

Policy and regulatory issues – getting it right

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For more than 2 decades the electricity supply industries across the world has been going through restructuring and remodelling of some sort. The main aim of the restructuring in almost all cases is to provide a reliable, efficient and competitive electricity supply market yet there are as many electricity market models as there are restructured countries. According to the *Political and Weekly*, 2005, these numerous market models illustrate convincingly that the electricity supply industry and its institutions are shaped by history and politics, as well as by the social and cultural aspects of each country and not by some pure abstraction.

Policy

The White Paper on Energy Policy – South Africa (1998) states the following as its objectives:

- 1. Increasing access to affordable energy services:** - This entails promotion of access to affordable energy services for disadvantaged households, small businesses, small farms and community services.
- 2. Improving energy governance:** - The focus will be the clarification of roles and responsibilities of the various governance institutions, such as the Energy Regulator, Government departments and other spheres of government, as well as consultation with stakeholders on the formulation and implementation of energy policies.
- 3. Stimulating economic growth:** - Government will encourage competition in the energy markets and work towards creating an investor friendly climate. In conjunction with the good governance structures a transparent regulatory framework will be implemented.
- 4. Managing energy-related environmental and health impacts:** - A balance between the exploitation of fossil fuels and maintenance of acceptable environmental requirements will be ensured and negative health impact arising from the use of certain fuels by poor households will be ameliorated.
- 5. Securing supply through diversity** – Given the opportunities for energy trade and developments in other forms of energy, the diversity of supply and primary energy carriers will be encouraged.

Policy by its very nature has to be general but deep rooted in the objectives it seeks to achieve. It must be forward looking and anticipate the future it wishes to create and influence. The hierarchy of governance indicates that policy precedes legislation or primary law. In essence policy shapes the legislation.

The greatest challenge the electricity distribution industry restructuring faces is the lack of legislation to guide or dictate how the restructuring should be done. Currently the participation of all required electricity distributors is optional. There is some form of conflict between the envisaged end state of the Regional Electricity Distributors (RED's) and the Constitution of South Africa with respect to the executive authority of Local Government on electricity reticulation and the RED's being under the Department of Minerals and Energy. As a result the restructuring of the electricity distribution industry has been very slow if not non-existent.

Regulatory issues

The municipal distributors are still regulated by the Rate of Return methodology. There are currently plans in place to implement a regulatory mechanism or model for the large distributors (e.g. Ethekwini, City Power, City of Cape Town, Tshwane) that will provide incentives for the distributors to optimally invest in the electrical network and hence improve the efficiency and reliability of the electrical network.

In an environment where the electricity distribution infrastructure has not been optimally maintained the Regulator is loath to force or dictate to the municipalities to reduce costs of operation because they may be blamed for the deterioration of the network reliability. Yet measures and systems to monitor the use of the allowed funds to the maintenance, refurbishment and the general upkeep of the network are not in place.

Effective regulation is a process that requires time, sound economic principles and consistency; there is no quick-fix solution. Credible regulation requires firm legislation or primary law with clear levels of accountability, roles and responsibilities of the relevant institutions as envisaged in the White Paper on Energy Policy (1998). Transparent, consistent and rule of the law based decisions create a credible regulatory environment.

Getting it right

The main focus of the restructuring of the distribution industry is to improve the performance of the sector in all respects and ensure investments into the infrastructure that will enhance the reliability and economic efficiency of the industry. The structuring of the electricity distribution industry aims to achieve the following amongst others:

- (i) Rationalised tariffs with minimum tariff disparity.
- (ii) Consolidated distribution industry that will eliminate fragmentation
- (iii) Equality amongst the customer groups and normalised services
- (iv) Enhanced and adequate operating, maintenance as well as refurbishment of the distribution network
- (v) Pooling together of resources to spread service excellence across the distribution industry instead of the current pockets of excellence.
- (vi) Improved services that will facilitate universal access to electricity.

The implementation of the measures to achieve the above objectives will require close monitoring by the regulator if these objectives are to be realised. This places a further burden on the consumers as this means the staff compliment of the regulator must be at least doubled. There is evidence that some of the most successful market designs are highly managed and regulated (Economic & Political Weekly, 2005).

Conclusion

There is no universal model for restructuring the electricity supply industry. As much as there are success stories of restructuring care should be exercised when copying or transferring these models. There are some basic elements that are essential in any model, but unless those tacit elements, crucial to the success of the original model, are replicated or replaced with the local situation, copying or transferring a model out of context may not bring the same successes.

South Africa needs to find the appropriate model for its electricity supply industry that addresses the social, economic, political, environmental, cultural and historic aspects of the country. The restructuring of the electricity distribution industry is most like going to provide that appropriate solution. Credible and effective regulation is a process that requires time, sound economic principles and consistency; there is no quick-fix solution.

The existence of an electricity market, in the same way as petroleum products or oranges for that matter, is an idealised concept that is sometimes exaggerated. The simply fact is that there should be some form of oversight in the electricity distribution industry.

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