

PAKISTAN REGULATORY EXECUTIVES REVIEW BEST PRACTICES IN RATE MAKING & REGULATORY OPERATIONS

EXECUTIVE EXCHANGE WITH THE PUBLIC UTILITIES COMMISSION OF OHIO, AEP OHIO, KENTUCKY PUBLIC SERVICE COMMISSION AND KENTUCKY UTILITIES

SEPTEMBER 2013 - COLUMBUS, OH AND FRANKFORT, KY - Supported by the U.S. Agency for International Development (USAID), 11 senior officials from five of Pakistan's electricity distribution utilities and Pakistan's national electricity regulator participated in an executive exchange with their U.S. counterparts. Delegates reviewed best practices in regulatory processes and organization. The exchange, conducted by the U.S. Energy Association as part of USAID's Power Distribution Program (PDP) in Pakistan, was aimed at improving distribution utility regulation within Pakistan's electricity distribution sector.

USAID's **Power Distribution Program (PDP)** is a five-year project conducted jointly with government-owned electric power distribution companies in Pakistan to improve their performance in the areas of loss-reduction, revenue collection and customer services. Throughout the executive exchange, TNB presented strategies to enhance distribution system engineering and planning to the delegation of executive engineers from Pakistan.



PDP delegates and representatives from AEP Ohio upon completing a tour of AEP Ohio's North East Service Center outside Columbus, OH.

The following U.S. utilities and regulatory commissions participated in this exchange:

- The Public Utilities Commission of Ohio
- American Electric Power Ohio
- Kentucky Public Service Commission
- Kentucky Utilities

EXECUTIVE EXCHANGE HIGHLIGHTS

The Pakistan executives spent five days visiting AEP, PUCO, KYPSC and KU. The primary objectives of this program were to discuss:

- Regulatory organizational structures and processes
- Methods to develop stakeholder support, particularly between the utility and regulator
- Consumer affairs, including complaint management, quality of power and safety
- Mechanisms to foster independence, transparency and quality policymaking
- Processes between federal and state regulatory bodies and utilities
- Rate setting mechanisms
- Incentive programs for efficient, reliable and clean power supply



PDP delegates discuss cost recovery mechanisms with PUCO representatives.

RATE MAKING, DESIGN AND RIDERS

This PDP exchange visit gave PDP delegates a thorough overview of the rate making process from the vantage point of American distribution utilities and their state regulators. Discussions with AEP centered on its rate making and tariff design. Delegates were keenly interested in the role of riders as a component of AEP's tariffs. AEP and most other American utilities file rider applications with their commissions to recover costs that go beyond their normal operating expenses, which are recovered through base rates. Utilities file rider applications to recover costs for such things as fuel fluctuations, social benefits charges and system investments, among other things. Riders are defined by state rules and generally make only small adjustments to a customer's per kWh rate.

Kentucky Utilities discussed in length how they recover their costs and losses through rates. The Pakistan delegation learned that unlike in Pakistan where losses are checked and only allowed up to a certain amount, KU is allowed to fully recover its losses. Line losses are based on a test year and are embedded in the rates and recovered through the fuel adjustment. The delegation was surprised to learn that KU did not have a rate case for over 20 years because the adjustment clauses recovered all of their costs.



PDP delegates tour PUCO's docketing facility, where PUCO registers and catalogues all documents that are submitted to the Commission for consideration in regulatory proceedings. All documents are now being made available online for public reference.

Pakistani delegates were very interested in understanding why a utility would file a rate case versus a rider application. They learned that the rider application process is much less cumbersome than the rate case filing process, which allows for them to be filed more often than rate cases. As such, riders are a more attractive cost recovery mechanism for expenses with volatile costs, such as fuel price fluctuations.

CUSTOMER COMPLAINTS MANAGEMENT

The delegates expressed particular interest in the regulator's responsibilities for managing customer complaints. PUCO representatives explained their procedures and systems for receiving, processing and resolving informal and formal customer complaints. In particular, they stressed the importance of maintaining open lines of communications between the Commission and the utilities that they regulate. As an example, the Commission encourages utilities to notify them of policy changes that could generate customer inquiries. They also request notification on issues that may impact many customers, including planned outages.



Left: PDP delegates inspect spare equipment warehoused at an AEP distribution service center. All items in this warehouse were catalogued through a barcoded electronic tracking system to streamline the process of finding and delivering needed equipment to the field. **Right:** Delegates examine spare distribution poles and asked questions about the lifecycle cost of using wood poles versus concrete or metal.

Pakistani delegates were intrigued to learn that PUCO and KYPSC have their own call centers, which is traditionally thought of as a function for utilities only. PUCO and KYPSC representatives explained that their call centers are an important part of their efforts to understand problems encountered by rate payers, as well as to monitor trends in customer service, reliability and billing with each of their regulated utilities. PUCO also provided delegates with copies of their Consumer’s Bill of Rights, which outlines the rights and responsibilities of consumers, utilities and their regulators to ensure continuous, high-quality service.

The delegation was very interested in how the Kentucky Commission handled disputes and customer tampering and theft. The KYPSC emphasized that as long as the customer pays its bills, the utility must serve it, regardless of whether it complains against or harasses the utility. If a customer tampers with a meter, the utility does not have to give notice before disconnecting it and could press charges for theft or destruction of private property.

PUBLIC AFFAIRS AND MEDIA RELATIONS

As a part of their mission to communicate regulatory and utility information in a timely, accurate and understandable manner, PUCO and KYPSC maintain a proactive public affairs and media relations team. This office is responsible for developing positive relationships with the press, communicating Commission decisions to the public and interacting with relevant Ohio governmental agencies.

PUCO and KYPSC representatives stressed the importance of being seen in the public eye as a trusted and unbiased source of information. Its communications strategy involves several platforms, including news releases, annual reports, letters to the editor, as well as information dissemination through new media technologies such as Twitter and Facebook. Pakistani delegates were very impressed at PUCO and KYPSC’s thoughtful efforts to manage their reputation through proactive communications with the public. Delegates also agreed that public relations and reputation management was a huge issue for them. Some delegates expressed an interest in developing media relations teams within their utilities. Also, delegates from NEPRA remarked at the visibility of PUCO and KYPSC in their respective states, whereas most Pakistanis were unaware of NEPRA’s existence.



Andrew Melnykovych, Director of Communications at the KYPSC, and Allah Nawaz Kahn of PESCO discuss the importance of maintaining open and transparent lines of communications with consumers.

BEST PRACTICES INTRODUCED

Over the course of the program, the PDP delegation was exposed to numerous best practices in regulatory processes and organization:

Rate Making, Design and Riders:

- *Filing rate cases versus riders:* U.S. utilities file rate cases every couple of years in order to limit the administrative burden on their own staff as well as on their regulators. Rate cases are meant to help utilities cover their constant, non-fluctuating costs. To recover other costs that could vary according to fuel prices or other variable costs, U.S. utilities file riders with their Commissions.
- *Docketing:* To ensure transparency in the rate making process, U.S. regulatory commissions maintain a record of all documents that are submitted as evidence for a rate case or regulatory filing. These documents are kept in a publically accessible online database, as well as in hard copy at the regulatory commission.
- *Cost recovery:* U.S. utilities conduct a cost-of-service study before filing a rate case in order to prove their determination for their base rates. They are allowed to recover all costs associated with the generation, transmission and distribution of electricity. This includes costs incurred from losses, which are built into a utility's base rates.

Managing Customer Complaints:

- *Utility/Regulatory Communications:* U.S. utilities and their regulators are in constant communication with one another to ensure efficient regulatory oversight and to best serve consumers. Utilities and regulatory commissions have dedicated personnel for informing their counterpart of policy or procedural changes at their respective organization.
- *Regulatory Call Centers:* Regulatory commissions in the U.S. maintain their own call center to handle consumer complaints. These call centers allow consumers to file unofficial and official complaints against their utility, on which regulators and utilities are required to follow-up. Regulators track trends on types of complaints and share these trends with their utilities to inform them on their strengths and weaknesses.
- *Customer Bill of Rights:* Many regulatory commissions publish a Customer Bill of Rights, which clearly states the rights and responsibilities of consumers, utilities and their regulators to ensure continuous, high-quality service.

Public Affairs and Media Relations:

- *Public Affairs/Media Relations Department:* U.S. utilities and their regulators have departments dedicated to communicating relevant utility and regulatory information to the public. These departments proactively maintain relationships with the media to coordinate timely, accurate and understandable messages to the public on issues pertaining to utilities and or regulatory proceedings.

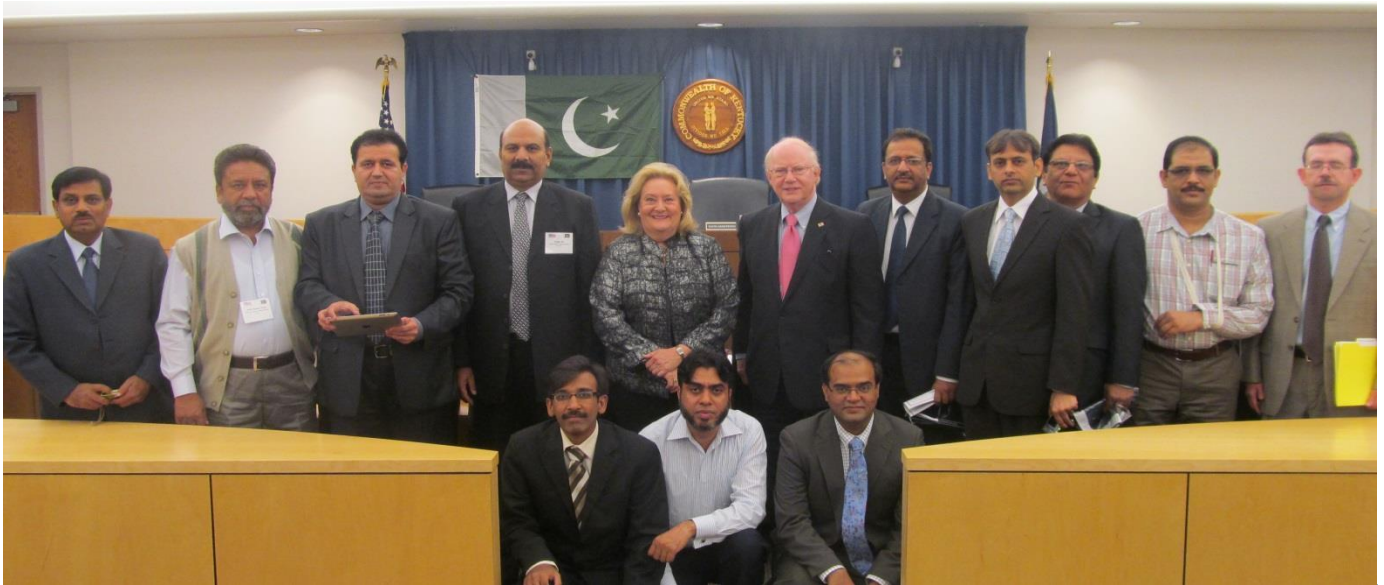
RESULTS

- **Regulatory department at utilities:** PDP delegates categorically recognized the value of forming a dedicated regulatory affairs department at their utilities.
- **Importance of transparency:** PDP delegates remarked at the extent of regulator and utility efforts to communicate with each other and with the public in a transparent fashion. They commended the availability of documents submitted to regulatory filings and were impressed to learn about stakeholder involvement in regulatory proceedings. They concluded that this transparency helped utilities and regulators to maintain a positive public image.
- **Visibility of the regulator:** PDP delegates were surprised to learn that average Americans knew that their utilities were regulated by a public utilities commission, whereas very few people know that NEBRA exists. They recognized that both NEBRA and Pakistan's distribution utilities would benefit from having a visible, publically-known regulator.
- **Riders:** PDP delegates acknowledged the benefit of using riders to recover variable costs rather than filing rate cases every few months to cover volatile costs such as fuel.
- **Regulatory call centers:** PDP delegates were impressed to visit the call centers at the Ohio and Kentucky Commissions and thought they would benefit from being able to directly handle consumer complaints.

- **Regulatory organization:** PDP delegates received copies of the organizational charts of AEP, KU, PUCO and KYPSC. They learned how regulatory affairs departments are organized and how they fit within the hierarchy of each institution. Delegates also learned how regulators and utilities communicate with one another on a day-to-day basis, as well as how they communicate during official proceedings.
- **Regulator/Utility relationships:** Comprised of representatives from NEPRA and Pakistan’s distribution utilities, the delegation had an opportunity to hear from their counterparts about operations within their peer utilities and regulators. Most of the delegates from Pakistan’s DISCOs and NEPRA had never met each other. Delegates fulfilled the exchange program’s mission of improving relations between utility and regulator.

UTILITY EXCHANGE PROGRAM PARTICIPANTS

1. Allah Nawaz Khan, Deputy Commercial Manager HQ, Peshawar Electric Supply Company (PESCO)
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3. Waheed Akram, Manager CS & M, Islamabad Electric Power Company (IESCO)
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7. Rana Muhammad Saleem, Deputy Manager Tariff, Faisalabad Electric Supply Company (FESCO)
8. Abdul Ghani Shaikh, Executive Engineer (T&G), Sukkur Electric Power Company (SEPCO)
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10. Sajid Akram, Deputy Director Tariff, National Electric Power Regulatory Authority (NEPRA)
11. Muhammad Yousaf, Deputy Director, National Electric Power Regulatory Authority (NEPRA)



Commissioner Linda Breathitt and Chairman David Armstrong (center) and Vice Chairman James Gardner of the KYPSC (far right) discuss the balancing act required of regulators with the PDP delegation.

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