

Managing a Regulatory Commission

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Put yourself in shoes of newly appointed chairman of a regulatory commission

Some important subjects

- Selection of Regulators
- Participation of Stakeholders
- Decision-Making Structure
- Internal Management Structure
- Human Resources Management
- Regulatory Management Process
- Public relations
- Complaint handling

Sound management must start with right selection of Regulators (1)

- Person of known integrity and competence
- Training/experience in economics, finance, law, public administration, engineering
- Need personal qualities to:
 - Exercise independent judgment
 - Resist pressure (from government, powerful utilities)
 - Resist temptation/inducements
- Technical experience in the utility industry can be helpful but not essential

Selection of Regulators (2)

- **Technical expertise can be obtained through staff/consultants**
- **Representatives of the stakeholders should not be appointed as regulators**
- **Disqualification:**
 - **Financial interest in regulated firms (e.g. share holding)**
 - **Conflict of interest in any manner**

Participation of Stakeholders Regulatory Process

- Not a good idea to appoint representatives of the stakeholders as regulators
- Open regulatory process
- All stakeholders must freely present their views
- Appoint or have access to consultative or advisory boards
- Special consumer councils as advocacy groups are useful

Regulatory Decision-Making Structure is Important (1)

- **One regulator rather than a commission (UK; Bolivia) of several members has following characteristics:**
 - **speed of decision making**
 - **accountability of decisions**
 - **resource demand**
 - **predictability of decisions**

Regulatory Decision-Making Structure (2)

- **Commission has following characteristics**
 - **reduced vulnerability to improper preoccupations (personal conflict of interest)**
 - **reduced vulnerability to improper influences**
 - **potential to reflect multiple perspectives**
 - **potential to stagger terms to enhance stability**

Regulatory Decision-Making Structure (3)

- **Role of regulator as a manager is also dependent on whether he is charged with regulation of**
 - **one industry (electricity)**
 - **one sector (energy)**
 - **multiple sectors (electricity, water, gas, telecommunications) (Common in State PUC in USA)**
- **There will be trade off among economy of scale, degree of industry focus, type of staff**

Internal Management Structure

- (1) In case of one regulator, all operating departments report to him/her
- (2) In case of a Commission, members of the commission can be heads of departments
 - legal
 - finance/economics
 - technical
 - management services
- (3) Members of the Commission can be separated from the operating departments by an executive director who manages all staff
- (4) Internal organization will have to consider degree of responsibility - one industry, one sector or multiple sectors

Human Resources (1)

- **Selection procedure for commissioners must create confidence in the system-otherwise the stakeholders will conclude that reform has not occurred**
- **skills in economics, finance, law and engineering**
- **Integrity to resist improper pressures**
- **Market based salaries-exemption from restrictive civil service compensation rules**

Human resource management issues are same as as those in any other modern organization.

- **Assessing current state of the organization**
- **Planning and preparing for the organizational development and change**
- **Assessing, establishing, modifying organization culture (e.g. moving from government department attitudes to independent regulatory agency attitude)**
- **Assistance of a competent consultant may be necessary**

System for Human resource management

- Work force planning
- Succession planning
- Increasing staff utilization
- Interviewing for staff selection/
promotion

Performance Evaluation

- Establishing meaningful process (different from normal government process– using elements of a successful commercial organization approach)
- Review sessions at different levels
- Solving performance problems
- Performance based compensation
- Termination (case of a Ph.D in energy economics)

Pay and benefits

- Total compensation based on
 - Job analysis
 - Employee classification
 - Salary budget management/ allocation
 - Incentives

In developing countries

1. Compensation package must include

Cash

Housing

Car for personal use

Gasoline/petrol for the car

Telephone for personal use

Education allowance for children

Subsidized medical care including medicines

2. Staff often forget cost of non-cash benefits

3. Better to provide cash

NEPRA experience- old and new

- **Compensation for Chairman (Salary and benefits)**
- **Compensation for Members**
(Salary \$500, rent \$200, car, telephone, servants)
(Salary \$1800, rent \$800, car, telephone, servants)
- **Compensation for staff**
 - **experts from open market (\$3000/month)**
 - **Seconded experts from government**
 - **Support staff**

Staff resources

- **Staff levels**

- **understaffing prevents attention to required functions**
- **overstaffing can dilute focus**
- **keep number of the permanent staff as low as possible**
- **rely on expert consultants for specialized and temporary tasks**

Washington DC Public Service Commission

- Office of Chairman 6
- Office of Commissioner (1) 3
- Office of commissioner (2) 3
- Office of General Council 15
- Office of Technical & regulatory Analysis 11
- Office of Commission Secretary 10
- Office of consumer Services 9
- Office of Chief Financial Officer 3
- Total 60

Contract out/outsource

- All seasonal work
- detailed analytical work
- compliance audit of regulated firms

Quality is the key to sound management

- Quality of the commissioners and the staff is critical
- Must be able to deal with and “face” senior management of utilities and senior government officials
- High quality must be maintained at all times

Regulatory Management Process (1)

- Educate all staff about functions/role of the Regulator
- Provide adequate professional training to all staff
- Local training through special courses and seminars
- Overseas training (short term courses, degree courses, secondment to a regulatory commission)

Regulatory Management Process (2)

- Briefing colleagues on return from overseas training
- Establish good library with all relevant books and journals
- Make sure that training has been effective

Regulatory Management Process (3)

- Internet access for all commissioners and senior staff is important
- Contact with other regulators around the world can be helpful
- Join regulatory networks such as “International Utility Regulation Mailing List”
INFRAREG@dale.cba.ufl.edu managed by the University of Florida
- Look at websites such as www.sari-energy.org managed by South Asia Regional Initiative for Energy
- *In short, staff must stay at the cutting edge of industry developments*

Regulatory Management Process (4)

Prepare staff for conducting Public Hearings

- **Appoint case officers**
 - **Appoint suitable multi-disciplinary supporting team**
 - **Sensitize staff about providing fair opportunity to all stakeholders to present their views**
 - **publicizing the case**
 - **inviting views**
 - **proper seating arrangements during public hearings (court room setting)**
 - **equal opportunity to all stakeholders to present their views**
 - **opportunity for cross-examination**
- (WAPDA hearing result)**

Regulatory Management Process (5)

- **File/protect confidential documentation**
- **Publish the decisions and detailed reasons for making them**
- **Provide opportunity to challenge the decision through an appeals process**
 - **High court**
 - **Anti-trust body**
 - **Can question if correct process was followed**
 - **Cannot questions merits of the decision**

Public relations in developing country- own experience

- **Lobbying the government**
 - **Head of government for overall support**
 - **Parliamentary leaders (for passing relevant legislation)**
 - **Minister for Power (for overall support)**
 - **Minister of Finance (for budget approval and release of approved funds)**
 - **Establishment Division (for personnel related matters including appointment, pay scales)**

Public relations in developing country- own experience (2)

- Lobbying the donors
 - for support within the government
(Please emphasize the importance of-----
to them)
 - Grant or loan funding for development
and operational purposes
 - Funding for staff training overseas and
at home

Public relations in developing country- own experience (3)

- Meeting with regulated firms (to acquaint them with regulatory role, getting information)
- Meeting with consumers (in informal settings e.g organized by utilities)
- Meeting with media (to get free publicity on TV, radio and newspapers to tell every one about the new regulatory agency)

Complaint handling (1)

Personal complaints must be handled directly with the utility

Regulator must keep track of the broad nature of complaints through

- **receipt of copies of individual complaints**
- **consumer advisory councils**
- **other civic groups**

Complaint handling (2)

Typical nature of complaints

- inaccurate meter reading
- inaccurate rate application
- late delivery of bills
- excessive power outage/load shedding
- other

Regulator can address complaints through

- Setting appropriate standards
- allocating part of tariff increase for specific purpose
(use of a part of tariff increase for meter replacement in Jamaica)

Remember that:

- 1. One of the regulatory aims is to increase sector efficiency.*
- 2. Regulator must set an example.*
- 3. Regulatory agency must be managed as a model of efficiency for the regulated firms.*
- 4. Common sense and knowledge of rules of the business, are the best guides.*