



**NARUC**

*Serving the consumer interest  
by seeking to improve the  
quality and effectiveness  
of public utility regulation  
in America.*

# *Rate Regulation—Policy Issues*

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# What is NARUC?

- The National Association of Regulatory Utility Commissioners (NARUC) is a quasi-governmental non-profit organization founded in 1889.
- Our members include the state commissions (government agencies) engaged in the regulation of American utilities and carriers in the 50+ states & territories. The Federal Energy Regulatory Commission and the Federal Communications Commission are also members. NARUC has associate members in over 20 other countries.
- NARUC member agencies regulate electricity, natural gas, telecommunications, and water utilities.
- We provide forums for the exchange of experience/policy, legal support, lobbying, and other forms of regulatory support.



# Regulation Around the World--Africa

- Electricity, Natural Gas, Water, Telecommunications, and Petroleum.
  - Easier to list the exceptions:
    - Algeria
    - Angola (in the process)
    - Burundi
    - Chad
    - Libya
    - Mozambique (has legislation)
    - Somalia



# Regulation Around the World—East Asia/Australia

- Energy Regulation:
  - Australia
  - Japan (in the process)
  - Indonesia (Oil)
  - New Zealand
  - Philippines
  - South Korea
  - Thailand
  - Vietnam (in the process)



# Regulation Around the World—South Asia

- Energy Regulation is Prevalent:
  - Bangladesh
  - Bhutan
  - India
  - Nepal
  - Pakistan
  - Sri Lanka



# Regulation Around the World—Middle East

- Energy:
  - Israel
  - Jordan
  - Saudi Arabia (in the process)



# Regulation Around the World—Europe and FSU

- Easier to list the exceptions:
  - Azerbaijan (legislation pending)
  - Belarus
  - Tajikistan
  - Turkmenistan
  - Uzbekistan



# Regulation Around the World—North and South America

- North America—Canada, Mexico, and USA
- Caribbean—Almost All Countries
- Latin America:
  - Belize
  - Costa Rica
  - Guatemala
  - Panama
  - Nicaragua
- South America:
  - Brazil
  - Chile
  - Guyana
  - Surinam



# The Importance of Regulation

- Impartially decide rates, quality of service, consumer protection, etc.
- Independent/autonomous–yet accountable.
- Three primary stakeholders: utilities, consumers, and government.
- With liberalization the role of the regulator has in fact increased.



# The Rate Making Process

- Two pronged approach—first prong
  - Economic rationalization of rates
    - Gather data—understand what you are working with.
    - Creating rates based on hard figures and Economic Principles.
    - Try to eliminate politics from the rate making process.
    - Do away with paper exchanges or barter.
    - Avoid cross-subsidies.
    - If rates need to be raised be proactive—avoid shock—but have a target for covering costs.



## The Rate Making Process (II)

- Second prong—regulator and regulated need to work together
  - Efficiency
    - Reducing commercial losses—tough choices
      - Boost (secure) collections
      - Disconnect illegal connections
      - Shut off for non-payment
    - Reducing technical losses
      - Be realistic but have a plan for improvement—all systems suffer technical losses but there is usually room for improvement.



# The Rate Making Process— Case Study

- Ghana Public Utilities Regulatory Commission
  - Commercial losses—27% (state owned distribution company)
  - Tariff allows for 20% losses.
  - Penalized for losses above 20% (disallowed).
  - Rewarded for less than 20% losses—money for upgrading the system.
  - Gradual plan for improving efficiency.



# The Rate Making Process—the Economics

- Covering costs
  - Fuel costs
    - Have a mechanism for dealing with global cost fluctuations.
  - Maintenance
    - At the very least, keep the equipment running.
  - Inflation
    - Similar to fuel costs—have a mechanism for dealing with currency fluctuations.
  - Improvements
    - Have a plan to upgrade/modernize the current system—build it into the tariff.
  - Expansion
    - Have a plan for expanding access to energy—build it into the tariff (and contracts).



## The Opportunity to Make a Fair Rate of Return

- Under a regulatory regime companies are not guaranteed to make a profit, but they should have the opportunity (simulate market forces—award efficiency and penalize waste).
- Regulators should create incentives for stellar performance and only use penalties as a last resort.



## Fair Rate of Return—Art or Science

- Domestic Capital.
  - Sometimes stronger than assumed.
  - May be willing to accept political risk more willingly than international investors.
  - Usually limited resources, both financial and technical.
  - Greater understanding of conditions and operating environment.
- Global Capital.
  - Greater resources and technical expertise.
  - More effective at bringing about change and improvements.
  - Political risk.
  - Regulatory risk.
  - Unfavorable terms.



# Dangers of Inaction

- Downward spiral—more and more outages and decreasing quality.
- High costs of attracting financial resources.
  - Undervalued assets.
  - Political/regulatory risk—higher rate of return.
- Stagnant economy.



# Political Realities

- Regulators and utilities do not operate in a political vacuum.
  - Be realistic but act.
  - Hold hearings—be inclusive in the process.
  - Travel outside the Capital.
  - Sensitize consumers and government officials.
  - Open channels of communication with government, utilities, and consumer groups.
  - Have a plan—be sure to act though.



# Social/ Economic Realities

- The hard truth.
  - The economy, energy, and poverty are interrelated.
  - Energy systems run on money—has to come from somewhere.
  - Hold hearings—sensitize the public—have to take a proactive approach.
  - Have a gradual plan—be transparent—combat corruption.



# Questions

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# Questions

1. What is your vision for Bangladesh's energy sector?
2. What are the primary challenges?
3. Possible solutions?



# Contact Information

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