

International Regulatory Reform Experiences and Lessons

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Why a Regulatory Agency

- To further the goals of reform
 - ❖ Lower costs
 - ❖ Lower electricity prices
 - ❖ Attract capital
 - ❖ Improve the environment
 - ❖ Promote development of western China
- Chinese translation goes here



What Do Regulators Do?

- Create and oversee markets
 - ❖ Oversee reforms
 - ❖ Monitor markets
 - ❖ Fix problems quickly
- Regulate monopoly services
- Create and maintain investor confidence
- Protect consumers



Overview

- Scope
 - ❖ Broad scope
- Credible
 - ❖ Independence
 - ❖ Transparency
 - ❖ Appeals
- First Year
 - ❖ Vested interests will be created



Step-by-Step

- Small steps for reforms, large steps for needed institutions
 - ❖ Already late
 - ❖ Needed to make other steps happen
 - ❖ International
 - ❖ Functions are interrelated



Four Important Functions

- Market Power
- Price
- Environment
- Planning



Example - Market Power

- ❖ Very serious issue
- ❖ 4-5 equal size competitors are not enough
- ❖ Zhejiang
- ❖ Regulators will need to
 - ◆ Design markets carefully
 - ◆ Minimize risk
 - ◆ Monitor and enforce
 - ◆ Fix problems




Example - Price

- Pricing is a basic function in all countries
- Price is the economic foundation of the entire power sector
- Bad experience where one price was with two agencies



Example - Environment

- Power sector has a large environmental impact
- Many regulatory decisions have environmental effect



Example - Planning

- Spot market is only a small part of the market
- New generation will need long-term contracts
- Planning process (Integrated Resource Planning) is needed to
 - ❖ Ensure reliability
 - ❖ minimize long-term cost,
 - ❖ protect consumers,
 - ❖ protect the environment



Coal vs. Clean coal



- Market design
- Bidding rules
- Internalize environmental cost
- Planning process



Coal vs. Gas



- Market design
- Bidding rules
- Internalize environmental cost
- Planning process

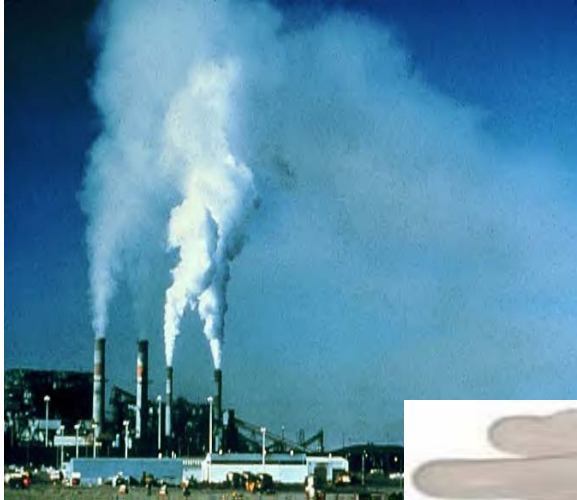


Coal vs. Wind



- Market design
- Capacity payment rules
- Transmission pricing
- Transmission planning
- Pollution fees
- MMS policy

Coal vs. Energy Efficiency



- Price and revenue setting methods
- Pricing approach
- Line extension policies
- Planning process
- Market design
- SBC funding



Hydro vs Coal



- Market design
- Planning
- Pollution fees
- Transmission pricing and planning

Central Station vs Distributed Generation



- Retail prices
- Standby tariffs
- Interconnection rules
- Market design and rules
- Transmission pricing
- Planning



Next Steps

- Create SERC
 - ❖ Set functions
 - ❖ Define state and provincial roles
 - ❖ Define appeal rights
- Select key staff
- Identify and prioritize first year tasks
- Design and implement training
- Draft initial regulations