Regulatory instruments to advance public benefits and sustainable development as power sectors are reformed

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Operationalizing the NEPAD Initiative
African Energy Experts Workshop
Dakar 2-4 June 2003
Sustainable development

Ultimate goal

Economic development

Social equity

Environmental sustainability

Public benefits

Public benefit programmes

R&D

Access

Security of supply / IRP

Renewable Energy

Energy efficiency
Power sector reform elements

- Commercialisation & corporatisation
  - Move to financial viability
  - Management contracts, shareholder agreements
  - Taxes and dividends
- Restructuring to introduce competition
  - Vertical unbundling -> G, T, D separate competitive
  - Horizontal unbundling -> G, G, G… elements from nat. monopoly
- Introduction of private sector
  - Concessions
  - Sale, IPPs
- Electricity trading
  - Seldom
- New policy and regulatory frameworks
  - White (policy) papers, new legislation
  - Independent regulator
  - Conform to one ideal model
Has opportunity been created?

Not always – PBPs can be a casualty

But our research indicates that reform has produced space and occasion for advancement of PBPs. How?

– Fresh legislation creates opportunity to insert commitment to advance public benefits
– Distribution reform creating a viable channel for delivery
– Removal of pricing distortions & better understanding of the true magnitude of c&b -> re-assessment of energy subsidies
– Comprehensive review of role of public sector
– A re-assessment of the basis of regulatory principles
– New space for additional players, innovation, and release of additional sources of finances
How does the bigger picture look?

Promising public benefit programmes

- Regulations
- Good governance, transparency, accountability and participation
- Financing package
- Institutional, organisational structures
- Implementation processes
- Govt policy/legislation
How does the bigger picture look?

- Government policy and legislation
- Regulations
  - Financing arrangements
  - Institutional and organisational structures
- Methods for implementation
On government policy and legislation

- Policies and legislation provide a mandate for role-players and define the public interest
- Little progress will be made without cornerstone policy and legislation
- For effective PBPs, the following is essential:
  - Stated goals and objectives of policy and legislation
  - Policy on private sector participation, role of government and regulation, level of competition, subsidy reform, integrated planning and co-operation
  - Specific PBPs (for example widening access, environmental protection)
On regulation

• One of the most influential areas
• Many countries indicate moves towards market-oriented power sectors that promote private sector participation, as well as innovative partnerships (financing and implementation), nevertheless regulatory frameworks in place
• Performance based regulations are also more prevalent as are competitive bidding processes
• Experience of increased transparency, predictability is varied
• Monitoring and enforcement is essential

Policies, instruments and mechanisms (2)
On financing

- PBPs have hopeless futures without stable financing streams
- Financing is largely dependent on credible government policy
- Common recommendations include:
  - Energy subsidy reform (more targeted)
  - Distribution industry reform (more viable)
  - Encouragement of customer contributions (no matter how small)
  - Dedicating funds to specific programmes
  - Incentivising private sector investment and participation

Policies, instruments and mechanisms (3)
On institutional and organisational mechanisms

• PBPs are as good as institutional and organisational support structures around them
• Re-training needs in key institutions (public, private and NGOs) must be assessed
  – Specific attention must be given to regulatory authorities and dedicated fund managers
Final observations

• Empirically: achievement of public benefits is independent of power sector structure & ownership
  – Examples of both vertically-integrated, publicly-owned utilities and competitive market structures doing equally badly or well in terms of delivery of public benefits – depends on what policies and mechanisms in place

• Economic reform of power sector is important and should be pursued to improve performance

• However, explicit policy and regulatory instruments needed to advance specific public benefits