

# THE RATIONALE AND OBJECTIVES OF MONITORING PROCESS

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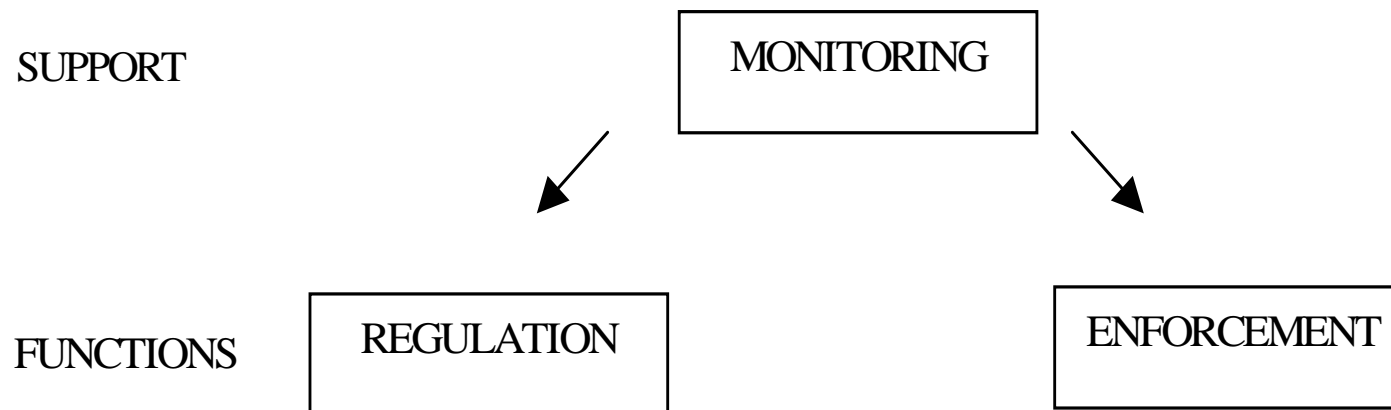
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- Objective of monitoring
- Classification of monitoring activities
- Preconditions for effective monitoring
- Access to relevant data
- Enforcement
- In-house organisation of monitoring
- Enhancing in-house resources for monitoring and enforcement

- **The primary objective of monitoring activities is to provide the necessary information and support for the Regulatory Commission to perform both its **regulatory** and **enforcement** functions.**



- **Monitoring that aims at developing or refining a particular regulation** should be based on a well designed system of regular and longer term data collection and careful analyses. Data
  - From regulated companies
  - Independent sources
- Much of the work can be done in-house

- **Monitoring that aims at the enforcement of existing rules and regulations** might rely much more on
  - on-site inspection
    - pre-announced
    - surprise
  - non-routine casual audits

# CLASSIFICATION OF MONITORING

		Purpose	
		Support for new or amended regulation	Enforcement of existing rules
<b>Subject</b>	Economic performance of licensed companies	Starting price for price cap	Compliance with deposit requirements
	Availability of generation	Fuel reserve regulation	Supply security for winter
	Service quality and consumer satisfaction	Setting SQ standards for DisCos	Compliance with minimum service requirements
	Environmental performance of companies	Preparing CO <sub>2</sub> allocation rules for generators	-
	Electricity markets	Rules to limit dominant company behaviour	Compliance with cross border trade regulations
	Network access	Developing information provision rules for TSO	Detecting discriminative practice towards network users

# PRECONDITIONS FOR EFFECTIVE MONITORING

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- Reliable data (primary, self reported, audited)
- Well focused, informed and independent analysis (in-house or contracted-out)
- Ability and willingness to regularly publish the results (reports, media)
- Effective power to intervene if necessary (changing the rules, detect and punish misbehaviour)
- Established institution



- The major precondition for successful monitoring
- Setting and implementing rules on information provision is a **major battlefield** between the ERC and the regulated companies

WHY?

- Highest level of regulation (e.g. the relevant Energy Act) should provide the ERC powers to require company data
- ERC has to be allowed to adjust its actual data need in a flexible manner
- In case of lack of powers on the side of the ERC to collect relevant business data it is advised to let the legislators to know that it will not be able to fulfil its functions

- Most common argument
- Depends much on local regulation
- Regulated companies' activities impact system security and regulated tariffs: BC can not be maintained
- International experience shows that transparency of data does not harm business operations
- Better to test powers in a litigation
- License only publicly traded companies

- Justification to request primary data:
  - allows the company to arrange internally for monitoring and collecting the information requested
  - allows the company itself to react to regulatory expectations more efficiently
  - room for manipulating the submitted data is more limited
  - primary data allows the ERC to carry out independent analysis, even retrospective
  - allows for benchmarking

- In case of lacking IT or human resources
  - require the regulated company to store historic data at a particular place in a pre-defined format
  - require the regulated company to publish the data on its website
  - without access to primary data, the regulator is left in its monitoring and enforcement activities with the self-reports of the companies

- ERCs often request regulated companies to submit regular reports on their technical and financial performance
- Self-reporting gives freedom for the licensee to represent itself and to send messages to the regulator
- Problems:
  - secondary, aggregated data
  - clear incentive for the company to represent data and analysis that will not imply regulatory sanctions

- Information overload
  - amount, format might prevent understanding and analyses
  - avoid vaguely defined format or content!
- Regulatory audits and capture
  - Contracting-out auditing might be useful, but
    - select the contractor by a non-discriminatory, open and transparent procedure
    - check for the potential conflict of interest
    - potential for capture is increasing with the money at stake

- A major function of the ERC is to ensure compliance with the prevailing rules and regulations
- Non-compliance can be detected, but **not ensured** by monitoring
- Compliance can be achieved by
  - voluntary agreements between the regulator and the regulated firms
    - „contracts”, high-risk and long-term issues
  - enforcement

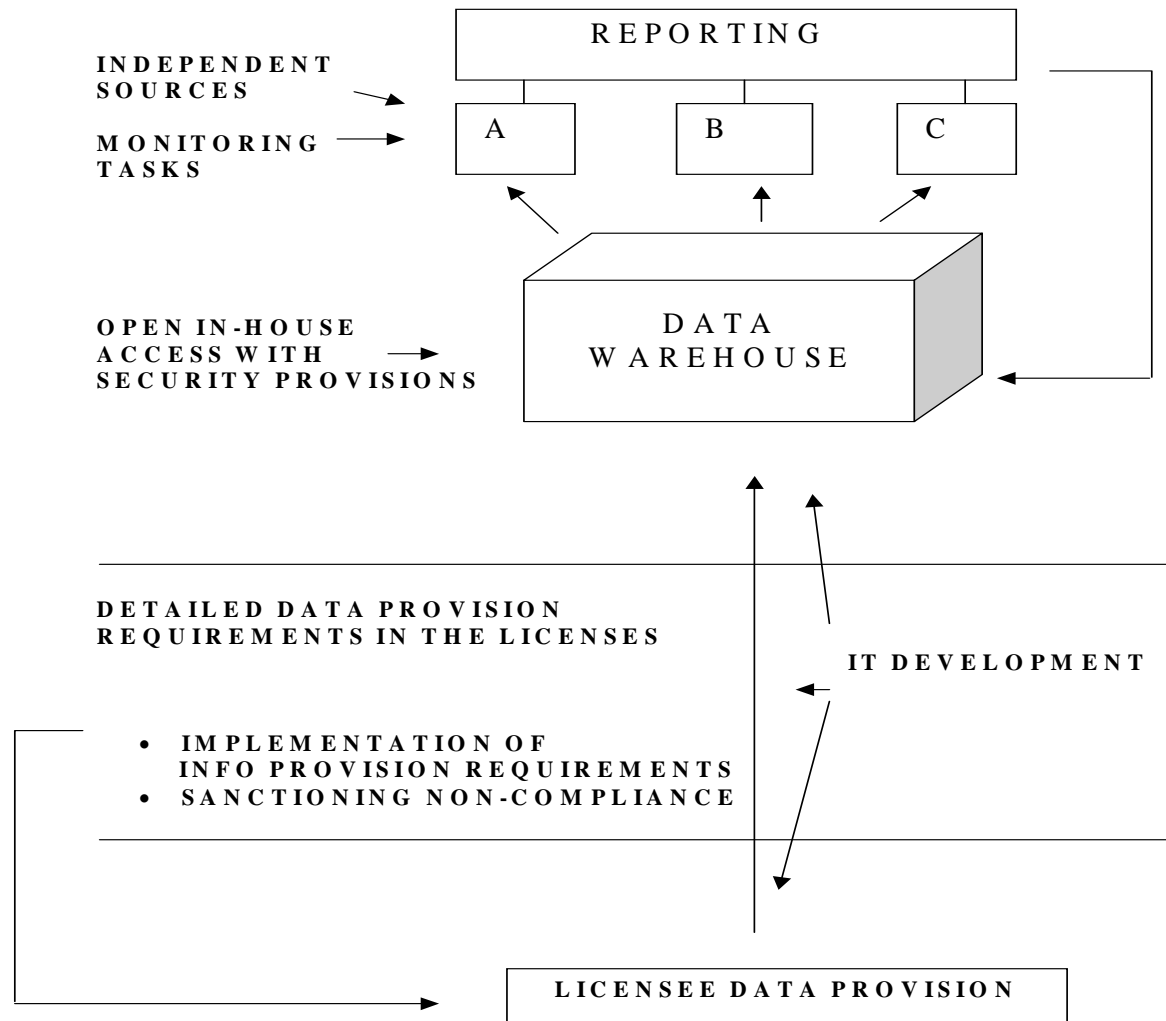


- The most common options to punish non-compliance are
  - written note to the licensee about non-compliance
  - fining the licensee
    - nominal dollar value
    - in percentage of some income indicator of the licensee (e.g. 1% or 10% of net income)
  - a normative reduction of the income of the licensee in case of non-compliance
  - revoking the license
  - publishing the punishment in the media

- Data collection
- Data processing and storage
- Analyses
  - HR needs. Outsourcing is possible but core in-house competence is necessary
- Inspection and auditing
  - Separate group?
- Reporting and Decision making
- Communication

# EXAMPLE: DATA WAREHOUSE DEVELOPMENT IN HUNGARY

## APPENDIX II. A SCHEME FOR ERC MONITORING



- NGOs
- Consumer groups
- Make data published
  - market analysts and
  - competitors will monitor for you!
- Hire Monitoring Units on a contractual basis (independent / academic resources of quality analysis)

# THANK YOU FOR YOUR ATTENTION!

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REKK was established at the Corvinus University of Budapest in December, 2003. The mission of REKK is to contribute to the creation of working energy markets and the establishment of efficient regulation by carrying out applied research, training and quality consultancy activities for all those interested persons and organizations that are active in the field.

We think that the experiences that Hungary and some other Central and Eastern European countries have gained through the restructuring and re-regulation of their energy markets are valuable and relevant for all transition economies. This is why the Centre intends to put a special emphasis on the research and dissemination of the regional experience and intends to become a regional research and training centre.

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