

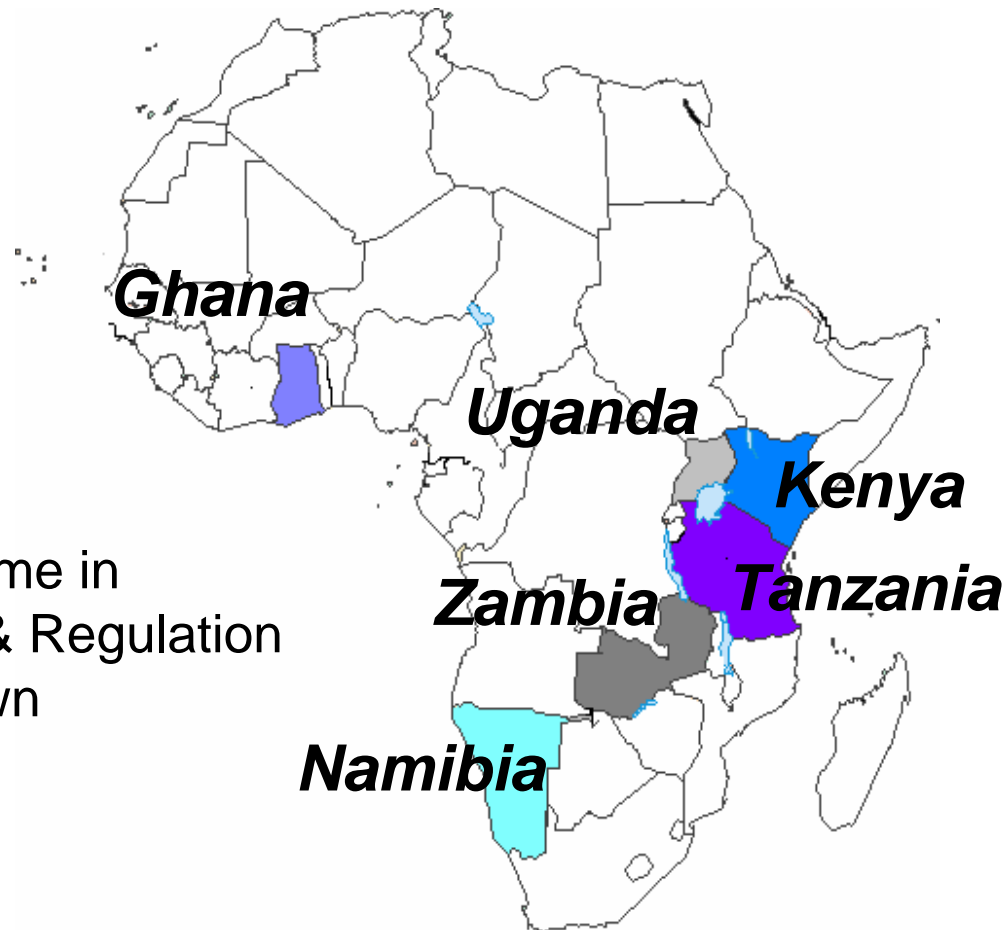


Lessons from the African Electricity Regulator Peer Review and Learning Network

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Network members (pilot phase)



Convened by
Management Programme in
Infrastructure Reform & Regulation
University of Cape Town

Review methodology

Regulatory governance

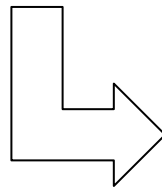
Legal design and institutional arrangements of regulatory system and processes of regulatory decision-making

Credibility, legitimacy, and transparency of regulatory decisions

Regulatory substance

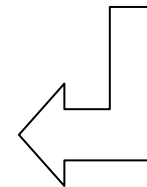
Content of regulation
tariff-setting
service standards
market entry

Quality & robustness of regulatory decisions



Impact on sector

Cost-effective, reliable infrastructure services
Efficiency, financial viability, new investment



Typical review process

- 5 CEOs visit 6th institution with support from MIR
- Intensive one week
- Interviews with
 - Minister
 - Regulator Commissioners
 - Regulator management & staff
 - Utilities
 - Private producers / investors
 - Consumer groups
 - Trade unions, NGOs, media, parliamentarians
- Initial findings & recommendations presented to Commissioners, CEO and regulator management & staff
- Opportunity for subsequent institutional response & agreement on areas that could be improved
- Full review report published
- Follow-up actions from UCT (research, training, etc)

Experience thus far

- 100% commitment and participation by CEOs
- Rare (unique) opportunity for CEOs to explore in-depth the governance & substance of peer regulatory institutions (very different from typical conferences, meetings and even regulatory courses)
- CEOs and institutions being reviewed have been remarkably open and cooperative in sharing information and facilitating interviews
- A high-level of trust has developed between network members & through the review process they constantly offer critiques or share information or acknowledge learning opportunities
- Thorough and detailed exchange of laws, regulations, information, documents, methodologies, etc

Some initial findings & lessons (1)

- **Regulatory independence**
 - Mixed record: growing number of regulators with good legal protection & track record, but still evidence of interference
 - Regulators reasonably resourced, but administrative authority restricted & challenges in professional expertise & experience
- **Accountability**
 - legal appeals possible, but SOEs reluctant to appeal
 - consumer groups generally weak
- **Transparency**
 - Increased use of public hearings, publications, website
 - But room for even more transparency

Some initial findings & lessons (2)

- **Market access & licensing**

- Hybrid power markets prevalent
 - Dominant vertically integrated state-owned utilities, private participation also invited
- Results in lack of clarity on who has responsibility for planning, allocation of new build opportunities, initiation of competitive bids, contracting, approvals, and the role of the regulator in ensuring security of supply
- Results in poor progress in securing new investment

Some initial findings & lessons (3)

- **Prices and tariffs**

- Tariffs below cost
- But regulatory commitment to move to cost-reflectivity
- ROR regulation widespread, but challenges in applying in robust and consistent manner
 - Asset valuation method key variable in tariff determination (historical vs current/replacement)
 - Challenges in determining appropriate WACC
- Some debate on the regulatory role in PPA negotiations
- Need for tariff structures that more effectively target the poor

Conclusion



- Peer review provides an opportunity for deep and effective learning in a collegial environment
- Not a benchmarking or scorecard process (although this is tacit)
- Emphasis is on exchanging experiences and substance on what works, what can be improved and what can be adapted
- Focuses on leadership
- Also an opportunity for in-depth research on regulatory performance
- Takes the learning experience from classroom to the workplace
- Peer Learning Network an extension/addition to more conventional suite of regulatory courses offered by University of Cape Town

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