

Coordinating Oversight Responsibilities in an Electricity Market with State-owned Enterprises

A Table to Beyond the Textbook

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Introduction

Oversight of the electricity market is more complex when there is a continued significant presence of state-owned enterprises (SOEs). Table i below builds on Table 1 of the *Beyond the Textbook* report to illustrate how key responsibilities can be divided between the three key players in electricity sector oversight — the electricity regulator, the energy ministry and a finance/other ministry responsible for oversight of the SOEs. While this allocation is not definitive, good practice requires that the allocation of responsibilities is clear.

Table i. Division of key responsibilities in electricity sector oversight

Regulatory Task	Electricity Regulator	Energy Ministry	Finance/Other Ministry
Rate setting/financial soundness			
Establish financial parameters of regulated companies (e.g., return on equity, debt ratio)	For shareholder owned companies		For state-owned companies
Setting cost-based revenue requirement	All companies		
Setting level of subsidy to companies to be passed through to customers	Adjust revenue requirement for subsidy	Establish which customers will receive the subsidy	Set subsidy level
Allocation of revenue requirement to customer groups, adjusted for targeted subsidies (e.g., low income)	Lead responsibility	Guidance on cross-subsidy to particular customer groups (e.g., agricultural)	
Design rates for each customer group (rate class) to recover costs	Lead responsibility		
Implement rate stabilization mechanisms to some/all customer groups to limit rate volatility	Managing delays to recovery of costs associated with caps	Caps on retail and wholesale price changes	Adjusting SOE return on equity
Oversight of electricity planning and investment			
Set/approve reliability (resource adequacy) standard for electricity system		Lead responsibility	
Conduct/oversee stakeholder consultation on electricity planning and supply mix goals		Lead responsibility	

Set/approve goals for particular generation resources (renewables, nuclear, cogeneration, efficiency, demand side management) and/or overall supply mix		Lead responsibility	
Review of system plan: <ul style="list-style-type: none"> ▪ Demand forecast ▪ Achievement of government targets for supply mix and system adequacy ▪ Plan cost effectiveness ▪ Approval of procurement processes 	Lead responsibility		
Approve specific network investments arising from plan implementation	Lead responsibility		
Approve finance to support SOE investments to implement plan			Lead responsibility
Oversight of procurement and revision of procurement targets		Lead responsibility	
Market entry/conduct of market participants	Electricity Regulator	Energy Ministry	Finance/Other Ministry
Timing of opening of wholesale electricity market		Lead responsibility	
Timing of opening of retail electricity market		Lead responsibility	
Licensing of market participants (generation, transmission, distribution, trading, retailer) and exemptions	Lead responsibility		
Develop and enforce codes and rules for market access (transmission and distribution codes) and market conduct (wholesale and retail market rules)	Lead responsibility		

Undertake compliance and enforcement activities for codes and rules	Lead responsibility		
Consumer protection for retail sales of electricity to smaller consumers including complaint intake, investigation and enforcement action	Lead responsibility		
Wholesale electricity market monitoring and market power mitigation	Wholesale market monitor and enforcement of market rules	Contracts or other market power mitigation measures including structural reforms	Enforcement of competition law by competition authority (non-SOEs)
Monitor financial health of market participants to ensure they can meet financial obligations	All licensed companies		Oversight of electricity SOEs
Quality of Service	Electricity Regulator	Energy Ministry	Finance/Other Ministry
Performance of regulated utilities against service standards for duration and frequency of power interruptions, and power quality	Monitor	Set standards	
Market Structure/Reform			
Mergers in the distribution sector to encourage efficient size	Set rules for consolidation and review/approve mergers. Monitor impacts on efficiency and service quality	Set goals for distributor consolidation	Tax incentives to encourage/remove barriers to consolidation
Mergers among generators and retailers	Impose conditions on license to limit impact on competition	Policy on electricity sector mergers	Competition authority to assess impact on competitiveness of electricity market

Public Communication	Electricity Regulator	Energy Ministry	Finance/Other Ministry
Inform public of major regulatory decisions (rate changes)	Lead responsibility		
Inform public about their rights as electricity consumers and assistance available to support choices	Lead responsibility		
Publish annual priorities for regulator to achieve along with business plan	Business plan reflecting priorities	Priorities (as letter of direction to regulator)	
Publish annual report of regulator's results against plan	Lead responsibility		
Publish annual report on performance of the regulated entities	Lead responsibility		
Reform of Regulatory Framework			
Monitor progress of reforms and assess regulatory framework, including performance of regulator and SOEs	Advisory role	Lead responsibility	SOEs
Identify possible regulatory reforms to improve performance or address new challenges	Advisory role	Lead responsibility	



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