

Proceedings of Second South African Energy Regulators Conference, 18 & 19 March 2014

Introduction

The National Energy Regulator of South Africa (NERSA), in collaboration with the Centre for Competition, Regulation and Economic Development (CCRED) of the University of Johannesburg, convened the 2nd South African Economic Regulators Conference on 18 & 19 March 2014 in Johannesburg. A total of 30 papers were presented in addition to keynote addresses by the Minister of Energy and invited international speakers.

As the Honourable Minister Dikobe Ben Martins noted in his opening address, expanding infrastructure investment is at the centre of the government's strategy to stimulate inclusive growth and industrialization. This was also the over-arching theme of the conference and, in particular, the relationship with the role of economic regulators. The Chairperson of the National Energy Regulator of South Africa, Ms Cecilia Khuzwayo, highlighted the importance of developing the capacity and knowledge of economic regulators in her opening address. The conference was an important opportunity for practitioners and academics to engage on what is required to achieve this.

The invited international keynote speakers provided important insights from other developing countries. Franco Salazar, the CEO of the Mexican Energy Regulation Commission and Chairman of the Ibero American Association of Energy Regulation, used three examples to illustrate how regulation in Mexico had enabled infrastructure investment in that country across different sectors of the economy. Dr Edmund Amann of the University of Manchester gave a keynote address which compared the experience of Brazil with that of South Africa. Both countries face similar problems of low growth and high levels of inequality. Brazil has, however, been able to stimulate higher levels of infrastructure investment with a predictable regulatory environment.

Under the broad heading of expanding investment in infrastructure to meet the challenges of inclusive growth, the papers covered a very wide range of topics from different perspectives, ranging from technical issues to do with the calculation of rates of return on capital to policy questions regarding the relationship between regulation and competition.

Papers on investment in infrastructure examined different modes of financing including the role of public private partnerships. For investors to take on the financing risk the regulatory environment needs to be clear, however, it is also important to ensure that prices are competitive, and access to essential facilities. Regulation also has an important role as the referee in disputes and ensuring openness to proposals.

The regulation of prices is at the heart of economic regulation. Papers here addressed how the cost of capital should be determined including for state-owned enterprises, an analysis of call termination rates, and whether special cost advantages of monopolies should be disregarded. There was also an assessment of the different prices charged to households and industry in South Africa, noting that heavy industry pays much lower prices. One paper examined the economic value of television white spaces and how regulators should approach this challenge.

A number of issues were addressed relating to the operations of regulators. Papers assessed the ways in which governance and accountability of regulators ensures that their decisions are consistent with the forward looking objectives of government while retaining independence in adjudication and decision-making. This is particularly challenging in South Africa with the infrastructure development push across the economy. The regulation of the mineral and petroleum industry was also assessed and its impact on exploration.

A number of papers dealt with the challenges of overlapping jurisdiction of regulators and competition authorities in different sectors. While competition authorities typically undertake ex post assessments of firm conduct and regulators set up a framework ex ante to restrain the exercise of market power there

are strong linkages in practice between their work. A regulator's decisions are based on an understanding of the likely competition problems and hence can draw from the work of the competition authorities, while the competition authorities also wish to ensure more competitive outcomes going forwards which the regulator's powers can assist with. The papers reviewed issues of regulation and competition across a range of sectors including telecommunications and energy.

- Challenges facing regulators and why the conference fitted into these needs

An over-riding motivation for the conference is to provide a forum for review, critical debate and assessment. As even a brief perusal of the papers will demonstrate, the conference certainly met this objective.

The papers were presented in panels under main topics, and have been kept in the same order for these proceedings. The versions of the papers presented at the conference have been formatted for consistency and edited for these proceedings.

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Table of contents

1. Investment in infrastructure and additional capacity

P. Mabuza, Z. Ismail, K. Pillay, S. Xolo, *Financing infrastructure development within a regulated environment: challenges for regulators*

M. Cameron J. van der Merwe, *Energy infrastructure investment decisions in South Africa – the role and need for a standardised set of Cost of Unserved Energy (COUE) rates illustrated*

N. Mitali, *Addressing the funding gap in infrastructure expansion through PPP financing: exploring the enabling role of regulation and the user pays principle*

2. Regulation of price including return on capital

A. Felet, *Should state-owned enterprises derive a full rate of return?*

R. Hawthorne, *Linkages between economic regulation of the fixed line & mobile sector in South Africa, sector performance and economic development*

W. Stucke, *The economic value of television white spaces*

A. Sylvester, *Should monopolists be protected from excessive prices legislation by allowing for special cost advantages to be ‘disregarded’?*

Z. Ismail, *An empirical estimation of energy poverty in poor South African households*

3. Structural changes, unbundling and review of overall regulatory framework

T. Sithebe, T. Kolobe, *Is unbundling a prerequisite to facilitate entry in South African network industries?*

B. Baloyi, *The role of South Africa’s freight rail regulatory framework in general freight’s sluggish growth performance*

N. Gumede, *Designing an oil regulatory framework: A consolidated view*

S. Roberts, P. Mondliwa, *Fuelling industrial development? A critical review of liquid fuels regulation in South Africa*

4. Operation of regulators

A. Nurina, A. Konstant, *Regulatory oversight and inter-agency coordination: Infrastructure development*

M. Burke, *Mapping the human resource capacity needs of economic regulators in South Africa: an exploratory study*

R. Wait, E. Loots, H. Bezuidenhout, R. Rossouw, *The effects of licencing and tax policy on the development of the upstream oil and gas sector: the case of South Africa*

R. Koen, JP. Holloway, W. Jonker-Klunne, *Regulation and information: an important link?*

S. Truen, Z. Brey, *The theory and practice of regulatory independence*

5. Impact of regulation and competition

L. Granville, H. Irvine, *The impact of regulation on competition in telecommunications and piped gas*

G. Montmasson-Clair, G. Ryan, *Commissioning Renewable Energy: A Review of South Africa's regulatory and procurement experience*

F. Parker, S. Hendry *Competition without privatisation: The Scottish model of governance and regulation*

J. Gathiaka, T. Vilakazi, *Regulation, competition and productivity in agriculture: The case of sugar in Kenya benchmarked against South Africa*

G. Robb, *Competition without privatisation? South Africa's experience of the corporatisation of State-Owned Enterprises*

6. Entry and regulation

F. Kruger, *High Level maintenance space indicator*

L. Abrahams, E. Naidu, Y. Kedama, *Regulating radio-frequency spectrum for the digital economy: Issues of regulation for the electronic communications sector*

W. Stucke, *Placing an economic value on high demand spectrum*

C. Mhlanga, S. Ramahlola, *Technological Convergence: Transforming Regulation of ICTS*

C. Raffinetti, *The licensing of communications networks and services in South Africa: A case Ongoing barriers to entry in SA telecoms: lessons from the Altech case and comparisons with regulatory regimes in other countries*

7. Competition policy and sector development

H. Ratshisusu, *The roles of the Competition Commission and the Construction Industry Development Board in promoting competition and limiting construction industry cartels: A review of the fast track construction settlement project*

R. Sihin, R. Hawthorne, S. Goga and G. Robb, *Review of the outcomes of the banking sector enquiry*

F. Tregenna, M. Kwaramba, *A review of the International Trade Administration Commission's tariff investigation role and capacity*