

Context of Power Sector Reform: Change Drivers & Investment Needs



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I. Market Reforms

The background of the slide is a photograph of a sunset. The sky is filled with horizontal, wispy clouds that are illuminated from below, creating a warm, golden glow. In the foreground and middle ground, several high-voltage electrical transmission towers are silhouetted against the bright sky. The towers are lattice-structured and have multiple cross-arms supporting power lines that stretch across the frame. The overall scene is a classic representation of the power industry.

**Introducing Privatization
and Competition into the
Market Structure**

Why Engage in Market Reforms?

- To address the need for investment in utility infrastructures by attracting foreign investment.
- Funds are scarce at home, investment dollars are liquid and independent and therefore not easy to attract.

Why Engage in Market Reforms?, cont'd

- Pressure from non-domestic, quasi-governmental sources:
 - Donor groups
 - International financial institutions
 - International organizations (the European Union)



Why Engage in Market Reform?, cont'd

- Pressure from within
 - Governmental
 - Academic or theoretical
 - The example of OOCUR

Privatization

- The need to infuse capital investment and market motivation into the process.
- Impediments → Intransigent bureaucracies & workforces.
- Creative Approaches:
 - Co-optation of government structures;
 - Outside managers in ministry;
 - Job security/re-training programs.
- Benefits → Investment, additional expertise, improved service.

Competition

More Difficult to Accomplish

- Size of market
 - Within larger countries
 - Difficulty of smaller countries (less than several millions of consumers)
- Inertia/fear of most consumers.
- Market power of the incumbents.
 - Privatizing sectors have unique opportunities to restructure the market. (Example: The British Water Market)

II. Secondary Market Reforms

An aerial photograph of a large industrial complex, likely a steel mill, situated along a wide river. In the foreground, a barge carrying a large cylindrical tank is being pushed or pulled by a tugboat. The industrial site features numerous buildings, pipes, and two prominent tall smokestacks. The background shows rolling green hills under a clear sky.

A circular situation:
Accomplishments of these may stimulate achievement of primary (?) goals of privatization and competition.

Secondary Market Reforms



- Comprehensive Provision of Service
 - Both in duration and in geographic coverage
- Quality of Service
 - Outage restoration
 - Environmental preservation
 - Innovative products (sophisticated meters, etc.)

Secondary Market Reforms

The Reforms:

- Pricing (Tariffs): Bringing tariffs in line with cost of providing services.
 - Improve the service as you raise the price.
 - Universal Service Fund/Lifeline Program.
- Collections
 - Setting the example – cut off non-payers (with protections for vulnerable populations.)
 - Governments are the worst offenders.
 - Union Finosa – Moldova
 - Russian Federation: Electricity v. Government

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