

UNECE COMMITTEE ON SUSTAINABLE ENERGY

Regulation and Investment in the Electric Industry

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Regulation in the New EU Member States and South East Europe, Is it up to the Task?

“The Mobilization of the Necessary Capital
Resources Will Require a Business Friendly
Environment, Favourable Macro-Economic
Performance and A Regulatory Environment
That is Predictable, Fair, Transparent and
Efficient”

UNECE Panel, Note by the Secretariat, 7 September 2006

How Do We Measure Regulatory Competence?

- Benchmarking of Regulators: Organizational Strengths, Weaknesses and Sustainability
- Private Investment in Region

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Regulatory Competency

- CEER Regulatory Benchmarking Report for South East Europe, 23 November 2005
- All Countries Surveyed Have Operating Regulatory Bodies — Albania, Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Greece, Hungary, Italy, Moldova, Romania, Serbia, Slovenia, Montenegro, Turkey and the United Nations Interim Administration Mission in Kosovo (UNMIK)

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Regulatory Competency

- Legislation in Many Participants is Generally EU Compliant, Includes Numerous Hallmarks of Regulatory Autonomy
- General Consensus Has Developed How Regulatory Authorities Should Perform and Tools They Need to Fulfill Responsibilities

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Regulatory Competency

- Key Areas Cited in Report for Further Attention:
 - Unbundling, Third-Party Access and Market Design and Implementation
 - Data Access and Market Monitoring
 - Staffing
 - Enforcement
 - Accountability vs. Intervention
 - Regional Harmonization

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Investment and Privatization

- Substantial Privatization and Private Investment in UNECE Region Over Last Decade
- Pace Non-Linear
- Varies by Sector and by Country
- Electricity vs. Gas
- Distribution vs. Generation/Supply

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Investment and Privatization

- Investment Decisions Reflect
 - Global, as well Local, Conditions
 - Cost of Money, Cost of Capital
 - “Flavor of the Month” — Enron Debacle
 - “Flavor of the Power” — Nuclear as Step-Child, Fair-Haired Child

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Investment and Privatization

- Major Areas of Concern
 - Licenses: Scope of Authority
 - Tariffs: Design and Implementation
 - Affordability and Social Issues
 - Investment: Requirements, Approvals, Recovery
 - Corruption
 - Dispute Resolution



Regulation and Rule of Law

- Clear, Consistent, Prompt and Fair Legal and Regulatory Decisions are Lynchpin for Successful Investment Climate
- Case Studies Underscore this Conclusion:
 - AES/Georgia
 - Tractebel/Kazakhstan
 - Union Fenosa/Moldova



Energy Community of South East Europe

- Treaty Establishing Energy Community of South East Europe
- Ratified and Effective 2006
- Contracting Parties are the European Community and Balkan Countries —Turkey, Ukraine, Moldova, Norway Granted Observer Status

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Energy Community of South East Europe

- Goal is Establishment of Regional Market Both in Electricity and Gas
- Treaty Creates Energy Community Regulatory Board (ECRB) Consisting of Regulatory Authorities in Region to Help Develop Efficient Regional Energy Market

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Energy Community of South East Europe

- Treaty Binds Parties to Relevant Provisions of Acquis Communautaire (Energy, Environmental, Competition) within Defined Timeframe
- Thus, Directive Requirements on Prime Responsibilities of Regulatory Authorities — Insuring Non-Discriminatory Access, Competition, and Effective Functioning of Market — Are Obligatory on Treaty Signatories

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Conclusions / Lessons Learned

- Significant Progress In Establishing Regulatory Bodies, with Hallmarks of Independence, Competence, Authority, and Accountability
- Regional Commitment to Process Through Treaty
- Significant (if Uneven) Private Investment

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Conclusions / Lessons Learned

- Quality of Regulation Fundamental to Successful and Sustained Private Investment
- Regulators in Region and their Continued Improvement Have Led to Decade of Investment and Will Support Further Investment
- Yes, They are up to the Task — But Constant Training, Assistance, Networking, Education, and Monitoring are Critical

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THANK YOU

