



## Workshop on perspectives, concerns and overall planning for the setup of an independent energy regulator (CWP.03.AZ)



## Considerations on the elements of the “concept note” and road map for the legislative and structural reforms required in view of setting up an independent energy regulator

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# Setup an independent energy regulator: the basic questions



- How?
- To do what?
- Market?
- Competitive market?
- Why?
- Efficient use of resources? Cost reflective prices? New investment?

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# The fundamental question about how to setup an independent regulator

## Do you believe in markets?

- No. But, how to resolve inefficiencies?  
How to attract capital?
- Yes. Assuming so, based on Minister announcement of strategic tasks.

**(Have to keep reminding of this through the whole process)**

# Chicken and egg?



Reason for existence of **independent regulator** is **competitive market**

Requirement for operation of **competitive market** is **independent regulator**



# (The paradox of market regulation)



- If you believe in markets, you need a regulator to make them work.
- The more you believe in markets the less you will want to regulate externally

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# Where we stand?



- Monopolised markets, state owned enterprises
- Government regulated.
  - **Licencing:** Ministry of Energy
  - **Rules and standards:** State Committee
  - **Pricing:** Tariff Council
  - **Customer protection:** Ministry of Energy (complaints and penalties)
- **Ministry of Energy:**
  - **current regulator**
  - **initiator of market liberalisation**



# From here to there (1)



Transition to competitive market:

- Complex
- Long
- Legally demanding in volume and essence
- Resolve conflicts without compromising
  - Security of supply
  - Economic conditions of consumers

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# From here to there (2)



- Build **new institutions**:
  - Develop their **logic** of operation into **market oriented**.

How to design and build new structure:

- Driving power: **profit**
- Objective: **public interest**
- Restrictions: **safety** and **security**, **no exceptions**.
- **No interruption** of the (long) process by political or commercial **interventions**



# It's a project



- Must be setup, implemented, monitored, and regulated in all stages
- Must have a **“project manager”**

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# Dual duty of the project manager



- design market opening
  - prepare legal framework
  - prepare institutional changes
  - train market participants in new roles in the competitive market
- prepare itself as energy market regulator
  - initially **as Ministry of Energy advisor**
  - eventually, **as independent institution outside the structure of the Ministry**

# A two stage process (1)



## 1. Preparatory stage

- Set up future regulator as “**project manager**” **within Ministry of Energy.**
- **advisory role**
- no need for changes to primary legislation.
- prepare new primary legislation
- prepare basic market design
- Prepare and carry out institutional changes in view of market opening.

# A two stage process (2)



## 2. Competitive energy market stage

- **Primary law changes** for implementation of competitive market arrangements
- **Department becomes Agency**
- Obtains **decision making powers**
- Rules for the operation of markets are put in effect
- market participants (as designated through licence conditions) start implementing the new rules

# The two stages



## Current

- State owned Monopoly
- Ministry sets policy
- Ministry regulates

## Preparatory

- Department within Ministry
- Project manager
- Prepares advice on regulation
- Prepares market design
- Prepares legislation
- Raises awareness
- Obtains know-how
- Obtains capacity

## Competitive

- New Primary Legislation applied
- Regulator is separate from Ministry
- Gradually obtains decision making powers
- Gradually gains independence

# Setup of the Agency



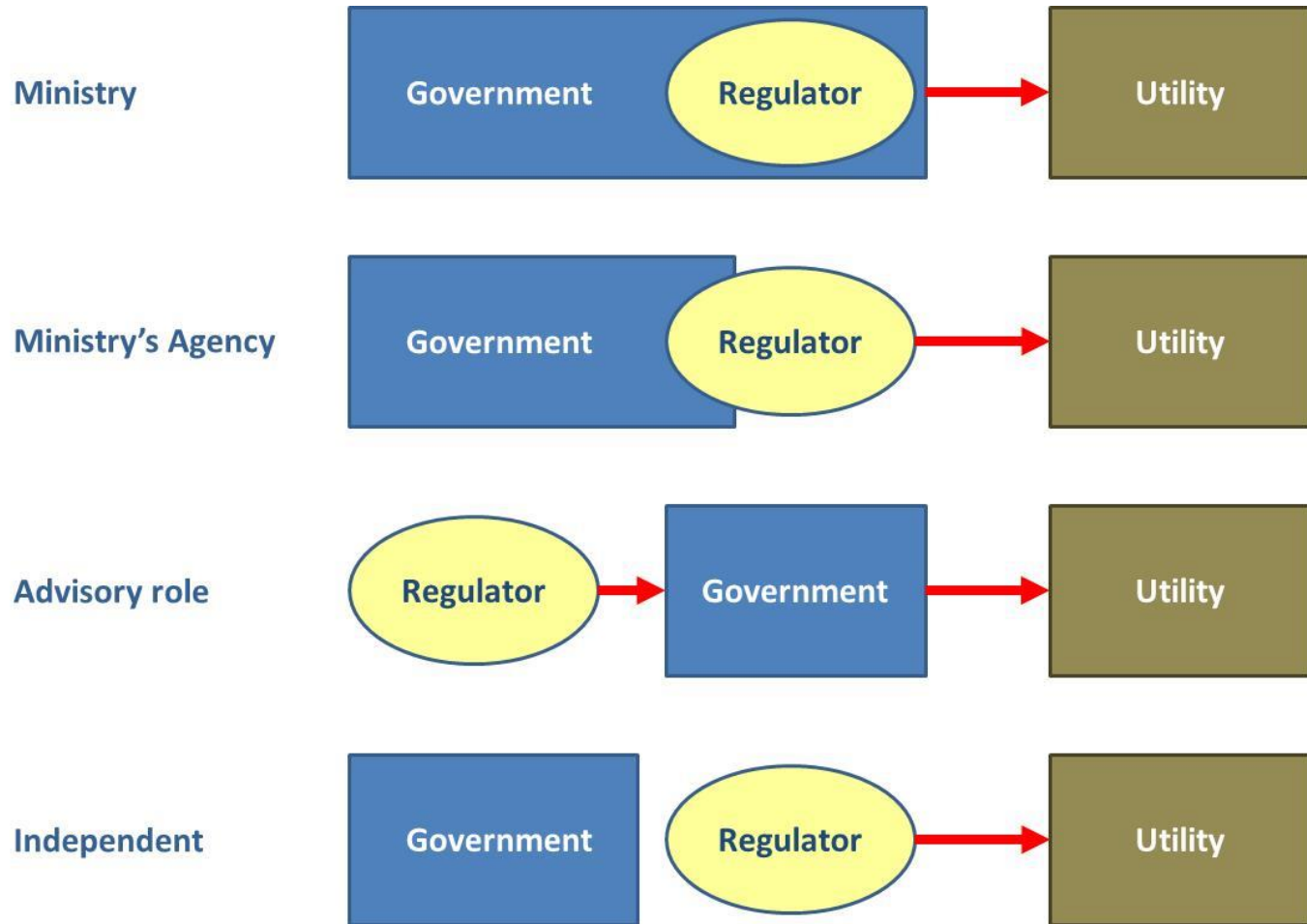
## Preparatory stage: Department **within the Ministry of Energy**

- **Advisory role**, prepare rationale and analysis for decisions, suggest decisions to Minister
- Supervise **licence** compliance, advise Minister for enforcement
- Tariff analysis work
- **Prepare legislation** for market liberalisation and regulation
  - Regulatory principles, practices, procedures, policies

# Decision making transition and regulator independence



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# Regulator independence (1)



- Degrees of independence along with maturity of the market
- Primary Law provisions: a measure of independence
- Board of 3-5. Initially a Director
- Source of revenue to perform professionally and timely
- Sufficient resources and ability to attract, maintain and train qualified and skilled staff
- Have flexibility in adjusting staff to needs and requirements



# Regulator independence (2)



- Initially budget and staff in accordance with Ministry practice
- Empowered by Law to issue secondary legislation. Initially prepare advice to Minister in accordance with current legislation
- Rules and conditions for appointment and dismissal of Board and staff
- Participate in hearings by Parliament or other, to review performance. Also carry out internal financial and performance audits to improve efficiency. Report in public

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# Separate policy from regulation



- Regulator and the competition authority
- Distinguish between regulation and policy making

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# Public participation, transparency



- Responsibilities with raising public awareness. Use also as training for market participants in preparatory stage
- All parties related to market operation participate in regulatory proceedings. Agency facilitate and encourage public participation prior to decision making

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# Role and functions of the Agency

(to be further elaborated and developed  
at the preparatory stage)



- **Project manager**
- Tariffs
- Licences
- Register of entities
- Quality and performance standards
- Renewables (market regulation only)
- Stakeholder participation
- Public awareness campaigns
- Customer complaint handling
- Dispute handling
- Data collection
- Coordination of technical assistance
- Market regulation
- Access to networks

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- Setup Department. Mandate, role, Director, staff, work programme
- Prepare market design. Obtain technical assistance. Involve other stakeholders. Receive training on energy markets design, operation, regulation
- Prepare legislation: Energy sector, regulator, competitive sector (electricity, gas, based on policy). Obtain technical assistance.
- Provide advice on current business
- Prepare setup of network operators for market conditions

