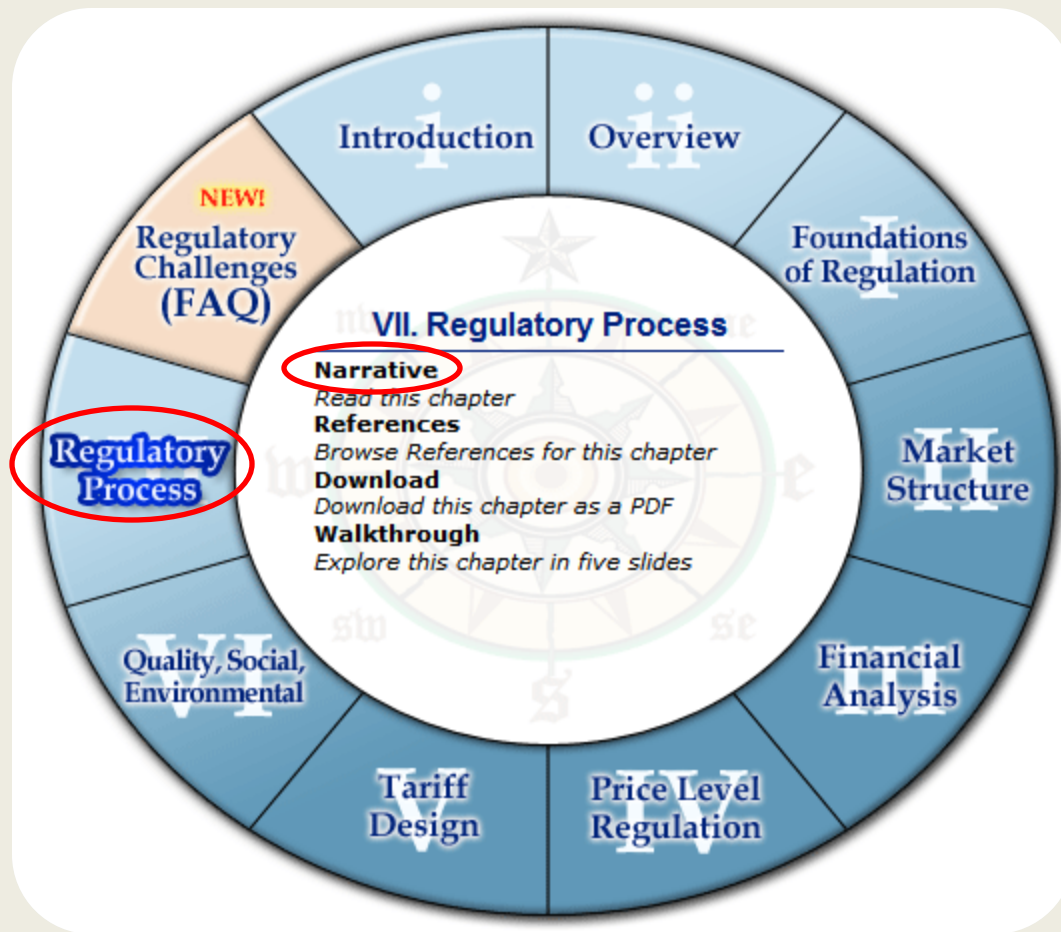


Regulatory Process

The Body of Knowledge on Infrastructure Regulation is divided into seven main sections. Chapter VII is dedicated to issues related to the regulatory process.



An important information asymmetry which can affect the regulator's effectiveness – one in which the regulator knows more about its processes and decisions than the operator, the public, and other stakeholders is examined in this chapter. This chapter addresses these issues by first examining institutional design issues, such as the role of the regulator. Then reviewing regulatory decisions, and discussing ethics and stakeholder relations.

How This Section Is Structured

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Proper institutional design is important for providing confidence to investors and customers that the regulatory process is credible, legitimate, and predictable. Regulation is credible if stakeholders can trust that commitments will be kept. Legitimacy means that the regulator is not captured by the operator or other special interests. Regulation is predictable if regulatory decisions are consistent over time so that stakeholders are able to anticipate how the regulator will resolve issues. This section examines the main elements of institutional design, issues in defining a transparent regulatory process and issues in defining a utility regulator's role.

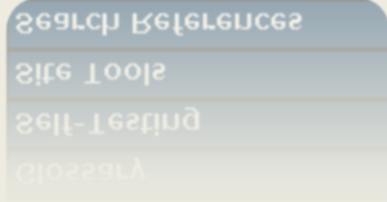
The next section describes reviews and appeals of regulatory decisions. The specific mechanisms and procedures for developing, reviewing and appealing regulatory rules and decisions vary from system to system because they depend on historical and institutional peculiarities, which are often specific for each country. However, general principles apply, including inclusiveness, transparency, and simple methods for citizen participation. Levels of appeals and methods for resolving disputes are described in this section.

The regulator often emphasizes ethics to ensure that decisions are impersonal and impartial, and guided by values and reasoning without conflict of interest. This section examines ethical challenges and provides ideas for addressing them.

The next section examines stakeholder relations. To ensure that the independent agency regulates under the law to serve the collective interests of the stakeholders rather than the interest of one or a small group of stakeholders, independent agencies should have arm's-length relationships with regulated firms, consumers, other stakeholders, and politicians. This section provides examples of how to ensure this, and how to, among other things, ensure good relations with stakeholders.

Overall Conclusions

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The regulatory process is the means by which the public regulates the government and the regulator, and by which the government regulates the regulator. By participating in and observing the regulatory process, constraining regulatory discretion through laws and appeals, and insisting on the development of and enforcement of codes of conduct, the public seeks to ensure that when the government addresses asymmetries between itself and the operator, that asymmetries between the public's knowledge and objectives and the government's knowledge and objectives do not frustrate the development of effective and efficient utility services.

References

The principal resource featured in the BoKIR is the list of (and access to) references that is provided under each section. The literature includes decisions and publications by regulatory agencies and other governmental bodies; policy advisories by think tanks, consultants, donor agencies, etc.; and research by academics, consultants, and other experts.

In the Regulatory Process section, references are organized under the following categories:

- Institutional design issues
 - Definitions of regulatory independence and institutional mechanisms to promote this (appointments, funding etc.)
 - Agency responsibilities (sectoral coverage, tier of government, functions, etc.)
 - Mechanisms for ensuring accountability of regulatory decisions (due process, record keeping, content of written decisions, etc.)
 - Structuring, staffing, funding requirements
- Development, review and appeal of regulatory rules and decisions
 - Mechanisms for ensuring effective decision-making
 - Choice of regulatory instrument
 - Role of government policy arm, investors, consumers, and other stakeholders in regulatory decision-making
 - Appeals of Regulatory Decisions: Legal mechanisms and internal procedures
 - Judicial review of regulatory agencies, differences between appeal and review processes, and developing and implementing processes to reduce likelihood of review and appeal
 - Alternative dispute resolution procedures
- Ethics
 - Main principles
 - Conflicts of interest
 - Developing and implementing a code of ethics
- Stakeholder relations
 - Managing relations between the Government, investors, consumers, and other interest groups
 - Role of advisory bodies
 - Handling of consumer grievances and relations with consumer representative bodies
 - Institutional strategies to solicit stakeholders' input
 - Public communication strategies
 - Public hearings
 - Negotiation techniques and strategies

Further divided into:

- Core References
- Sectoral References
- Other References

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Other Resources

Self Testing: Test your command of the BoKIR content for each section. Answers are provided with an explanation and with references for further study.

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Which of the following is **false**?

- A critical element of the regulatory process is that regulators should clearly reveal the thought process by which they arrived at their decision.
- Regulatory appeals should be based on whether the decision was correct and not on the fairness of the process.
- Regulatory transparency requires that the public have access to the evidence that was presented to the decision makers.
- Accountability requires transparency in the regulatory agency's decision-making process, and clear, simple procedural rules.

Glossary: Keywords throughout the text are hyperlinked to a glossary for complete definitions (also available in other languages).

Institution: The term can take on a number of meanings. It can be an organization which is in the business of holding *assets* (such as *banks*, *insurance* companies, and investment companies). It can also apply to traditions or procedures, as in those associated with a regulatory commission. Also, see *institutional factors*.