



6th World Forum on Energy Regulation

SMART REGULATION FOR DEVELOPING COUNTRIES:

COST REFLECTIVE TARIFFS vs AFFORDABILITY

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Introduction

- Developing countries – especially in Africa and South Africa come from a history of low prices
 - South African electricity prices still not at cost reflective level yet
- Governments faced with huge social development i.e. housing, health support, infrastructure, energisation
- Creates tension:
 - “Utilities (financial sustainability) vs Customers (affordability)”
- “Opposing Objectives”

Challenge: How to balance all aspects ??

Where does 'Smart Regulation' fit in?

- Definition of 'Smart Regulation':
 - “smart ways of directing licensees in a regulatory environment”
- Need 'smart ways' of finding a balance between policymakers and regulatory priorities
- Will focus on one example in developing countries to balance 'cost reflectivity and affordability'

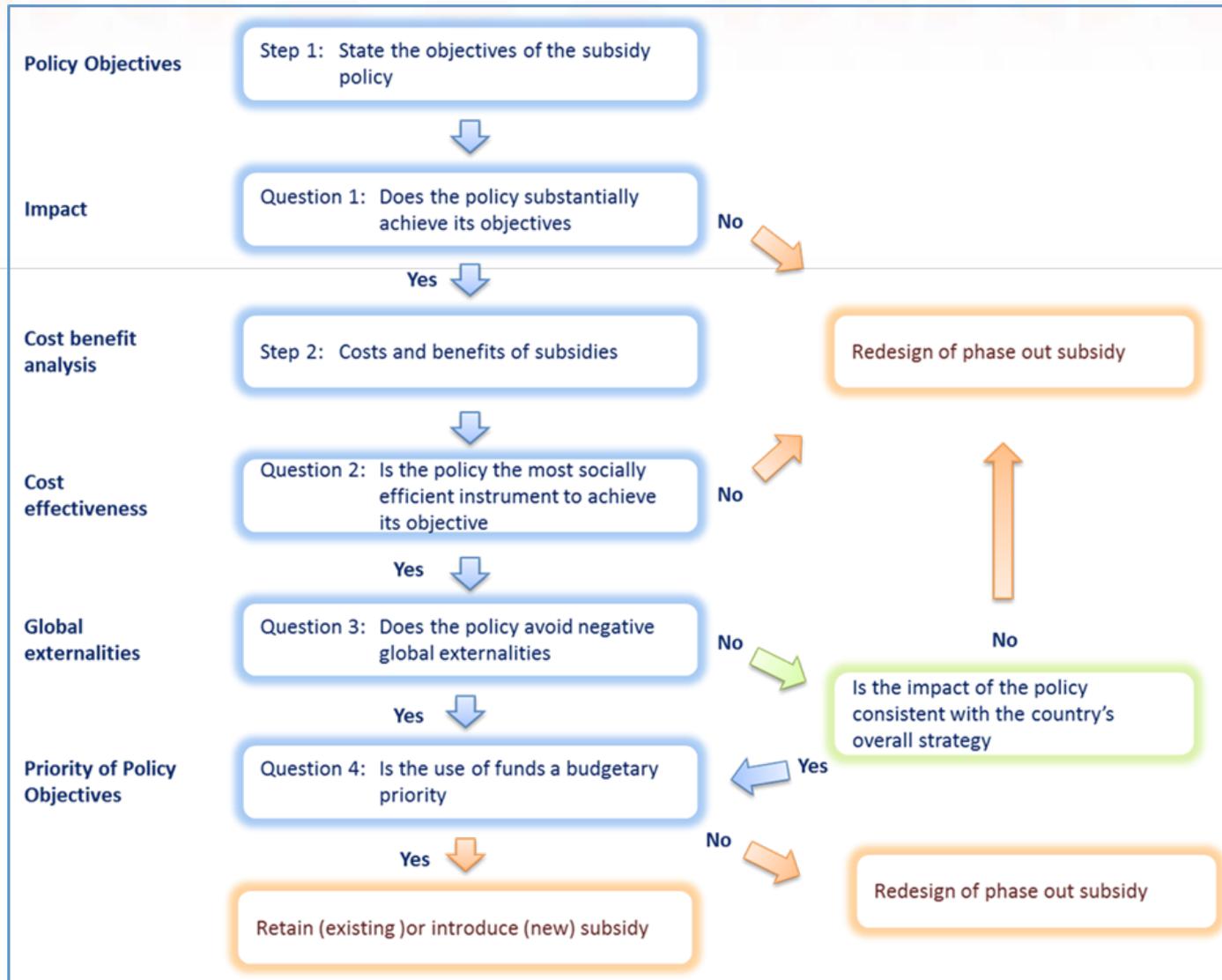
Cost reflectivity vs Affordability

- Current reality in developing countries
 - Poor households vulnerable to high electricity tariff increases
 - Little ability to adapt.
 - Important to protect poor households through targeted subsidies
- Challenges in tariff design in developing countries are often:
 - the absence of clear tariff design policies and guidelines
 - the consistent interpretation and application of these policies and guidelines
 - role players that do not always understand the role they should play in the industry
 - the paradox of cost reflective tariffs and affordability and how it should be balanced and managed

MANAGEMENT OF CROSS-SUBSIDIES

- Ideally prices and tariff structures should reflect the cost of supplying the customer
- Certain subsidies may be necessary to support particular socio-economic objectives of the country
- In South Africa the total subsidy level has increased substantially over last couple of years – not sustainable for customers contributing towards subsidies
- Often subsidies are driven by conflicting policy or result in undesirable trade-offs – need to be reviewed in terms of potential socio-economic impacts
- In the absence of a national cross-subsidy framework, cross-subsidies are not managed properly – not sustainable

Schematic Approach of Assessing Electricity Subsidies



Source: World Bank, 2010

ROLE PLAYERS

- Many role players with each a unique role
- These role players are:
 - **Government** as shareholder; policy setter and exponent of political will – with multiple, and often conflicting roles.
 - **Utilities** who work with the Energy Regulator to ensure implementation of the policy. They ensure grid development, improve power supply reliability and deliver satisfactory service.
 - **Customers**
 - Large consumers develop their own lobby, small consumers (households) are rarely represented professionally before regulators
 - Large customers should be involved in the strategic vision for energy. They are key to the energy situation and industrialists have to be assured of their sustainability
 - **Regulators** who ensure implementation of government policy and balance the needs of all other stakeholders in an independent and fair manner

ACCOUNTABILITY OF ROLE PLAYERS

- Each participant to:
 - understand its role and accountabilities
 - stay within its mandate.
- Given the accountabilities and roles
 - Important that regulators to drive the process to implement a national subsidy framework (policy) through an integrated and inclusive process involving all other role players. Ensure implementation of policy.
 - Government through participation to provide subsidy policy that support the objectives of government economic policy and the country's industrial strategy.
 - Utilities to provide the information required to ensure accurate and sustainable solution and to implement policy through tariff structures
 - Customers to be consulted through a participation process
- Successful implementation of policies will depend on proper understanding of the role of all players and them accepting and fulfilling their roles and responsibilities in the entire process.

LEARNING FROM CURRENT REALITIES

- In absence of a national cross-subsidy framework, cross-subsidies are not managed properly with huge (often unknown) unintended consequences
- Before a national subsidy framework is developed and implemented in any developing country, the subsidy goals and objectives are established in a transparent manner
- All the key stakeholders to play their part in developing guidelines, ensuring a long term supply of reliable, and affordable energy service in the socio-economic development of their countries
- Utilise 'Smart Regulation' principles to find sustainable solutions



Thank you very much

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