25 January 2019 at University of Florida, Gainesville. This training is specifically designed for professionals working with regulatory bodies or authorities, but also for operators and infrastructure managers. The training was attended by 65 participants from 34 different countries across the world. The participants were a mixture of energy, water and telecom regulators, policymakers and operators.

5 of the participants in this training were sponsored by RAERESA / ESREM: Mr Lova Razafindrakoto from Madagascar, Ms Cynthia G. Chawani from Malawi, Mr Alfred Byigero from Mauritius, Mr Errol Renaud from Seychelles and Mr Tobias Mudzingwa from Zimbabwe.

The training involved several modules which were covered during the two-week course namely Market Reform and Regulation of Network Industries, Financial Analysis for Utility Regulation, Principles and Application of Incentive Regulation, Non-Price Aspects of Utility Regulation, Managing the Introduction of Competition in and for the Market, Rate Structure, Managing the Regulatory Process and Public-Private Partnerships

2 OBJECTIVES

The main objective of the training was to enhance the economic, technical, and policy skills required for implementing policies and managing sustainable regulatory systems for infrastructure sectors. The training enabled members of different regulatory bodies or regulated entities to improve their regulation through knowledge and skills sharing.

3 METHODOLOGY

The training program involved 10 full days of lectures encompassing 48 sessions, sector-specific case studies, practice exercises, and discussions with leading utility experts. It also included a site visit of the local utility company and participatory group presentations. Courses were shared by digital media delivered in advance by the coordinators.

4 DISCUSSIONS

Day 1 and 2

On day 1 and 2, it was a summary of what Regulation entails. We learned several theories of regulation and noted that regulation is about disappointing people, at a rate at which they can endure. We discussed various reasons regulation exists such as the need to control monopolies and political powers, need to encourage Investment that is sustainable and facilitate access to investments. How regulation provides predictability and legitimacy to the system.

We further discussed market reforms. We answered questions as to what it means to reform and restructure the market and why electric markets reform. We acknowledged that there are different structures of the industry where some have End-use customers, prices, and rate design, Distribution, metering, and billing, Transmission and system operation, Generation all separated into different entities whereby some only liberalized the generation aspect of the chain.

Day 3 and 4

Participants had an opportunity to learn more on the types and methodologies for utility regulation which are being practised by most regulators in the world namely Rate of Return and Incentive based regulation. It was noted that some regulators use both tools, as hybrid in order to achieve the desired results.

The following types of regulation were taught in detail and this was coupled by practice exercises and case studies to consolidate the concepts:

Rate of Return (ROR) regulation combines company's costs and allowed ROR to develop a revenue requirement. This revenue requirement then becomes the target revenue for setting prices. Rate of Return Ratemaking provides the several opportunities such as opportunity to recover prudently-incurred costs, opportunity for investors to receive a fair rate of return, fair rate of return is risk-adjusted, periodic review of rates and balance utility and ratepayer

interests. We noted that the downside of ROR regulation is that it does not incentivise the utility to cut costs.

Furthermore, we learned that there are three main types of incentive regulation which are namely: Price Caps, Revenue Caps and sharing Mechanisms

Price cap regulation is a form of regulation that formally limits the link between the cost an operator reports that it incurs to provide a service and the revenue the regulator allows the operator to receive from the service. Whereas Revenue Caps limits total revenues, regardless of sales volume, it mitigates volumetric risk and may be more appropriate where the utility has less control over volume. Lastly, Sharing Mechanisms is whereby earnings above and below an equitable rate of return are shared between utility and ratepayers. This often includes a “dead band” where no sharing occurs. In this regulation Utility and ratepayer each have a degree of protection

Day 5 and 6

This covered lessons on rate structure. We learned that one of the principles of rate structure is knowing your objectives and your options. We were given a case Study in Rate structure, from Uganda, Jamaica transforming our energy system, new Energy efficiency projects, renewables + storage, was very enlightening in understanding how other countries and emerging countries are tackling these issues and lesson learned from their experiences. It was pointed out there is a need to understand marginal costs (incremental) in tariff making.

We were taught lessons on identification of key stakeholders in the sector. Stakeholders vary from Consumers (high and low end), Government, Investors, Non-governmental organisations and licensees. When implementing policies and laws there is a need to analyse which stakeholders is your ally, opposer, troublemaker and possible casualty of the implementation. This will enable a successful outcome of the implementation.

Day 7, 8, 9 and 10

We had lessons on Public Private Partnerships (PPP). These lessons culminated in an exam which was taken on the last day. We learned that the definition of PPP has in itself been a cause for contention globally. We learned that PPP is often mistaken for privatization. Most importantly we learned that for there to be PPP there are several elements which must exist namely a long term agreement between a public party and a private party, for the development

(or significant upgrade or renovation) and management of a public asset (including potentially the management of a related public service), the private party bears significant management responsibility and risks through the life of the contract, provides a significant portion of the finance (private finance PPPs) and remuneration is significantly linked to performance and, or, the demand for, or use of the asset or service, so as to align the interests of both parties

We learned when PPPs should and should not be used concentrating on projects that require PPPs. Typical pitfalls and caveats to consider when using PPPs were flagged out and it was emphasized the need for sound selection, preparation and transparent tender processes matter. It was also pointed out that some Emerging Markets and Developing Economies or EMDEs, especially in the Least Developed Countries or LDCs, may find difficulties in developing PPPs. The lessons also focused on how PPPs are financed and the various players involved

4.0 BENEFITS OF THE TRAINING

- The training was so comprehensive and intensive covering all the critical issues in utility regulation, leadership as well as the World Bank Public Private Partnerships (PPP) training and guidelines. The participants were coached and prepared for the PPP certification exam which was administered on the last day of the training.
- The training involved lectures, group exercises on utility regulation aspects as well as a site visit to a nearby Gainesville Regional Power Utility coal fired power station which enabled the participants to appreciate the standards our utilities should aspire to.
- The training was an eye opener and helped us to appreciate power sector market reforms, types of utility regulation, tariffs design and review, managing the political environment, regulation ethics among other aspects.
- The training went a long way in equipping us with all the necessary skills and tools that we need to be competent and knowledgeable energy regulator professionals
- We also learnt a lot from the utility regulation case studies that were presented during the course training for example, Costa Rica, St Lucia, Jamaica, Porto Rico, Grenada and Uganda respectively
- We also benefited a lot from sharing experiences with other fellow participants who were coming from 34 different countries across the world. The mix of participants drawn largely from regulators, utility operators, ministries and agencies for Energy, Water and Telecoms sectors helped to make the interactions very enlightening.

- We understood why countries are reforming their utility sectors and the basic approaches
- We appreciated how competition affects tariff rebalancing, cross-subsidization, and funding of social obligations
- We learned how to conduct price reviews and how to determine the cost of capital and assess the projects, particularly in countries with scarce or unreliable cost information
- We internalized what incentive rules promote competition, efficiency, and innovation and what the effective regulatory strategies are for monitoring performance and enforcing compliance
- We appreciated where competitive forces can be introduced or strengthened
- What the key considerations are in rate design and for the establishment and functioning of regulatory institutions
- We appreciated how the regulatory process can promote legitimacy and credibility of regulatory decisions

5.0 RECOMMENDATIONS

The following are recommendations:

- i. We would recommend the duration of the course to be increased by a week to ensure better coverage of the topics without having to rush. RAERESA could consider sponsoring participants for a longer version of the programme
- ii. We would recommend other regulator professionals who have never been at PURC to attend the training as it is beneficial and has the potential to enhance their regulatory skills.
- iii. There should be an improvement, if possible, in the dispensation of the DSA as some of the participants did not receive their DSA in time because the transfers have been done too late. These facts can disrupt the participants' stay and could affect the aims of the training.
- iv. We recommend that the report writing should be allowed after the course is completed because the programme takes up most of the day and it is difficult to meet and compile. everything went well, and we thank you for your support.
- v. We recommend that materials from such trainings be incorporated in the annual regional grouping meetings as it could help with information dissemination on a wider

scale or alternatively invite the PURC lecturers to come present on most of these topics within the region

- vi. We would recommend that all regulators when implementing policies and laws they should analyse which stakeholder is their ally, opposer, troublemaker and possible casualty of the implementation. This will enable a successful outcome of the implementation.
- vii. We recommend each regulator to take time to learn from similarly structured regulatory systems because this will enable the regulators to identify their shortfalls and strengths
- viii. We recommend that regulators should encourage incoming IPPs to consider setting up PPP frameworks as this helps the risk to be sustained mostly by the private party rather than the public party

6 CONCLUSION

The program was very productive for us, whereby the mix of coursework by great lecturers, case study specific lectures, variation from emerging and developed countries, created a good blend of study materials for us to learn from. We learned that any form of regulation represents a precarious balancing act and that though many different tools available, but none are the 'best'. That one must consider the market environment and the goals of regulation. We had the questions we needed to be helped with involving our industry successfully addressed. Furthermore, we can now identify many of the processes that need to be created and done, where we can use our limited resources with efficiency as regulators.

We cannot overlook the importance of such training for countries like ours, we therefore thank you for giving us the chance to participate in this 45th PURC training as it has enabled us to boost our skills, our experiences and our know-how.

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