

Regulatory Commission Functions

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Remember the Regulatory Aims

- **Protect consumers from abuse by firms with substantial market power**
- **Support investment by protecting investors from arbitrary action by public sector**
- **Promote economic efficiency**
- **Protect environment**

Promote economic efficiency

In case of electricity business

- Improve service coverage
- Make electricity affordable
- Reduce power loss
- Reduce high accounts receivables
- Improve cost recovery

Protect environment

- In old days, the developing countries did not worry about environment
- Building urgently needed projects had the highest priority
- However, looking at polluted environment in Lagos, Karachi, Bombay, Khatmandu has made it more aware of the environment

Remember basic functions of the regulator

- **Regulate monopolies**
- **Monitors viability of regulated firms**
- **Set tariffs**
- **Set service standards and monitors compliance**
- **Arbitrates disputes between regulated firms**
- **Arbitrates disputes between firms and consumers**
- **Set rules for entry/exit (license)**
- **Provides information and advice to the government**

Regulate monopolies

- **Electricity business is a natural monopoly**
 - **capital intensity**
 - **Minimum required economic scale**
 - **Fluctuating demand**
 - **Essential product for community**
 - **Involves direct connection to consumers**

Monitors viability of regulated firms

- **Firms must survive in order to continue to provide service**
- **Debt must be serviced in an orderly manner in order to keep cost of capital low**
- **Return must be provided to owners in order to ensure continues availability of capital for this expanding industry**

Set tariffs

- **Basic principles**
 - **Based on cost of service**
 - **Simple**
 - **Affordable**
 - **Well targeted subsidies if any**
 - **Stable**

Set tariffs (Continued)

- **Generation**
 - Preferably set by competitive market
 - Based on cost
 - Pass through costs e.g. fuel
 - Based on performance based regulation
- **Transmission**
 - Probably no competition
 - Based on cost
 - Based on performance based regulation

Set tariffs (Continued)

- **Distribution**
 - Preferably set by competitive market
 - Based on cost
 - Based on performance based regulation

Set service standards and quality

- Technical standards e.g. system reliability, metering accuracy
- Based on international or locally accepted standards
- Special investigations relating to service restoration after storm etc
- New service provided on time
- Complaints handled professionally
- Overall customer satisfaction

Arbitrates disputes between regulated firms

- Disputes between national power company and independent power producers (IPPs) relating to any aspect of power purchase agreements
 - Accurate metering
 - Capacity availability
 - Applicable tariffs
- Disputes between different national companies

Arbitrates disputes between firms and consumers

- **Provision of new services in a timely manner, at a reasonable cost**
- **Accurate and timely meter reading**
- **Billing accuracy**
- **Satisfactory arrangements for bill payment**
- **Adequate complaint making and dispute resolution mechanism**
- **Overall customer satisfaction**

Set rules for entry/exit (license)

- Simple interim licenses to continue service on basis of existing norms
- More detained licenses based on agreed service standards, customer bill of rights, mutual obligations

Provides information and advice to the government

In case of National Electric Power Regulatory Authority (NEPRA) in Pakistan, it is a very important function.

It is the only authentic voice which :

- **Gives overview of the electric power industry**
- **Identifies problems such as capacity shortage, inadequate service coverage, human resource gap, financial inadequacy, sector inefficiencies**
- **Recommends solution and corrective action**