

# REGULATION OF STATE-OWNED UTILITIES

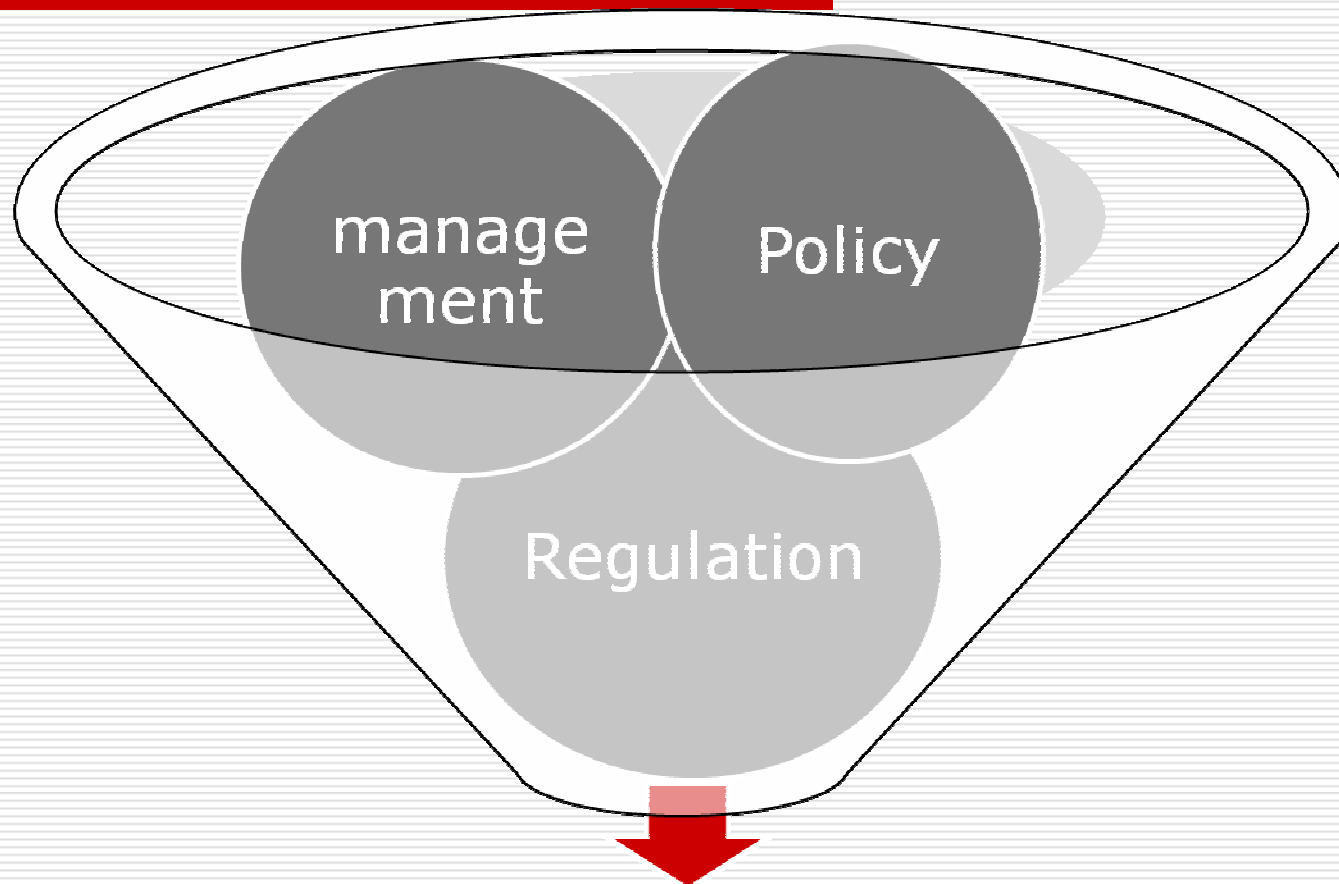
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Prof. Jorry M. Mwenechanya  
Regulation for Practitioners  
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[jorry@zamnet.zm](mailto:jorry@zamnet.zm)

# Regulation by Government:



**Inefficiency, Collapse of Services**

# A balance among national objectives:

**Utility objectives**

Commercialization

Investment

**Social Policies**

Political Stability

Employment

Increased Access



# The Regulatory Problem

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Monopoly operations give rise to several concerns:

- Risk of excessively high prices, low service level and poor quality;
  - Risk of low efficiency in service provision
  - Risk of non-compliance to contractual obligations to consumers or to government (safety, health and environment)
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# Goals of Reform and Regulation:

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Financial viability (sustainability)

Increased efficiency

Private investment – generation capacity, system expansion and reinforcement.

Increase access: sharpen focus on rural electrification

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# Goals of Reform and Regulation:

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## Financial viability

- The right for operators to earn a fair return – must be able to meet financing obligations

## Allocative Efficiency

- Prices must reflect costs (includes fixed costs)

## Productive Efficiency

- Minimise costs by optimal use of resources
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# Independent Regulation

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## Regulatory scope

*Also: policy advice  
industry reforms*

Pricing of electricity – different methodologies

Industry Standards and Safety Requirements

Network access – e.g. transmission and distribution networks

Industry contracts: New investments, IPPs, PPAs, etc

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# Independent Regulation

## Expected benefits

Efficient industry

Better quality of service

Fair prices – balancing conflicting interests

More attractive investment climate

Stability of Regulatory Regime – reduced political influence

Reduced discretion, higher predictability

Transparency and Accountability – stakeholders involved



# Will the independent regulator deliver? That depends on ...

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Governance

- Institutional Structure and Legislation

Industry Structure

- Vertically integrate. or unbundled

Political will

- The conviction of the political leadership

Legal and administrative traditions

- Respect for rule of law, property rights

Maturity of Regulator

- Experience, Expertise and Legitimacy
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# Governance

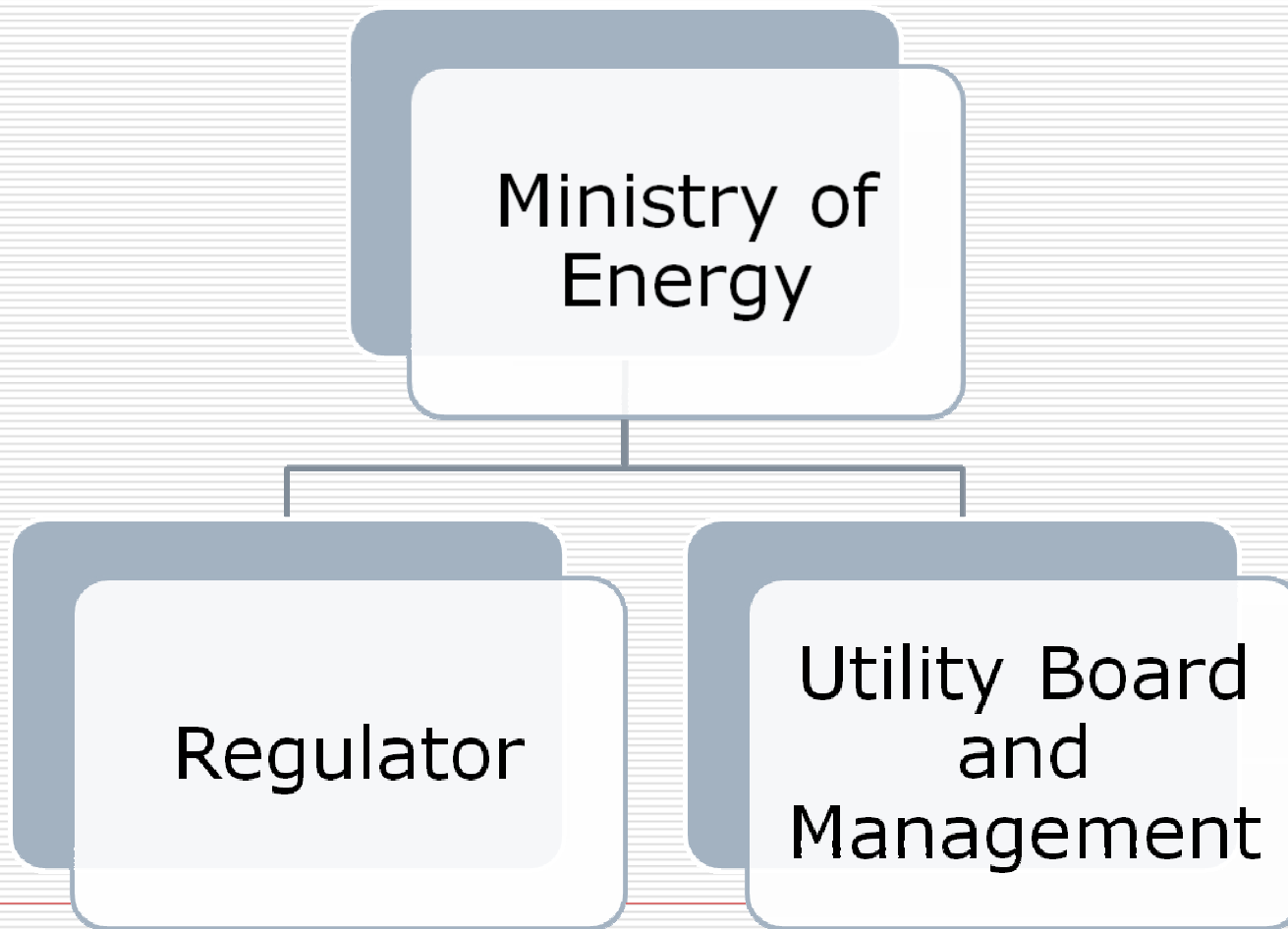
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Assume:

- Utility is corporate entity – operates under company law
  - There is primary legislation for electricity sector
  - There is primary legislation for regulator
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# Governance Model 1

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# Governance Model 1

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Common accountability for utility and Regulator

Government's conflicting roles remain

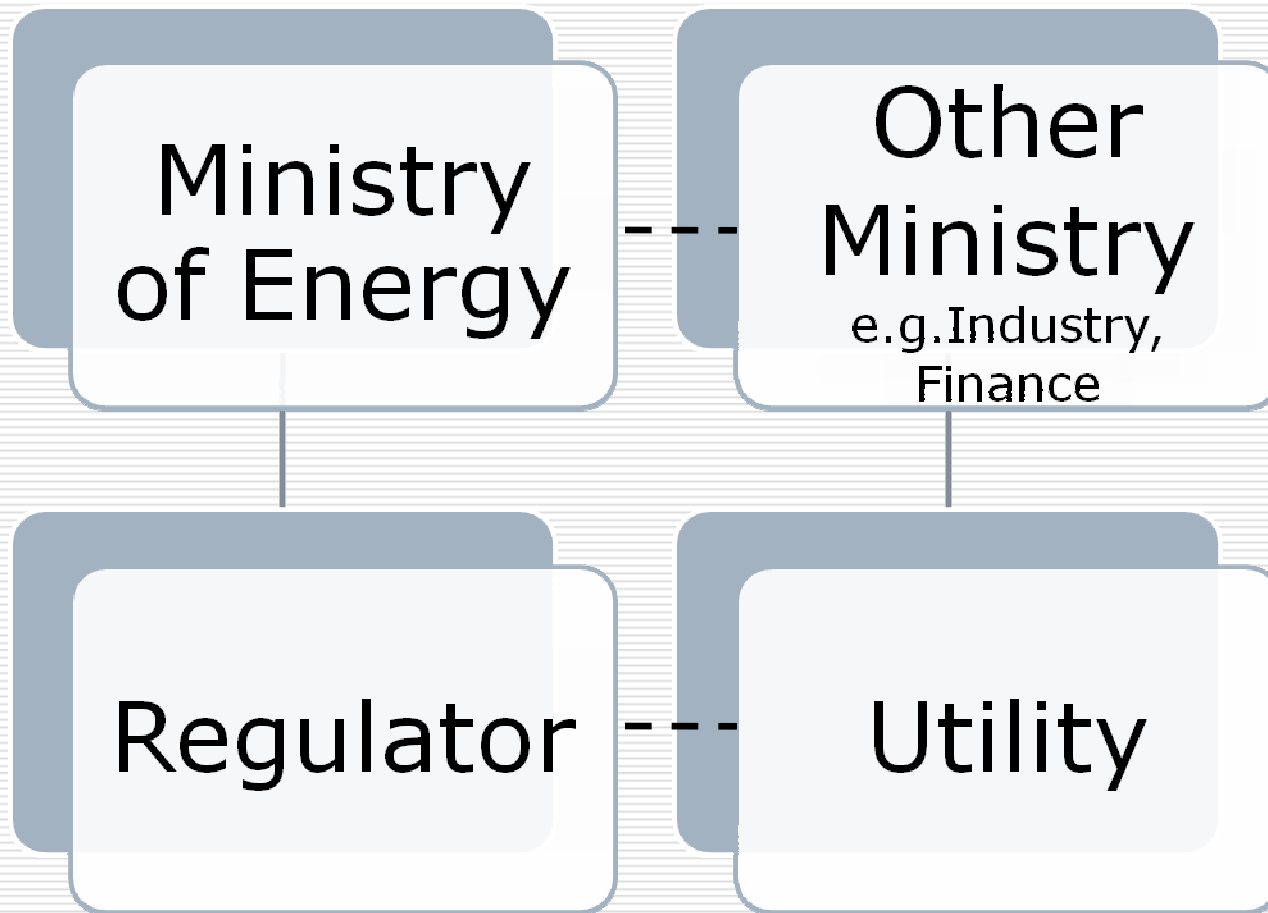
Regulator's enforcement powers may be compromised

Financial and technical performance easier to sacrifice for social/political ends

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# Governance Model 2

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# Governance Model 2

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Separate accountability for regulator and utility

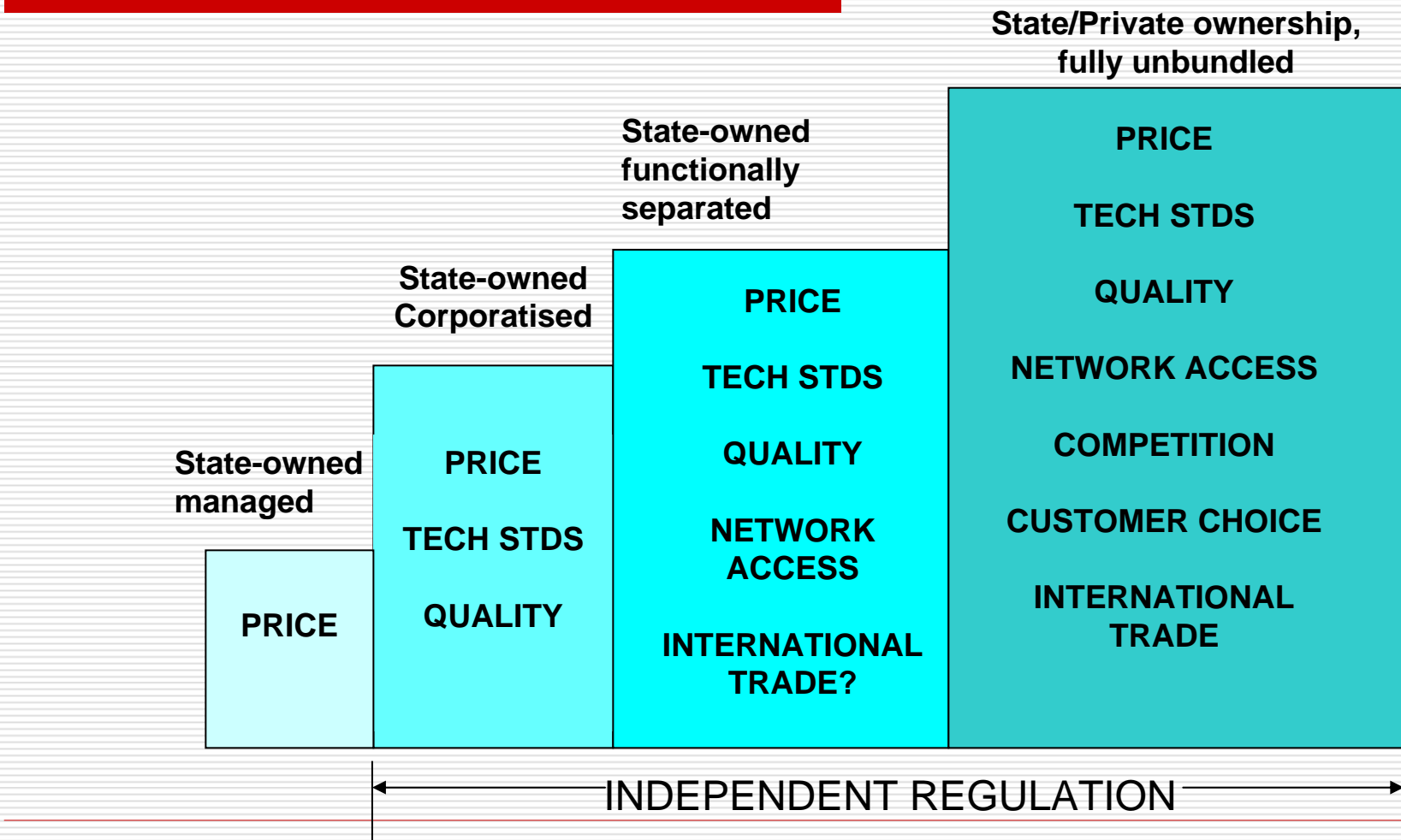
Can reduce conflict of objectives:

Creates more separation between utility and regulator

May force government to clarify its priorities by debate within government

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# Structure and Scope of Regulation



## 4-As

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**Autonomy** from short-term political and other interventions;

**Authority** to establish sound regulatory practices;

**Accountability** to assure transparency and credibility;

**Ability** to carry out the regulatory functions.

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# Autonomy

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Allows the agency the freedom to render decisions based on:

- The law and policy established by the legislature,
- Regulatory and tariff policy established by the agency,
- An impartial reading of the facts of each case, free from prevailing political whims.

Experiences vary widely!

# Authority (regulatory scope)

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Set utility rates and terms of service

Make rules

Issue licenses and certificates

Gather data

Monitor utility activities and enforce rules

Adjudicate disputes

Ensure provision of safe, adequate, and reliable services

Enforces rules and orders.

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# Accountability

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Public participation and transparency

Appeal of decisions to courts

Annual report and audit

Budget review

Code of ethics

Removal from office

# Ability

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Capable, trained staff

Procedures and management

Sound tariff methodologies

Licensing practices

Monitoring and enforcement



End

