

1st Annual Meeting of CAREC



Role and Mandate of the Electricity Regulator

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What is ERRA

- Voluntary, not-for-profit organization of independent energy regulators of CEE and CIS countries
- Objectives: to improve national energy regulation; to foster development; to improve cooperation; to promote exchange of information, research and training
- Currently has 23 Full and 5 Associate Members
- Technical Work: Licensing/Competition and Tariff/Pricing Committees, EU Integration, Monitoring/Benchmarking and Legal Working Group, Topical Workshops

What is ERRA – cont'd

Training activities:

- Summer Course for junior and new regulatory staff
- Introductory Course for new chairmen, presidents and commissioners
- Training modules on Monitoring, Pricing, Legal, Public Participation, and Markets
- E-Learning
- Training Course for Utility Representatives

What is ERRA – cont'd

ERRA Investment Conference:

Unique chance for market participants to meet face-to-face with energy regulators

Other activities:

- Online Tariff Database of ERRA Members
- Peer reviews
- Bilateral Exchange Programs

Website: www.erranet.org

Regulation of energy markets



- until 1990 State was the owner and regulator of energy sector in almost all countries
- independent energy regulation existed in the U.S. and other countries
- liberalization and privatization of the energy sector caused a need for an independent regulation
- in Europe, the reform started with the implementation of Thatcher's liberalization and privatization program in the U.K.
- OFFER and OFGAS were first independent energy regulatory institutions in Europe

Development of regulation in the CEE countries

- the other important driving force to create independent regulatory agencies for the CEE countries was a goal to join EU
- EU Electricity and Gas Directives setting the legal background for the liberalization were changed to national legislation of the EU Accession countries
- until 2001 independent energy regulatory agencies were established in all the CEE countries

Need for an independent regulator

- to protect investors from unacceptable risks
- to protect consumers from the monopoly power abuse
- to provide all market players with clear, transparent, and stable rules of the game

Main requirements for a new regulator

- independence
- transparency
- accountability

What is independence?

- outside ministerial structure
- does not require approval for
 - *changing tariffs*
 - *granting licenses*
 - *settling disputes*
- clear separation of roles

Characteristics of independence

- appointment of Commissioners
 - *staggered terms*
 - *quality criteria*
 - *who makes appointment*
- exemption from civil service and government salary rates
- financing the agency/Commission
 - *license fees*
 - *budget approval*
- removal from office – for cause only

Accountability

- decisions are taken after open discussions
- all relevant parties are involved
- decisions and methodologies justified by the regulator
- generally, clear “rules of of the game”

Characteristics of accountability

- public participation and transparency
- annual report and audit
- appeal of decisions to courts only
- budget review
- code of ethics
- removal from office – for cause only

Transparency

- regulators often under suspicion – especially in transitional economies
- regulators first act, often, is to increase prices to cover costs
- regulators should convince the public that increases come with elimination of subsidies and cross-subsidies
- all processes should be very transparent:
 - *methodologies widely and openly discussed*
 - *decisions taken after consulting all interested parties involved*
 - *meetings are open to general public, etc.*

Extent of regulatory powers

- monitor
- advise/recommend
- agree
- approve
- set/issue directions
- enforce compliance
- impose sanctions

Common roles of the regulators

- issue, suspend, amend, and revoke licenses
- monitor compliance with license requirements
- approve pricing methodologies and set prices
- settle disputes among market players
- impose penalties for non-compliance, etc.

What is left for the Ministry?

- sector planning and policy, including its restructuring
- privatization
- development of a legal framework
- approval of investments important for the security of the state
- support to R&D

EU energy regulators

- most are independent agencies headed by a commission or a director
- some of the regulators are “sections” of a government ministry or agency (Netherlands, Estonia, most of Nordic countries)
- only some regulators (France, most of the new MS) are financed from the state budget
- only in some countries network tariffs are approved not by the regulator (France, Spain, Hungary, Greece)



Thank you for your attention!

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