



ERERA **FORUM 2012** ARREC



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**LAISSEZ AFFAIR ELECTRICITY
REGULATION**

ELECTRICITY REGULATION AS THE INVISIBLE HAND OF
A DYSFUNCTIONAL MARKET

NOEL AZUBUIKE OBIORA

B.Sc (Business Econ.), J.D. (Law)

California Public Utilities Commission

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INTRODUCTION

- APPEARING FOR THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS [NARUC] ON BEHALF OF THE NARUC PRESIDENT
- FUNDING FOR OUR PARTICIPATION WAS PROVIDED BY USAID
- OPINIONS EXPRESSED IN THIS PRESENTATION ARE THOSE OF THE AUTHOR AND SHOULD NOT BE CONSTRUED OR MISCONSTRUED AS REPRESENTING THE POSITION OF NARUC OR THE CALIFORNIA PUBLIC UTILITIES COMMISSION



THE PROBLEM

- * PRESENT VOLUME OF ELECTRICITY PRODUCTION IN WEST AFRICA REMAINS INADEQUATE TO MEET DEMAND DESPITE SUBSTANTIAL RESOURCES

* COTE D'IVOIRE:	1,400 MW
* GHANA:	2,200 MW
* NIGERIA:	8,500 MW
* SENEGAL:	6,000 MW

- * OBSOLETE GENERATION, DISTRIBUTION AND TRANSMISSION INFRASTRUCTURE

- * LACK OF ADEQUATE INVESTMENT IN NEW INFRASTRUCTURE



THE QUESTION

- HOW DOES WEST AFRICA DEVELOP A REGIONAL ELECTRICITY MARKET TO BETTER TAKE ADVANTAGE OF COMPARATIVE NATIONAL BENEFITS?
 - IN THE SHORT-TERM
 - IN THE LONG-TERM
- HOW SHOULD WEST AFRICA HARNESS ITS HUGE HYDRO-ELECTRIC POTENTIAL, AS A REGION, IN SOLVING ITS ELECTRICITY PROBLEMS?



THE SOLUTION

• REGULATOR KNOW THY SELF

- The problem is as challenging as it exciting and central to all facets of commercial activity and Individual life that it is easy to lose sight of regulation's rationale: Left solely to the devices of the market and motivations of investors, the electricity industry is not sustainable

• REGULATOR KNOW THY REGION

- Eliminate the need for protectionism by establishing upfront market rules in collaboration with all countries within the region and stakeholders within the individual countries.
- Develop ratepayer and stakeholder confidence that translates into respect for your policies, goals and what you are trying to achieve



THE SOLUTION II

- THINK OUTSIDE THE BOX
 - Look at the poor, the disenfranchised, the utterly powerless and see opportunities not burdens - then ask; what are the creative programs that help you realize these potentials?



REGULATOR KNOW THY SELF

- KNOW YOURSELVES ALSO MEANS GETTING YOUR HOUSE IN ORDER
- More often than not, instead of the regulator taking the time to get its house in order they spend far too much time getting to know the investor and trying to devise pies in the sky to wet the investor's appetite, but when the investor turns around and asks basic fact questions, the response is either "trust me" or "we will get it for you"; clearly that says you are not ready



REGULATOR KNOW THY SELF QUESTIONS TO CONSIDER

- IS THERE A CURRENT STRUCTURE THAT ADEQUATELY DEFINES AND ESTABLISHES THE CURRENT RELATIONSHIP BETWEEN THE REGIONAL REGULATOR AND THE VARIOUS COUNTRY REGULATORS AND STAKEHOLDERS [EVEN IF THEY DISAGREE]?
- WHAT INSTRUMENTS EXIST FOR THE REGIONAL REGULATOR TO GET WHAT HE NEEDS FROM ONE COUNTRY'S UTILITY OR OTHER COUNTRY-SPECIFIC STAKEHOLDER?



REGULATOR KNOW THY SELF QUESTIONS TO CONSIDER II

- AND WHAT PROTOCOLS EXIST FOR PROTECTING THE INFORMATION FROM COMPETITORS AND OTHER POSSIBLE CONFLICTS OF INTEREST?
- WHAT STRUCTURES EXIST WITHIN THE REGIONAL GENERATOR TO ALLOW ONE COUNTRY'S REGULATOR OR COUNTRY SPECIFIC STAKEHOLDER TO CHALLENGE THE REGIONAL REGULATOR WITHOUT GOING TO COURT [AT LEAST PRELIMINARILY] - **WHAT ARE THE ENABLING STATUTES FOR THESE STRUCTURES? WHAT ARE THE RULES IMPLEMENTING THEM? AND WHAT ARE THE CHALLENGES? SEE STATUTES AND THE EFFORTS OF GHANA PUC ?**



REGULATOR KNOW THY REGION

- **PLANNING ENTAILS A COMPREHENSIVE STUDY OF THE STATUS QUO**
 - I. GENERATION:
 - HOW MANY GENERATION PLANTS ARE IN WEST AFRICA?
 - WHERE ARE THEY?
 - WHEN WHERE THEY BUILT?
 - WHAT MODEL OR BRANDS? [ARE THEY STILL BEING MADE]
 - WHAT HAS BEEN THE PERFORMANCE RECORD?
 - WHAT IS THE MAINTENANCE RECORD?
 - WHAT HAS BEEN THE COST OF RETIRING THE PLANT OVER ITS LIFE SPAN?
 - IS THERE A PLAN TO REPLACE IT?
 - AND WHAT IS THE PLAN FOR REPLACEMENT?



PLANNING, TRANSPARENCY AND INTER-REGIONAL VISIBILITY

- PLANNING AND TRANSPARENCY DOES NOT JUST ALLOW THE REGIONAL REGULATOR TO KNOW ITS REGION, BUT ALSO UNDERSTAND ITS NEIGHBORS' REGIONS SUFFICIENTLY TO DETER PROTECTIONISM; SUCH VISIBILITY CAN BE ACHIEVED WITH CROSS-REGIONAL STAKEHOLDER INVOLVEMENT AND THE STUDIES OF THE IMPACT OF COUNTRY PROJECTS ON OTHER PARTS OF THE REGION
- INFORM AND EDUCATE EACH REGION ON THE BEST PRACTICES AND INDUSTRY STANDARDS AS WELL AS ILLUMINATE EACH REGION'S UNDERSTANDING OF THE OTHER'S OPERATIONS AND ALSO ELIMINATE MIGRATION OF BAD PRACTICES FROM ONE REGION TO ANOTHER PERHAPS THROUGH A CROSS-REGIONAL STAKEHOLDER
- REGULATORS MUST BECOME REPOSITORIES OF INFORMATION AND ALL KINDS OF DATA ON THE INDUSTRY, BOTH HISTORICAL AND RESEARCH DATA, FROM WHICH THE EFFICIENCY OF UTILITY OPERATIONS CAN BE MEASURED AND BENCHMARKS ESTABLISHED. ONE EXAMPLE IS THE REGULAR PERIODIC STUDY OF THE COST OF INVESTMENTS IN INFRASTRUCTURE AND TARIFF DETERMINATIONS ACROSS REGIONS

THINK OUTSIDE THE BOX

- **PRIMARY PURPOSE OF REGULATION: (1) ENSURE THAT ALL WHO DESIRE SERVICE RECEIVE IT AT SAFE AND RELIABLE LEVELS FOR A REASONABLE COSTS: (2) PRODUCERS OF SUCH SERVICES EARN A REASONABLE SUM ON THEIR INVESTMENT**
 - **MUCH OF THE RHETORIC IN AFRICA IGNORES THE FIRST AND FOCUSES ON THE SECOND**
 - **TO THINK OUTSIDE BOX AFRICA MUST THINK BEYOND MERE ACCESS**
 - **ACCESS: MANY OF THOSE WHO DESIRE SERVICE IN AFRICA ARE USED TO ROLLING BLACKOUTS AND HAVE OTHER MEANS TO EXIST WITHOUT CONSTANT POWER; REGULATORS WOULD NEED A NEAR BEHAVIORAL CHANGE APPROACH TO BRING THEM FULLY TO THE GRIND**
 - **MY PET PEEVE ABOUT PLANNING IN WEST AFRICA**
- **ENHANCEMENT: IN AFRICA ACCESS TO THE GRID ALONE IS NOT ENOUGH REGULATORS MUST THINK OUTSIDE THE BOX TO ENHANCE THEIR USE AND ENJOYMENT OF THE GRID**



CONCLUSION

- **AFRICAN REGULATORS MUST REALIZE THAT THE FRAMEWORK THEY SET TODAY WOULD IMPACT MANY GENERATIONS OF AFRICANS LONG AFTER THE REGULATORS WORK IS DONE AND MUST CONSIDER INTER-GENERATIONAL EQUITIES IN THEIR REGULATORY POLICIES. MORE IMPORTANTLY, BECAUSE WE WILL ALWAYS DISAGREE, CONTINUITY OF POLICIES, OR PROJECTS AND OF RELATIONSHIPS SHOULD BE PARAMOUNT TO OUR OWN INDIVIDUAL AMBITIONS**
- **BENEFITS OF WEST AFRICA'S POTENTIAL IS ENORMOUS - OVER EXUBERANCE AND EXCITEMENT COMPELS US TO WANT TO SKIP THE SMALL BORING STUFF LIKE PLANNING, BUT RIGHT NOW YOU ARE ONLY BUILDING THE FOUNDATION OF THIS ENORMOUS HOUSE AND YOU NEED TO BE MORE METICULOUS AND CORPORATIVE THAN YOU WILL EVER LIKELY NEED TO BE AT ANY OTHER STAGE**



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