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# Capacity Building Workshop for Iraq Ministry of Electricity – Law and Regulation

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**USAID | Iraq Economic Governance II Project**

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**Regulatory Options – areas covered by Regulations**



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## Laws and Regulations - Next Steps

## Regional Comparisons

## Regulatory Framework and Privatization experience in Jordan – Regulatory Commissioner and Transaction Manager, Privatization Commission

- Rashad Aburas, Director General, Jordan Electricity Sector Regulatory Commission
- Dina Dabbas, Transaction Manager, Executive Privatization Commission



# Electricity Sector Legal Objectives (Contents)

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**Iraqi Government Policy**

**Electricity Law Objectives - Framework Legislation for Electricity Sector**

**Electricity Regulation Objectives – “Flesh out” the Law**

**Role of Laws and Regulations**

**Breakout Discussion: Develop Policy Statement**



# Electricity Sector Legal Objectives



## Iraqi Government Policy

- Need to develop policy statement: first step
  - Establishes Government's commitment to reforms
  - Captures objectives for Iraq's electricity sector
  - Provides fundamental guiding principles that assist drafting a new Electricity Law
- Suggested starting point – two parts:
  - General objectives for sector (see suggested list)
  - Clear statements on key areas (to be developed)

## BREAK OUT DISCUSSION: DEVELOP POLICY STATEMENT



# Electricity Sector Legal Objectives



## Role of Laws and Regulations

- Primary legislation
  - Act or Law passed by Legislature to cover whole sector
  - Captures Iraqi Government policy
  - Sets out broad framework rather than ad hoc and piecemeal approach
  - First steps towards establishing path to privatization
  - Doesn't presently exist in Iraq
  - Only effective means of establishing Iraq Electricity Commission
  - Finer detail can be left for experts to devise



# Electricity Sector Legal Objectives



## Role of Laws and Regulations (cont.)

- Secondary legislation
  - Regulations, rules, orders flesh out the Law
  - Statutory force
  - Promulgated by IEC: *policy implementation*
  - Consultative process to develop regulations
  - Industry experts best placed to devise technical regulations
  - But: how do they become law? Lay before, or prior approval of, Legislature?



# Electricity Sector Legal Objectives



## Electricity Law Objectives - Framework Legislation for Electricity Sector

- Establish structure and future market operation
- Establish and grant powers to independent regulator: Iraq Electricity Commission (IEC)
- Specify respective roles and powers of MoE and IEC and utilities
- Specify tariff-setting methodology and subsidy policy
- Establish power to regulate different sectors and method of promulgating regulations
- Foundation for setting initial wholesale prices and establishment of competing generators selling into market
- Establish initial license holders and key license terms
- Establish procedure for resolving disputes



# Electricity Sector Legal Objectives



## Electricity Regulation Objectives – “Flesh out” the Law

- Implement tariff setting in accordance with Electricity Law
- Licensing system – covering generation, transmission, distribution and supply
- Grid and distribution codes - technical operating and maintenance criteria
- Customer quality of service
- Rules regarding dispute resolution
- Initial contracts for new structure
- Future generation competition and development of wholesale market
- Future retail competition
- Health and safety for electrical equipment workers



# **Iraqi Electricity Commission (Contents)**

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**Need for IEC**

**Financing of IEC**

**Importance of IEC being Independent**

**Division of Responsibilities between MoE and IEC**

**Functions and Powers and their Exercise**

**Structure and Organization of IEC**



## Need for IEC

- Regulatory Commission is necessary to push through policy reforms
  - Independent of electricity sector policy
  - Wide powers (to promulgate secondary legislation and binding codes and quality standards, implement tariffs, resolve disputes, obtain information, influence sector)
  - Focused, technical expertise (proactive rather than ad hoc approach of Legislature)
- Is a basic foundation for attracting private capital (construction or privatization)

## KEY DECISION AREA: EXTENT OF IEC AUTHORITY TO MAKE REGULATIONS



## Financing of IEC

- Sufficient funding, outside Legislature appropriation, to do its work; establishes independence
- Options for funding; must come from industry, not be reliant on Government
  - Fees, levies, duties on regulated sector participants, assessed on assets or income
  - Filing fees and other charges
  - License fees
  - Extraordinary appropriations from Legislature when required or for particular programs
  - Funding from donors and international financial institutions
- Important to get right; not a tax on industry



## Importance of IEC being Independent

- Cannot be subject to political (Ministerial) or commercial (sector utilities) pressure
- Tariff-setting has been problematic in other countries where tariffs historically low:
  - Ministerial influence difficult to shake off
  - Can prevent unpopular decisions to raise prices to cover supply costs
  - Covering costs and earning return crucial to attracting investors, facilitating privatization
  - Investors want tariff decisions to be transparent, predictable, and based purely on technical criteria
  - Subsidy issues need to be resolved: high level national issue
- IEC would not have unfettered discretion



## Importance of IEC being Independent (cont.)

- But, IEC would be subject to overriding obligations:
  - To pursue sector objectives
  - Comply with requirements specified in the Law in the manner of exercise of powers, ie. due process; subject to review by courts
  - Act consistently as possible, ensure licenses granted on substantially the same terms; apply competition law principles, subject to review by competition authority
  - Impose minimal restrictions on electricity businesses consistent with performance of its business
  - Take into account need for businesses to finance and plan with reasonable assurance as to future requirements
  - Consult prior to making decisions
  - Subject to other laws, eg. environmental



## Division of Responsibilities between MoE and IEC

- Separation must be explicit; understood
- MoE's responsibility is to devise policies that seek to achieve objectives of Law and Government, and new objectives, and advise Government on all electricity sector matters, eg. electrification
- IEC's role is to implement those policies, not to advise the Government:
  - Must carry out duties assigned in Law
  - Not follow the Government of the day (unless changes to Law are made)
- Minister can influence Regulator but Regulator cannot act outside duties without change in Law
- But, Government must take care not to undermine notion of independent regulation



## Division of Responsibilities between MoE and IEC (cont.)

- Division removes political pressures:
  - Will be gaps to be filled: give IEC regulatory judgment or leave to Government?
  - IEC best placed to make technical decisions (eg. creating codes and performance standards) and resolve disputes
  - Iraqi courts can always review procedural issues
  - Possibility of creating new regulatory oversight Commission for Iraq



## Functions and Powers and their Exercise

- Implement policy
- Review structure and operation of electricity industry
- Determine tariffs in accordance with principles in Law, charges and fees covering generation, transmission, distribution, competitive supply
- Recommendations on establishment and development of competitive wholesale market and market structures
- Issue licenses to sector participants
- Establish grid code for transmission
- Establish distribution code for distributors
- Establish performance and quality standards



## Functions and Powers and their Exercise (cont.)

- Establish rights and obligations of consumers – charters
- Review, monitor and enforce codes, standards and charters
- Establish safety standards for electrical workers; training requirements of utilities
- Adjudicate unresolved disputes:
  - Between licensees and consumers (not subject to appeal, except on due process)
  - Between licensees (subject to appeal)
- Participate in regional and international electricity matters, eg. transmission flows, creation of wider market
- Approve initial contracts to be signed between utilities, generators and transmission company
- Participate in determining and implementing environmental standards



## Structure and Organization of IEC

- Headquartered in Baghdad with regional offices
- One fulltime Chairperson, who acts as CEO
- 4 part time Commissioners
- Selection method – nominating committee of national Legislature:
  - Selects persons and submits names to Prime Minister
  - PM selects
  - Legislature confirms or refuses PM's selection
- 4 year terms minimum



## Structure and Organization of IEC (cont.)

- Criteria for selection: expertise and competence –
  - In electricity sector
  - In law, accountancy, economics, finance or business
- Conditions for appointment:
  - Both a citizen and permanent resident of Iraq
  - No financial interest or involvement in any electricity business activity
  - Not related to persons with such involvement
  - Not been declared bankrupt or insolvent, convicted of offence, banned from professional practice
  - Cannot be member of Legislature or executive or judiciary



## Structure and Organization of IEC (cont.)

- Terms and conditions of office
  - 4 year term, staggered to ensure continuity
  - Two terms maximum
  - 3 month or longer notice period to resign
  - Dismissal for breach of disclosure rules, unsuitable conduct, incapacity, commits offence punishable by imprisonment
  - Tribunal appointed to inquire where doubt exists or if Legislature requests
- Organization: according to regulatory functions or by market segment?



## Structure and Organization of IEC (cont.)

**KEY DECISION AREA: EXPLORE POSSIBLE STRUCTURE AND RULES FOR IEC (TBP); AGREE ON IMPLEMENTATION OF SHADOW COMMISSIONER**



# Electricity Law (Contents)

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**What an Electricity Law would cover – further detail on the objectives for the Law**



## Establish Structure and Future Operation of Electricity Sector

- Law sets out new sector structure, participants and their functions
  - Generation
  - Transmission
  - Distribution
  - Supply
- Rationale for unbundling and separating vertically integrated government-owned company:
  - Creates level playing field, ends and prevents discriminatory treatment
  - Coupled with the development of wholesale market, competing generation (and supply) are encouraged; major step towards encouraging private sector investment



## Establish and Grant Powers to IEC

- Key objective: legislative authorization the only method of establishing a Regulator
- Vest required powers, including regulation-making
  - Legislature devolves power to make secondary legislation to expert body
- Ensure sufficient funding
- Helps create independence, through
  - Setting funding arrangements
  - Clearly delineating the division between responsibilities of the IEC and MoE
  - Establishing security of tenure for Commissioners
- Set out skeleton structure and organization



## Tariff Methodology

- Rationale for regulating:
  - Competition can be introduced into generation and supply (but will take time);
  - competitive forces do not exist to protect consumers in the case of transmission and distribution; fear of excess prices without regulation (monopoly pricing)
  - Creates transparency in pricing
- Cannot forget transition period - need to regulate electricity prices in the interim
- Two main methods: rate of return v. price cap regulation
- Rate of return: controls prices through calculating the utility's costs; also called cost of service regulation
  - allows companies to pass through those costs deemed necessary by Regulator to ensure an adequate level of service is provided to end users



## Tariff Methodology (cont.)

- Price cap (or performance-based) regulation: adjust prices by rate of inflation plus predetermined amount without regard to utility's profits
- Price cap is presently favored – more efficient:
  - Allows utilities freedom to manage their operations, compared with the “command and control” rate of return mechanism
  - Encourages utility to minimize costs; cost of service does not
  - Cost of service regulation removes incentives to innovate
  - Cost of service encourages inefficient capital investment decisions



## Tariff Methodology (cont.)

- Approach for Iraq – lessons from other countries:
  - Tariff methodology should be well-defined in the Law rather than a set of general principles the Regulator is to have regard to – no room for vagueness
  - No room for government involvement – governments reluctant to implement tariff increases even where necessary
  - Unsuccessful reform, eg. Brazil and India – vagueness in tariff-setting; inconsistent ad hoc laws; general principles rather than defined methodology (tariffs must be “just and reasonable”; “promote economic efficiency”)
  - Successful reform, eg. Chile, Peru – specify a high degree of detail
  - Implemented by independent Regulator



## Tariff Methodology (cont.)

- Subsidies: important policy issues to be dealt with
  - Forms of subsidy vary
  - Cross subsidies between classes of user or different sectors
  - Direct government subsidies (eg. to assist the poor)
  - Indirect government subsidies (eg. allowing persistent losses by government-owned utilities to continue)
  - Subsidies are likely to be necessary in Iraq
  - Likely we will need to work with Ministry of Oil and Ministry of Finance to devise national policy



## Wholesale Prices and Market

- Necessary to foster competition in pricing; Law would provide framework for development
- Competition is preferred over regulation to restrain prices
- Requires construction of new plant and open access to transmission
- Form of initial market? (Later slide)
- Transition: vesting contracts?



## Licensing Regime

- Law would authorize Regulator to issues licenses for:
  - generation, transmission, distribution, supply (retailers of electricity that do not necessarily own network assets) activities
- Licensing system:
  - enables sector participants' performance to be controlled
  - Ensures control is transferred from MoE to IEC
- Adds another layer of regulation; may not fit with “light handed” approach
- But, effective means of enabling Regulator to influence, control licensees
- Law would prohibit the performance of or involvement in any activity except through grant of license



## Licensing Regime (cont.)

- Law would require Regulator to develop licenses, but key terms included in Law:
  - identity of initial licenses
  - description of service of each licensee (and service area)
  - fundamental conditions to be met for grant of new license
  - Submission to authority of Regulator
- Licensing regime itself would be handled under regulation-making powers of IEC



## Method of Resolving Disputes

- Disputes involving customers - IEC final authority to resolve?
- Disputes between utilities and utilities and IEC – who has final authority?
  - Iraq’s court system: do judges possess requisite technical, engineering and financial expertise? State of Administrative Law in Iraq?
  - Arbitration, based on accepted international rules; binding; international investors will require; enforcing awards will be an issue to resolve
  - Expert panels: enforcement issues; no international conventions
  - Mediation: different resolution methods; enforcement issues
- Formation of specialized appeals tribunal:
  - Create “Umbrella” Regulator to oversee work of Iraq’s industry regulators?
  - Development of administrative law and competition law principles



## Method of Resolving Disputes (cont.)

- Enforcement issues:
  - Parties agree a decision (arbitration, expert, mediation) is binding
  - But local court says otherwise
  - Does not accept exclusion of court's jurisdiction; may not recognize decisions affecting citizen's rights
- Electricity Law should resolve this issue
- Special issues regarding appeals from IEC decisions:
  - Need to ensure regulatory decisions insulated from political factors
  - Guard against extensive appeals (danger is regulation by judicial system)
  - Problem of selective appeal without overview of economic efficiencies or benefits to sector



# Regulatory Options (Contents)

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**Matters the Regulator would be responsible for**

**Detail on Regulatory Objectives**



# Regulatory Options



## Tariffs and Pricing of Electricity Services

- Recommendation that Electricity Law set out in detail the methodology to be implemented
- Regulator would implement tariff-setting

## BREAKOUT DISCUSSION: TARIFF METHODOLOGY



## Future Generation Competition and Development of Wholesale Market

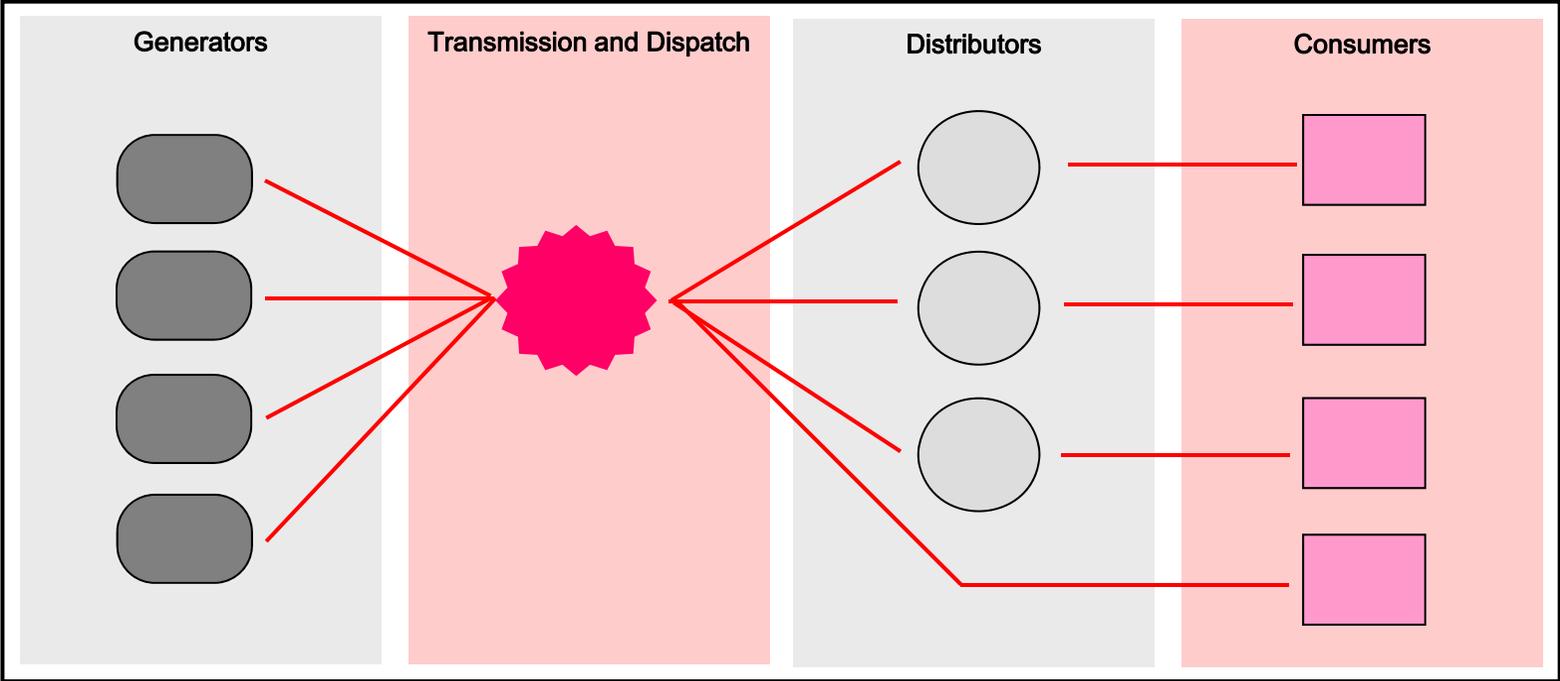
- Overriding questions: What form of market is best? When introduce?
- Single-buyer model: purchases from all generators and onells
  - has popular technical, economic and institutional features
  - Really a transitional system before conditions suitable for competitive wholesale market are established
- Bilateral contracts model: long term PPAs, market operator covers other purchases
  - Essential advantage over single buyer model – transfers risk away from Government to individual buyers and sellers



# Regulatory Options



## Single Buyer Model



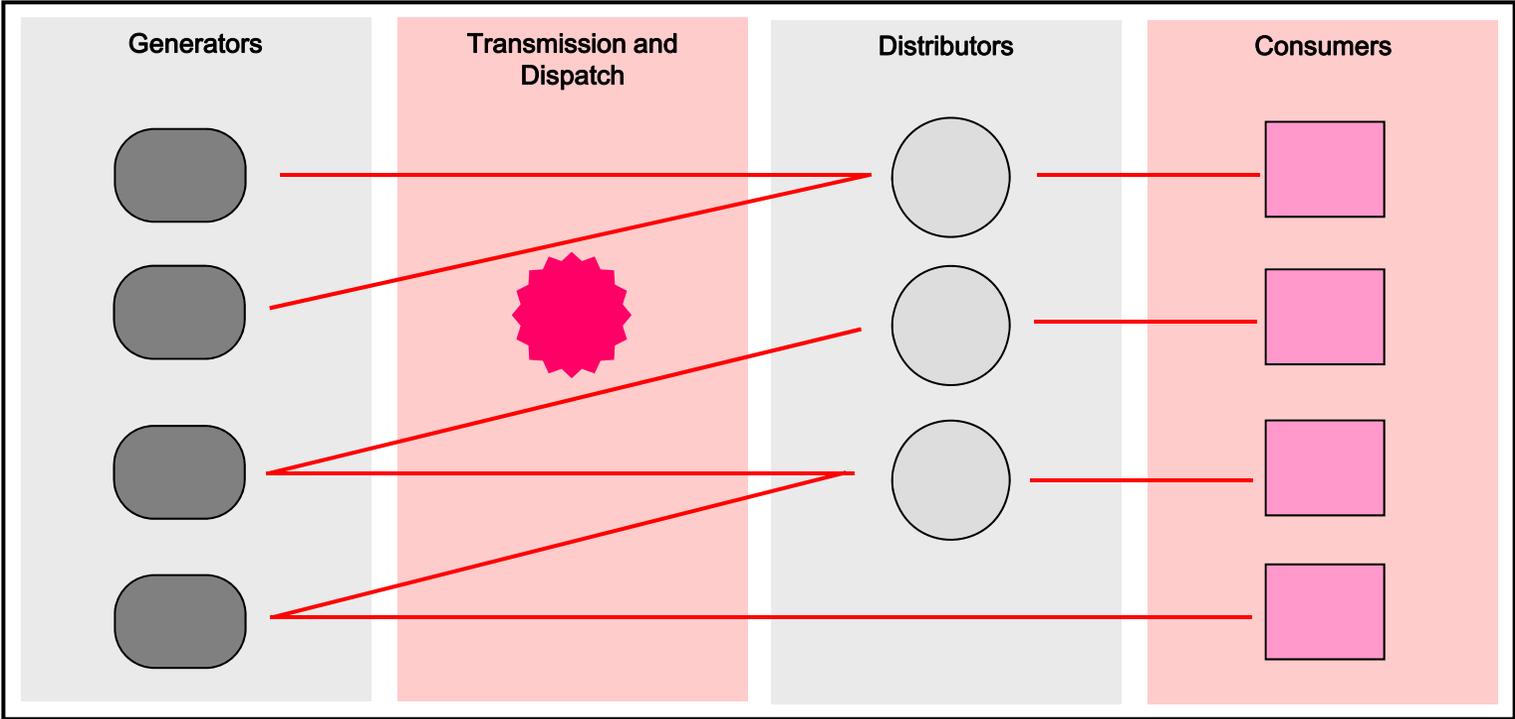
Red lines represent electricity trading



# Regulatory Options



## Bilateral Contracts Model



Red lines represent electricity trading



## Future Generation Competition and Development of Wholesale Market (cont.)

- Advantages of single buyer model:
  - Transmission company that also acts as single buyer facilitates physical balancing
  - Can resolve issues of physical flow for multiple buyers and sellers without needing complicated and costly third party access regime
  - Preserves key role for MoE in decisions on generation investment; enables Government reluctant to withdraw from wholesale trading to remain involved
  - Simplifies regulation of wholesale prices
  - Shields financiers from market and retail risk



## Future Generation Competition and Development of Wholesale Market (cont.)

- Disadvantages of single buyer model
  - Government decisions on new generation may not be optimal (state guarantees of capacity)
  - Creates contingent liabilities for Government (eg. single buyer's obligation to pay generator)
  - If demand is less than forecast, prices rise because capacity payments or take or pay obligations are spread thinly; consumers bear the brunt
  - Weakens incentives for distributors to collect payments from customers if single buyer does not pursue payment
  - May enable reluctant Government to delay next steps to full liberalization



## Future Generation Competition and Development of Wholesale Market (cont.)

- Advantages of bilateral contracts model
  - Financial risk transferred to individual buyers and sellers
  - Decisions about the risks of constructing new power plant made by private investors
  - Less onerous assurances likely to be sought – as to future shape of regulatory and market reforms, and government control over wholesale and retail prices



## Future Generation Competition and Development of Wholesale Market (cont.)

- Disadvantages of bilateral contracts model
  - Balancing system matching contracted amounts with physical production needed; even then suboptimal despatch is likely
  - Transmission access and pricing regime that reflects transmission capacity constraints and loss factors in the transmission system required if participants are to receive correct signals and incentives
  - Regulator would need to approve contracts in order to protect consumers



# Regulatory Options



- Mandatory competitive pool
  - Private sector makes decisions on generation capacity
  - Pool agreement and market rules replace PPAs
  - No government guarantees required
  - Open to participation from neighboring countries
  - Until further capacity is installed (and physical and security issues resolved) the electricity system may be too small



# Regulatory Options



## Licensing Regime

- Electricity Law would establish IEC's authority to institute licensing system
- Authorizing the Regulator creates a statutory basis for controlling the sector outside the MoE
- Fundamental requirements of license: Licensee must –
  - provide the service (produce power, operate and maintain a network, wheel electricity over networks)
  - endeavor to meet technical operating criteria in the relevant code (if transco or distco) and customer quality of service standards (targets set annually)
  - Maintain accounts and reporting requirements for its licensed activities separate from unlicensed activities
  - Maintain accounts in the form, and comply with standards, required and have them audited



# Regulatory Options



## Licensing Regime (cont.)

- Fundamental requirements of license (cont)
  - Comply with any direction or stipulation included in the license
  - Comply with other laws, including competition law and environmental law
  - Comply with relevant code (if transco or distco) and performance standards and service charters (targets set annually)
  - Strategic planning in emergencies called by Regulator
  - Requirement to offer “terms” to any party requesting, eg. connection, and detailed requirements as to those terms



# Regulatory Options



## Licensing Regime (cont.)

- Fundamental requirements of license (cont.)
  - Giving the Regulator authority to settle disputes over contract terms between the licensee and customer and between licensees
  - to maintain information in a particular form, and to provide that information to, the Regulator in order to be able to perform regulatory role
  - Accompanying this may be rights of inspection and audit for the IEC
  - Pay the levy or fee charged by the Regulator
  - Comply with restrictions on transfer of licensed activities or parts thereof



# Regulatory Options



## Licensing Regime (cont.)

- License regime powerful tool for implementing competition policy
  - Number of participants in sector areas
  - Whether and how participants compete
  - Ensuring new entrants who meet qualifications are not excluded
- Licenses would include provision for revocation of license by Regulator for breach of license conditions
- License obtained by application:
  - Required to provide information required by Regulator to determine suitability or otherwise of granting the license
  - Such as financial information and history, directors, shareholders and business plan



# Regulatory Options



## Establish Technical Criteria

- Important function for IEC – to develop:
  - Grid Code, in consultation with transmission company
  - Distribution Codes, in consultation with distribution companies
- Codes contain principles regarding minimum design, technical and operational criteria
- Possibly also include metering code
- Aim is to preserve security and stability of delivery systems:
  - Protect transmission and network systems
  - Protect assets of those connected to the grid or network
  - Provide up-to-date information on the performance characteristics of system



## Establish Technical Criteria (cont.)

- Transparency is crucial to those wishing to connect power plant or other apparatus:
  - Including their financiers; they will examine codes thoroughly
  - Publicly available
- For Iraq, could also include a set of principles specifically targeting improvements in and development of the grid (and networks)
- Grid Code would apply to:
  - Generators connected to the grid or network (by class determined by size)
  - Distributors' connections to the grid
  - Customers directly connected



# Regulatory Options



## Establish Technical Criteria (cont.)

- Covers matters such as:
  - Services provided: frequency and voltage control, allowable fluctuations and deviations, system emergencies, ancillary services
  - design and capabilities of connecting assets: generating units, LV and HV cables, transformers, connected apparatus (equipment using electrical conductors)
  - Requirement to consult with affected parties in relation to, eg. system extensions of upgrades



## Establish Technical Criteria (cont.)

- Benefits of codes:
  - System operator can establish transparent pricing mechanisms, eg. for grid investments (upgrades required to accommodate new connections)
  - With Grid Code, a system can be established enabling recognition of causes of fluctuations or deviations or asset failures, and thus pricing of corrective actions ordered by operator
  - Allows greater or better service to be contracted for
  - Requires regular planning and consultation with affected participants and Regulator
  - Eg. preparation of annual plan by transco for procurement of ancillary services to be approved by Regulator
  - Key issues, are understood, eg. priority of restoration – all participants know the order



# Regulatory Options



## Establish Technical Criteria (cont.)

- Key issue – how enforce?
- Regulator’s function – annual review
- Performance targets can be agreed and actual performance measured annually
  - Important function of Regulator
  - See possible suggested system (handout)
- Also through new contracts compliance with Codes becomes a contractual obligation, thus creating enforceable rights between sector participants
  - *but* typically obligations couched in less than strict terms, eg.
  - Transco to “use all reasonable endeavors to ...” comply; or
  - “In accordance with good industry practice”



# Regulatory Options



## Quality of Service

- Consumer service quality standards covering industrial, commercial and residential consumers
- Distribution and supply companies required to meet standards – set through license annually
- Cover matters such as:
  - Time for new connections, account transfers, service changes
  - Policy for disconnections for non-payment
  - Fault repair times and notice of planned interruptions
  - Meter reading and billing
  - Frequency and duration of outages
  - Voltage fluctuations and frequency deviations involving relevant network



# Regulatory Options



## Quality of Service (cont.)

- Complaints procedures and dispute resolution process
- Minimum standards of distribution service
- Appropriate for Iraq at present? Service *objectives* perhaps, or “Improvement plans”
- Information is key
  - Regulations would require distribution companies to prepare and provide information on quality of service measures and performance against them:
  - Provide to Regulator and to supply companies and consumers on request



# Regulatory Options



## Health and Safety

- Code of compliance applicable to all work performed on electrical equipment and installations
- To the extent not covered by existing health and safety laws
- Would cover all workers but place obligation on employer – electricity utility
- Training and minimum qualifications of workers would be mandatory
- Aim is to reduce number of deaths and injuries presently suffered



# Regulatory Options

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## Disputes/Appeals Process

- IEC final authority over customer disputes – fixed in Law
- Procedural and implementing rules developed by IEC
- IEC would mandate procedures for customer complaints
- Possible model for review



# Regulatory Options



## New Industry Contracts

- New *contractual* relationships created – new contracts
- Put in place model contracts at outset of reforms
- Law would require sector participants to enter into contracts, Regulator would devise and monitor them
- Transmission contracts:
  - Connection and transmission services (including scheduling and despatch)
  - Provision of ancillary services
- Power sales contracts:
  - Long term PSAs between generators and buyers (bulk purchaser or distribution or supply companies)



## New Industry Contracts (cont.)

- Use of system or “wheeling” contracts:
  - Rights to have electricity delivered over networks
- Fuel purchase contracts by generators?
- Customer service contracts: supply, connection and delivery terms
- Fundamental contract terms
  - Incorporation of terms from relevant code, license and Law and Regulations, thus creating contractual and commercial obligations that parties can enforce
  - *But note:* obligations typically couched in less than strict terms
  - Eg. Transco to “use all reasonable endeavors to ...” comply or “in accordance with good industry practice”



# Regulatory Options



## New Industry Contracts (cont.)

- Fundamental contract terms (cont.)
  - Manner of and expectation regarding performance: hard obligation or reasonable endeavors?
  - If failure to perform can be proved, liabilities are limited or reduced:
  - *Exclusions* of liability for matters outside control and of types of liability (eg. financial losses as against physical damage)
  - *Limits* of liability for matters within control (to caps of liability payments)
  - Length of performance
  - Payment timing and method
  - Transfer of obligations (assignment or subcontracting)
  - Resolution of disagreements



# Laws and Regulation – Next Steps



## What is needed to establish a regulatory regime?

- Agree policy in key areas (market structure, competition, tariffs, private investment)
  - Finalize policy statement and have MoE issue it
- Primary legislation necessary – submit to Steering Committee
- Establish a new regulatory body – Iraqi Electricity Commission (IEC):
  - Shadow Regulator until authorizing Law passed
  - Commissioners
  - Staff, training, facilities
- Decide on tariff methodology
- Decide on form of wholesale market
- Work plan and timing to be developed



# MENA Country Electricity Sector Comparison

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**Many countries committed to a program of liberalization and privatization**

**But few have developed plans into concrete proposals, eg. Egypt**



# MENA Country Electricity Sector Comparison



	Jordan	Syria	Lebanon	Turkey	Egypt	Abu Dhabi
<b>Independent de-politicised Regulatory Commission?</b>	Established, commenced operation 2001. Presently, the Chief Commissioner is still the Minister of Energy and Mineral Resources.	No Electricity Commission established	No Electricity Commission established. Restructuring of sector now under serious discussion. 90% of sector controlled by govt company, fully vertically integrated Electricité du Liban, founded 1964, unprofitable.	Energy Market Regulatory Authority established in 2001, but plans to liberalize sector stalled – kick started again with the 2004 strategy paper. Financially and administratively independent. EMRA also regulates petroleum and natural gas markets.	Electric Utility and Consumer Protection Regulatory Agency formed by decrees 1997 and 2000, Board of directors formed and man. Director appointed 2001; independently funded (from licenses and activities plus provision for funds allocation from state budget); tariff-setting power appears very weak.	Regulation and Supervision Bureau established by the Electricity Regulation Law 1988 regulates electricity and water. Funded from licence fees. Reporting is to the Chairman of the Abu Dhabi Water and Electricity Authority, also the holding co. for govt electricity sector assets. RSB Director General appointed by Chair of ADWEA, though since it is for a 5 year term it is argued they are sufficiently independent.



# MENA Country Electricity Sector Comparison



<p><b>Tariff setting</b></p>	<p>Law gives power to Commission (subject to decree power) although the Minister is still making tariff decisions.</p> <p>Handover to Commission Chairman expected shortly.</p>	<p>Tariffs set by government.</p>	<p>Tariffs set by government.</p>	<p>Transmission, distribution and retail tariffs are regulated and the wholesale tariff of the state-owned wholesale company (Turkish Electricity and Contracting Company) is regulated.</p>	<p>Tariffs set by cabinet for end user. EEHC sets transfer prices for generation exchanges among electricity companies.</p>	<p>RSB regulates tariffs, through 3 yearly reviews. Single Buyer sets the Bulk Supply Tariff, which is a pass through depending on fuel costs and the PPAs. Transmission UoS, distribution UoS and “Sale” (Supply) charges regulated on a Maximum Allowable Revenue basis, largely driven by cost of capital and efficiency elements. Sum of all these less the govt subsidy equals the consumer tariff. Different classes of consumer (nationals, expatriates, commercial) get different levels of subsidy so their tariffs are different.</p>
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# MENA Country Electricity Sector Comparison



Market model, competition	Single buyer; negotiated by generators with bulk supply licensee, tariff reviewed by Commission; market too small for competition, regional issues, such as less sophisticated markets/lack of reform in neighbouring countries, hinder introduction.	Presently vertically integrated structure, no competition yet introduced.	Presently vertically integrated structure, no competition yet introduced.	Electricity Market Law passed in 2001 and electricity market comprising about 20% opened in 2002. EMRA recently reduced eligibility threshold from 9 to 7.8 GWh of annual consumption (corresponds to 29% market opening).  Regulated third party access; bilateral contracts with residual pool.	Single buyer, part of transmission company; consumers only permitted to purchase from their area electricity company or (for HV customers) from EEHC.	Single Buyer (Abu Dhabi Water and Electricity Company) issues tenders for generating plant, negotiates long term PPAs and purchases fuel for generators. It sells electricity to the distribution (including supply cos) at Bulk Supply Tariff. Competition only arises in generation, and only then during the tender process for a new plant. There is no competition in Supply.



# MENA Country Electricity Sector Comparison



<p><b>Licensing or permitting regime; third party access</b></p>	<p>Fully implemented; offence to undertake any licensed activity without license.</p>	<p>No regime established for sector (fully owned and controlled by government.</p>	<p>No regime established for sector (fully owned and controlled by government.</p>	<p>Licensing regime established (EMRA) in 2002. Generation and transmission unbundled but govt owned.</p> <p>Issues exist regarding access to networks (and compliance with EU requirements).</p>	<p>Agency authorized to issue licences at all levels of electricity sector. Due process must be followed.</p>	<p>RSB issues licenses to market players. No third party access – customers can connect directly to the transmission network but they still have to have contractual arrangements with Distribution/Supply companies.</p>
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# MENA Country Electricity Sector Comparison



<p><b>Performance standards</b></p>	<p>In process; draft grid code just completed; distribution standards in process.</p>				<p>Regulatory Agency has varied powers, including “ensuring the quality of the technical and administrative services provided by” the utility and issuing licenses for the construction, management, operation and maintenance of all sectors.</p>	<p>Not included in the licenses. RSB is introducing them gradually. The current tariff review extends the proposed Key Performance Indicators (KPIs).</p>
<p><b>Dispute resolution method</b></p>	<p>Council of Commissioners rules on licensee disputes if licensees agree and on all disputes between customers and licensees; challenges in High Court. Council has power to rule on license breaches; must provide opportunity to make representations or to remedy the breach.</p>			<p>EMR Board has jurisdiction over disputes between transco and discos over connection and use of system and over accusations that transco’s intervention in the market was “excessive”. Board decisions are able to be appealed to court of first instance.</p>	<p>Regulatory Agency has power to investigate and settle consumer complaints. Customers must first have complained to the company concerned and not been able to reach a solution.</p>	<p>RSB can issue compliance orders on operators failing to meet license obligations. Sector operates on consensus. RSB consults widely on all key decisions. Reason appears to be, ADWEA has ultimate authority and ownership, not wish to see public disputes, so problems that remain are resolved behind the scenes.</p>



# MENA Country Electricity Sector Comparison



<p><b>Status of privatization</b></p>	<p>Privatization well advanced although no privatizations in electricity completed yet; Privatisation Law passed and Executive Privatisation Commission well established; successful transactions include telecoms; process for sale of electricity distribution companies nearing completion stage.</p>	<p>100% govt owned and controlled at present. Privatisation discussed by Govt for state electricity company but presently is not considered viable (collections are only half). Focus has been on liberalizing and reforming other sectors, eg. banking;</p>	<p>Presently fully owned and controlled by govt. Aims of converting EDL to profitable commercial company, including discussion of privatization. MOU signed with PNB-Paribus to find international management partner for EDL.</p>	<p>Privatization of distribution companies has occurred, and there have been several BOOT projects. Privatization program began in early 1990s but stalled because of legal issues, recent remedied through further constitutional reforms.</p>	<p>Egyptian Electric Holding Company owns generation, transmission and distribution companies. Major privatization programs in energy and telecoms; now under serious consideration for sector utilities. Several plant constructed using USAID and World Bank funding, and several major BOOT projects in pipeline.</p>	<p>So far only in Generation. Two govt power plants sold stakes (40%) to investors. New generating plant is publicly tendered, and therefore private from the start. Advisers appointed to privatise dist. and supply. Early stages but appears likely to be in the form of sale of a minority stake to a govt-owned financial institution (eg. pension fund).</p>
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# Regulatory Framework and Privatization Experience in Jordan



**Rashad Aburas, Director General, Jordan Electricity Sector Regulatory Commission**

**Dina Dabbas, Transaction Manager, Executive Privatization Commission**

## Bios

- Rashad Aburas has been working in the electricity sector since 1977. He has served in Jordan's Electricity Authority, the Ministry of Energy and worked with the World Bank. At present he is the Director General of Jordan's Electricity Sector Regulatory Commission. He holds a B.Sc. from Cairo University (1970) and an M.Sc. in thermal power (England 1977)
- Dina Dabbas, as well as being the Transaction Manager for the Executive Privatization Commission, is a member of the Steering Committee for the Privatization of the Electricity Sector, member of the Steering and Technical Committees for the Restructuring of both the Oil Market in the Kingdom and the Petroleum Refinery Company, member of the Board of Directors of Samra Electric Power Generation Company (SEPGCO) and was a member of the Committee of the National Privatization Strategy. Before joining the Commission she was with the Central Bank of Jordan. She has an M.Sc. in Economics (1984, University of Jordan) and a B.Sc. in Economics and Business Administration (1978, University of Jordan). She participated in the drafting of the Privatization Law 2000.

