

Creation of a
SUSTAINABLE REGIONAL
REGULATORY ASSOCIATION
and promotion of
BEST PRACTICES IN
NATIONAL ENERGY REGULATION



Lessons Learned from 10 Years of
Regulatory Capacity Development in
Central/Eastern Europe & Eurasia





ENERGY REGULATORS REGIONAL ASSOCIATION

FULL MEMBERS

- Albania***
Energy Regulatory Entity of Albania
- Armenia***
Public Services Regulatory Commission of the Republic of Armenia
- Azerbaijan**
Tariff Council of Azerbaijan
- Bosnia and Herzegovina**
State Energy Regulatory Commission of Bosnia and Herzegovina
- Bulgaria***
State Energy & Water Regulatory Commission of Bulgaria
- Croatia**
Croatian Energy Regulatory Agency
- Estonia***
Energy Regulatory Department of the Estonian Competition Authority
- Georgia***
Georgian National Energy Regulatory Commission
- Hungary***
Hungarian Energy Office
- Kazakhstan***
Agency for Regulation of Natural Monopolies

- Kyrgyz Republic***
State Department of Fuel and Energy Regulation at the Ministry of Industry, Energy and Fuel Resources of the Kyrgyz Republic
- Latvia***
Public Utilities Commission of Latvia
- Lithuania***
National Control Commission for Prices and Energy of Lithuania
- Macedonia**
Energy Regulatory Commission of the Republic of Macedonia
- Moldova***
National Energy Regulatory Agency of Moldova
- Mongolia**
Energy Regulatory Authority
- Montenegro**
Energy Regulatory Agency of Montenegro
- Poland***
Energy Regulatory Office of Poland
- Romania***
Romanian Energy Regulatory Authority
- Russian Federation***
Federal Tariff Service of the Russian Federation
- Serbia**
Energy Agency of the Republic of Serbia

- Slovak Republic**
Regulatory Office for Network Industries of the Slovak Republic
- Turkey**
Energy Market Regulatory Authority of Turkey
- Ukraine***
National Electricity Regulatory Commission of Ukraine

ASSOCIATE MEMBERS

- Romania**
National Regulatory Authority for Municipal Services of Romania
- UNMIK****
Energy Regulatory Office of Kosovo

AFFILIATE MEMBERS

- Jordan**
Electricity Regulatory Commission
- Saudi Arabia**
Electricity and Co-Generation Regulatory Authority
- United Arab Emirates**
Regulation and Supervision Bureau
- USA***
National Association of Regulatory Utility Commissioners

*denotes original founding member

**The Energy Regulatory Office under the United Nations Interim Administration Mission in Kosovo joined ERRA as an Associate Member in 2005.



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EXECUTIVE SUMMARY

Background

The National Association of Regulatory Utility Commissioners (NARUC) is a non-profit, quasi-governmental organization founded in 1889 and based in Washington, D.C. Its members include the governmental agencies that are engaged in the regulation of utilities and carriers in the fifty States, the District of Columbia, Puerto Rico and the Virgin Islands. NARUC's mission is to serve the public interest by improving the quality and effectiveness of public utility regulation. NARUC's members are State government officials and agencies charged with the duty of regulating electricity, natural gas, telecommunications, and water utilities within their respective borders. As such, these officials have the obligation to assure the establishment of such electric and natural gas utility facilities as may be required by the public convenience and necessity, and the furnishing of dependable service at rates that are just and reasonable.

NARUC draws upon its active Commissioners and senior commission staff to provide voluntary technical expertise in utility regulatory issues to countries in various stages of regulatory development, privatization, and infrastructure improvement. It is important to emphasize that all of NARUC's international programs focus on the transfer of best regulatory and management practices and promote energy sector reform by advocating that countries and regions look at successful models and adapt them to their situation

accordingly. While some U.S. energy sector policies may be considered too advanced for certain transitioning and developing countries, NARUC maintains that exposure to these concepts allows officials to plan for future stages of market development. The different policy, regulatory, and market structures of individual States provide the opportunity for NARUC to select specific regulatory practices from within its membership of State commissions whose market development is similar to the situation in the targeted region during knowledge transfers and information exchange.

With the award of this cooperative agreement from the U.S. Agency for International Development (USAID) in 1998, NARUC began a new era of engagement in the global regulatory arena. NARUC Commissioners and Commission Staff have had the opportunity to share their experiences while also learning from their international counterparts. NARUC's leadership has been committed to the success of this program from the beginning, with members of the Executive Committee participating in ERRA activities on a regular basis. In large part due to this program's success, NARUC members enthusiastically supported the develop-

ment of programs with other regional regulatory associations and national regulators.

The Context

The NARUC regulatory development work took place within the broader USAID energy sector reform program involving the regulatory framework, utility restructuring, development of energy markets,



Regulators from Albania discussing legal case management with their colleague from Indiana, Indianapolis, June 2005.

and privatization. The NARUC/USAID cooperative agreement began as a three-year program, with regional funding provided by the Energy and Infrastructure Division of the Bureau for Europe and Eurasia, U.S. Agency for International Development (USAID). Within the first year, energy regulators from the Central/Eastern Europe and Eurasia region (“E&E Region”) showed their commitment to the establishment of a regional association – the Energy Regulators Regional Association (ERRA). USAID, in turn, showed its dedication to assisting the regulators to create a viable, sustainable organization by extending NARUC’s cooperative agreement three times, for a total 10-year period.

Through its agreement, NARUC became part of USAID’s three-prong approach to developing, supporting, and sustaining the nascent energy regulators in the E&E region. The USAID development assistance method included:

- (a) Regional regulatory networking and information exchange organized by NARUC.
- (b) Partnerships for access to U.S. regulatory practices implemented by NARUC.
- (c) Long-term/short-term technical assistance managed by USAID Missions in country.

*The objective is to create a regulatory body that has substantial **autonomy** from short-term political and other interventions; adequate **authority** to establish sound regulatory practices (e.g., tariffs, licenses and monitoring); clear **accountability** to assure transparency and credibility, and; **ability** to carry out the regulatory functions.*

A sound, transparent and stable regulatory body and process is important for the government, consumers and investors alike.

— Mr. Robert Archer, Senior Energy Advisor, Energy & Infrastructure, Bureau for Europe & Eurasia, USAID

This approach focused on building skills at the regional (and sub-regional) and national levels. NARUC’s regional program to create a regulatory association allowed E&E commissioners and staff to share experiences and best practices with each other and their U.S. counterparts.

The importance of regulatory development, both through ERRA regional activities and bilateral partnerships with U.S. regulatory commissions, was recognized by a record 15 USAID Missions that contributed direct funding to the cooperative agreement. The USAID Missions provided funds to support the participation of the national energy regulators in ERRA regional networking activities and/or to sponsor a bilateral partnership for access to U.S. public utility commission experience. It is also striking to note that many of these missions provided several obligations of funding over the course of the agreement to ensure the national regulators gained new technical skills and enhanced their institutional capacities.

The professional development activities and training courses implemented by NARUC and ERRA highlight the value of a regional approach because it provided:

- (a) USAID economies and efficiencies not achievable by a single USAID Mission. For example, the regional training program displaced the need for multiple USAID Missions financing numerous consultants’ development of tariff training courses for the national regulators.
- (b) A mechanism for the exchange of experience on common issues among countries that could not be achieved by bilateral programs.
- (c) Lessons learned in countries were transferred so that USAID Missions and regulatory bodies did not have to reinvent the wheel when designing regulatory policies and procedures.

Effective regulation is the key element in fostering sector investment as shown in a World Bank global survey and an industry survey in Europe and in multiple privatizations. The impact of effective regulation goes beyond the sector as it contributes to decentralization, greater transparency, and increased stakeholder involvement – critical components for development of democratic systems and general market economy frameworks.

Energy Regulators Regional Association

NARUC began implementing the cooperative agreement in 1999 by organizing technical forums, meetings, and study tours; publishing electronic newsletters; and developing a website to enable the 12 established energy regulators in E&E to exchange information and best practices with each other and their U.S. colleagues. When participants expressed the need for an association similar to NARUC, one that could offer a more formal platform for exchanging ideas and learning from each other's experiences, NARUC created a Steering Committee consisting of six representatives from regulators in the region (Armenia, Hungary, Lithuania, Poland, Russia, and Ukraine) to begin exploring this process. NARUC and USAID supported the Steering Committee through funding of meetings and drafting of governance materials. On December 9, 1999, 14 energy regulators signed the "Founding Principles," which outlined ERRA's basic purpose, objectives, and organizational structure. ERRA was created to focus on information exchange and professional development. The Steering Committee agreed from the beginning that ERRA would not be a policy making body.

On December 11, 2000, the 15 "founding members" formally established the Energy Regulators Regional Association (ERRA) and elected a five-member Presidium (executive

ERRA's Purpose And Objectives Are:

- to improve national energy regulation in member countries;
- to foster the development of stable energy regulators with autonomy and authority;
- to improve cooperation among energy regulators; and
- to facilitate the exchange of information, research, training and experience among members and other regulators around the world.

body) to manage the Association. ERRA was legally registered in April 2001 with headquarters in Budapest, Hungary. Two key documents outline the goals, rights and responsibilities, and functions of the Association – the Constitution and Operating Guidelines. During 2000, all Chairmen convened twice for detailed review and development of the Constitution supported by NARUC and USAID staff. Both documents have been updated over the years to adapt to changing circumstances.

ERRA played an important role in accelerating the development of newly created regulators and their national energy reform efforts. This is especially true of the Southeast Europe region, where regulators joined ERRA as soon as they were established and gained immediate access to best practices and lessons learned from their counterparts in Central Europe and Eurasia. By 2004, ERRA had grown to 22 Full Members and four Associate Members. As of April 2008, ERRA consists of 24 Full Members, two Associate Members, and four Affiliate Members.

The ERRA Presidium began as a five-person body and was expanded to seven members, including the Chairman and Vice Chairman, in May 2004. This ensured the ability for a diverse range of representatives (from Central Europe, Southeast Europe, Eastern Europe, and Eurasia) and addressed the risk of unexpected turnover of members. Several representatives from the first Presidium term (2000-2002) were members of the pre-ERRA Steering Committee and, therefore, intimately familiar with the concept and creation of the new association. This consistency from the very beginning was important to ensuring that ERRA's activities achieved the Association's objectives and purpose as outlined in the Constitution.



ERRA, NARUC and USAID representatives commemorating the new Association, December 2000, Bucharest, Romania.

When NARUC hired the Head of the Secretariat in Budapest in June 2000, it began the process of training and transferring program functions to local staff. NARUC's goal was to transfer the majority of the program implementation duties to ERRA staff while ensuring that program implementation continued in a highly professional manner.

ERRA is a unique professional organization in the region due to the fact that since 1998, almost all NARUC and ERRA activities have been conducted in English and Russian. Both languages are included in the Constitution as the official languages of the Association. NARUC and ERRA staff members have been required to have high proficiency in both languages in order to serve all members equally. The Hungarian Energy Office has played a critical role in ensuring the success of ERRA. It has provided free office space to the ERRA Secretariat and in the first few years provided select computer equipment. In addition, HEO representatives have been active within the leadership of the Association, both at the Presidium and Committee levels.

Select Key Topics From ERRA Issue Papers:

- Regulatory Independence
- Licensing Procedures
(harmonization, monitoring, enforcement)
- Market Structure & Design (privatization, competition, unbundling, monitoring)
- Cross-border Trade, Regional Market Development
- Security and Quality of Supply
- Access to Utility Data, Performance Evaluation
- Tariff Methodologies & Pricing Policies
(wholesale, retail, generation, distribution, renewables, cost structures)
- Low Income, Social Safety Net, Supplier of Last Resort
- Public Participation

ERRA is widely seen as an example of an extremely successful regional association and is recognized as an important international institution. Significant portions of the ERRA Constitution have been incorporated into other regional associations' documents. ERRA has also established solid relationships with the Regional Electricity Regulators Association (RERA) of Southern Africa and the African



Members of the ERRA Legal Regulation Working Group.

Forum for Utility Regulation, whose members have increasingly participated in ERRA training programs. ERRA is invited to participate at international events on critical energy issues including the G8 Regulatory Roundtable.

In 2000, NARUC began developing a separate bilateral relationship with the Council of European Energy Regulators (CEER). NARUC successfully involved representatives from ERRA in these and other meetings to promote a strong trilateral relationship among NARUC, ERRA, and CEER. Building on this, through the efforts of the ERRA Secretariat and Presidium, ERRA has developed a strong relationship with CEER. ERRA invites CEER members to participate in its professional development (committee meetings, conferences) and training programs. Approximately one-third of ERRA members are also CEER members, so this collaborative relationship is especially important.

The two Standing Committees – Licensing/Competition and Tariff/Pricing – are at the heart of the Association. The committees and working groups have helped ERRA to define itself and develop its expertise since its inception. (In fact, committee members began to meet informally even prior to the adoption of the Constitution and formalization of ERRA in 2000.) Committee members play a central role in determining the technical issues that ERRA examines through presentations, surveys, and preparation of technical reports and issue papers. The majority of the work products are prepared by committee members on a voluntary basis. In addition, NARUC/USAID funding has allowed for the use of outside consultants to examine new or complex topics as a way to transfer this information to ERRA members. The continuity of committee members has created a very open atmosphere within ERRA committee meetings, which enabled deep discussion and understanding of these issue

papers. As evidenced in the issue papers prepared and discussed under ERRA's committees and working groups, ERRA members are facing increasingly complex and technical regulatory questions.

The issue papers have been one of the most important outputs of ERRA members. They evolved from examination of more basic regulatory principles to evaluation of treatment of specific regulatory issues and exploration of advanced regulatory methodologies. Each committee/ working group has prepared a significant number of these important resource documents:

- **Licensing/Competition Committee**
31 issue papers since 1999
- **Tariff/Pricing Committee**
24 issue papers since 1999
- **Legal Regulation Working Group**
6 issue papers since 2004
- **European Union Integration Working Group**
3 issue papers from 2003-2005
- **Export/Import Working Group**
2 issue papers from 1999-2000
- **Regional Markets Working Group**
1 issue paper in 2001
- **Monitoring Working Group**
1 issue paper in 2001

In addition, the ERRA website hosts thousands of presentations from E&E regulators and staff that have been discussed at ERRA meetings.

ERRA is flourishing because of the dedication and voluntary contributions of its members. Presidium members and committee/working group leaders work hard to ensure that ERRA continuously meets member needs and improves its services. In addition, many committee members volunteer to take responsibility for topics to be examined during the course of the year. As ERRA, like other similar associations, will always face a turnover in the leadership/commissioners and staff of its member regulators, there is also emphasis placed on preparing the 'next generation' of leaders within ERRA. For example, particularly strong committee members may receive extra leadership training and/or be nominated to serve as ERRA training instructors, thereby creating a pool of in-house experts for future leadership positions.

The majority of ERRA professional development activities (such as committee meetings) are closed and for ERRA members only. These member-only activities have allowed regulators to build a strong support system within the region, with ties to U.S. commissions and in some cases select European Union (EU) regulators. They allow for very frank discussions, promote transfer of best practices, and strengthen national regulatory agencies and their frameworks. This was especially important during the early years when regulators were first being created and staffed. Based on this atmosphere, most of the regulators took advantage of the opportunities to ask questions about basic regulatory concepts and practices.



Participants at ERRA's annual Energy Investment & Regulation Conference.

In 2002, ERRA organized its first activity that was open to non-members as part of its sustainability goals: the Energy Investment & Regulation Conference. This annual conference involved extensive planning by the ERRA Presidium, Secretariat, and NARUC and USAID representatives. ERRA's Investment Conference is an unprecedented event – it allows representatives from utilities, financial and strategic investors, consultants, banks, end-users, and other energy stakeholders to meet face-to-face with more than 90-100 commissioners and senior technical staff from 25-plus energy regulators. Similar to NARUC meetings, the Investment Conference encourages industry representatives to share the types of environments they need in order to invest in generation and infrastructure improvements and developments. These often focus on stable, predictable, and transparent regulatory processes. Investors want to know that they will not face policies that change on a regular

basis, whether by the regulator itself or because of government interference in the regulatory process. Regulators share the energy reforms and policies they are implementing, with the opportunity to pique investor interest in their countries.

The Investment Conference has been vital in building ERRA's international reputation. It averages 225-250 participants annually and includes senior level representatives from the major energy stakeholders in the E&E region and the European Union. Keynote speakers have included Mr. Jean Lemierre, President of the European Bank for Reconstruction and Development (2002 and 2004), Ms. Kathy Sierra, Vice President of Infrastructure, World Bank (2005), and Chairman Joseph Kelliher, U.S. Federal Energy Regulatory



Group assignment during ERRA training course.

Commission (2008). As ERRA evolved and members faced staffing changes, it became clear that there was a strong need for more formal, structured training to augment the best practices transfer exercised in committee meetings and other professional development activities. In 2002, ERRA formed a Training Advisory Group comprised of representatives of ERRA, NARUC, and USAID. That year, with the assistance of consultants, ERRA conducted a comprehensive survey of ERRA members' training needs and analyzed the potential for providing technical training.

A unique feature of ERRA's "applied" training programs is the use of current and former ERRA member regulators (commissioners and staff members) as instructors. These include regulators with academic (university) backgrounds as well as former industry experts. This characteristic allows

ERRA to design training courses that focus equally on practical application and theoretical methodology, and include the transfer of relevant direct experience.

From June 2003 to January 2009, ERRA provided training to 805 members and 294 non-members through its comprehensive training program. The ERRA training initiative features a variety of junior to advanced level bi-lingual courses offered in traditional classroom and/or online formats. All training programs are dual-language (English and Russian) and include preparatory homework, practical exercises, simulations, participant case studies, and exams and systematic evaluation of results.

Based upon the success of the ERRA Summer School on Energy Regulation Practices and New Commissioner Training courses created in 2002 and 2003, ERRA, NARUC and USAID initiated development of a comprehensive "in-house" ERRA training program.

ERRA/NARUC/USAID developed a three-step process to a new set of modular courses, going beyond the introductory level summer school. These courses are at a mid- to senior-level and ideally suited for participants who have completed the ERRA summer school and have several years' experience in their positions. Step one included design and development of curriculum, preparation of course materials (presentations, textbook, group exercises, and exam), and pilot-testing in

Goals for ERRA Training Program

- **Meet member education needs.** In the NARUC evaluation report prepared in 2004, ERRA members expressed a strong desire to continue with basic training programs and potentially expand capacity with separate mid-level and new commissioner programs.
- **Sustainability of the association.** At a minimum, ERRA's training should not only be self-financing but also should generate additional revenue to cross-finance other activities of the association.
- **Dissemination of the regulatory experiences of the ERRA countries.** ERRA countries are rich in lessons regarding energy sector reform and regulatory experiences providing important lessons for emerging and developing countries beyond ERRA's current member states.

classroom format for ERRA members. Step two included adaptation of the course materials to a custom-designed online platform and pilot testing for ERRA members. NARUC and ERRA benefited from the cooperation of Comillas University (Madrid, Spain) in defining ERRA's approach to e-learning. For these first two steps, the NARUC/ USAID cooperative agreement provided funding support for

the design, implementation, and participant costs. Finally, for step three, the courses were offered in two tracks – for ERRA member regulators and non-regulators (ex. utilities, consultants, academics) – with a registration fee.

Rounding out its in-house training, ERRA now offers the following intermediate/ advanced modular courses, in both classroom and online versions.

- Monitoring Energy Markets
- Price Regulation & Tariffs
- Electricity Markets
- Introduction to Gas & District Heating Regulation
- Regulatory Information & Public Participation

The Summer School Course on Energy Regulation Practices is offered annually, with a second track added for non-ERRA members. The New Commissioner Training is offered every one to two years, as needed.

It is important to note that many of the Presidium members had strong university affiliations, providing a built-in cadre of academic instructors within ERRA. Furthermore, during one of the early training needs assessments, ERRA/NARUC/ USAID learned that almost every ERRA member had at least one commissioner who was a current part-time or former full-time university professor. This resource of expertise was



ERRA training courses feature small group discussions with instructors.

a vital factor in deciding to launch ERRA's training programs.

ERRA has developed a collaborative relationship with the Regional Center for Energy Policy Research (REKK), led by Dr. Peter Kaderjak (former ERRA Chairman and Professor at Corvinus University of Budapest). Dr. Kaderjak and his staff (including former regulators and regulatory staff) have served as course directors and/

or course instructors

for the majority of ERRA's training programs. In October 2007, ERRA signed a Memorandum of Understanding with REKK to provide ERRA members' in-house training services to be developed in consultation with the ERRA Presidium, Training Advisory Committee, and Secretariat Staff; REKK considers training services for ERRA as its priority task. ERRA and REKK coordinate on the development of course curriculum and proposals for instructors from ERRA members. This strong relationship has helped ERRA ensure that its training programs are germane, with a proper balance between theory and practical application (which is confirmed regularly by the participant evaluation process).

Lessons Learned & Results of ERRA

NARUC went well beyond achieving the goals of the USAID cooperative agreement. The regional approach embodied in the ERRA concept and the bilateral partnerships increase the effectiveness of USAID's assistance to these countries. NARUC and ERRA have been instrumental in helping member commissions establish their structure and procedures, playing an important role in promoting regulatory independence and transparency.

Institutional Development Takes Time

It took ten years to create ERRA, from concept to initial organization and development to establishment of professional and financial sustainability.

Institutions Must be Demand Driven and Responsive

One of the most important contributing factors to ERRA's success is that it was demand driven by member regulators. ERRA is truly an organization that is by regulators and for regulators. While USAID provided financial and technical support and the structure of ERRA drew upon the experiences of NARUC, there was substantial control and ownership by the E&E regulators and commission staff from the beginning. ERRA members have been actively involved in defining the purpose, functions, and activities of the Association. The Founding Principles, Constitution, and Operating Guidelines were developed through systematic detailed line-by-line meetings with the Steering Committee and then the full complement of 15 Chairmen at two meetings over the period of a year. This timing allowed the goals and objectives of the Association to be clearly defined and the meetings ensured that all Founding Members had the opportunity to help craft the Association.

The ERRA Presidium and General Assembly remain actively involved in the Association's program activities and financial plans. In addition, the technical committees and working groups remain vital to defining the topics to be addressed in professional development and technical training through their annual workplan, case studies, and issue papers.

Members Must Make a Voluntary Commitment of Time

From the beginning, regulators and staff provided important voluntary contributions of their time – at the leadership/governance development stages and through preparation of committee issue papers and reports. This contribution came from both ERRA and NARUC regulators and staff.

Institutional Design Must Account for Specific Circumstances:

- **Continual Change:** The regulatory environment is subject to on-going change and increasing demands on regulators due to continued sector reforms, EU Directives, governmental decisions, regulatory incentives, privatization, energy security and climate change. ERRA as an organization has been responsive to changing circumstances and member needs.
- **Constrained Resources:** National regulatory agencies generally have very limited resources. ERRA has developed diverse revenue sources to minimize cost to members.
- **Regulatory Turnover:** Fixed terms and political removal creates continual change in regulatory agencies. The ERRA organizational structure has accommodated this by an expanded Presidium, Vice Chairs on the Committees, and on-going training.
- **Adverse Environment:** Government interference for short-term political reasons and utility opposition are common.

An Effective Secretariat Staff is Critical

The hiring of outstanding Secretariat staff has been vital

to the effectiveness and efficiency of ERRA. The Secretariat staff should be given strong credit for developing and implementing activities that have built ERRA's successful international reputation. NARUC staff has played a key role in transferring best practices of association management to ERRA staff. The Secretariat staff is fundamental to the function of the Association. They are tri-lingual and possess excellent management and interpersonal skills needed for institutional management, conference planning,



Discussions at an ERRA Tariff/Pricing Committee meeting.

training program design, and logistical support. The ERRA Secretariat staff has been very stable and their institutional memory is very important given the ongoing turnover of commissioners and, to a lesser degree, staff. While there has been turnover within the Presidium each year, the exceptional performance of the Secretariat staff has ensured that the Association continues to achieve success in professional development programs, training courses, and financial sustainability.

Face-to-Face Interaction

The relationships built through face-to-face meetings and trainings allow regulators from various countries to continue to seek information from each other. While electronic communication and online forums are cost effective ways to share best practices, personal interactions cement long-term linkages. While ERRA committee representatives have been meeting three times per year for the past decade, recently members have significantly increased their communication between meetings. Committee members frequently send requests for information on a specific topic and/or examples of regulatory procedures as new regulatory challenges arise during the year. Because of the in-person committee meetings, members have built strong relationships and quickly send information on their national policies to their counterparts. The majority of chairs, commissioners and staff who have participated in ERRA programs feel that they have personally and professionally benefited through this information exchange forum. It is clear that ERRA members look at regulations and procedures in other ERRA countries when they are revising and drafting documents for their national energy sector.

Since ERRA covers a broad geographic region, it is natural that the energy regulators in each country face some similar and also different challenges. One of the keys to ERRA's success is its effort to be inclusive and relevant for each member. This means that regulators who have 10-12 years of experience and are regulating private energy players in

developing competitive market may be working on very sophisticated issues. Participation in ERRA allows them an opportunity to solicit feedback from their colleagues and further refine policies before implementing them. Those countries who have either only recently created regulators

and/or countries where the regulator has been hampered by political interference can potentially avoid some pitfalls along the road to reform by learning from the successes and obstacles faced by their colleagues.

In addition to noting the benefits to their personal knowledge of energy regulation, many ERRA members have used information from ERRA activities to make substantive changes within their regulatory agency. Several countries have created customer service departments, others have reorganized existing divisions, and many have enacted changes to their

primary and/or secondary legislation.

On-Going Self-Evaluation and Dissemination

All NARUC and ERRA committee meetings, workshops, conferences, and training courses include a written evaluation (typically 15-20 questions) that is given to participants towards the end of the activity. The questionnaire addresses pre-meeting expectations, the activity itself, and the value of information received. Each committee/WG also prepares a list of priority issues to be examined during the following year that are developed through a voting process. The ERRA Secretariat staff provides the evaluation results for each activity to the ERRA Presidium, committee/working group chairs, and NARUC and USAID representatives.

The evaluation process for ERRA's formal training courses (classroom and online) is especially important as it allows ERRA to make improvements in general and to specific courses. This comprehensive self-evaluation process allows ERRA to monitor its activities and make adjustments as necessary to ensure that it is providing applicable and valuable services.



ERRA activities focus on electricity, followed by natural gas.

As part of its self-evaluation process, participants in ERRA professional development and training activities are asked how they will share what they have learned once they return to their home regulatory agencies. The majority of respondents indicate that they provide briefings to their departments and/or entire agencies. Most share weblinks, CDs, and other documentation with their colleagues; with many posting the materials in their regulators' intranet/electronic library. This transfer of knowledge to other regulatory staff ensures that best practices flow back to the agency, beyond just the individual who attended the meeting or training.

Contributions to Energy Sector Reform

Under the auspices of the NARUC/USAID cooperative agreement, ERRA members have been able to extensively share experiences with each other and their U.S. regulatory counterparts. Through committee/working group meetings, annual conferences, technical workshops, applied training, and other activities, E&E regulators have been able to make significant advances in reforming their national energy sectors and looking at areas for cooperation and harmonization to promote regional improvements.

While the NARUC/ERRA programs have covered a very broad range of topics, there are three main issues where ERRA members have made significant progress. In particular,

NARUC's Contribution

"Providing information to our international colleagues allows us [U.S. regulators] to really examine our practices and assess whether we should make improvements in our own regulatory policies. These exchanges are truly two-way learning experiences."

—The Honorable Frederick F. Butler, NARUC President (2008-09), former Chair of the NARUC Committee on International Relations; Commissioner, New Jersey Board of Public Utilities

NARUC/ERRA programs have contributed to the development of:

- Cost-based tariff methodologies
- Regional electricity markets
- Public involvement in energy regulation

ERRA members are clearly focused on developing tariff methodologies that best meet the challenges in their national environments. When NARUC/ERRA programs began a decade ago, regulators were faced with serious non-payment issues and high cross-subsidization across customer classes. E&E regulators have increasingly adopted cost-based and incentive forms of regulation to eliminate cross-subsidies and support efficiency increases of license holders. Most ERRA members have adapted their tariff procedures as they went through privatization and unbundling. ERRA members also addressed treatment of ancillary services and, more recently, renewable energy.

Various ERRA members also worked collaboratively to address harmonization issues to promote sub-regional markets and broader market cooperation. The Licensing/Competition Committee has recently worked on developing voluntary harmonized licensing procedures of wholesale traders. ERRA members have also concentrated on cross-border capacity allocation, congestion management, market rules, and monitoring/enforcement.

Finally, ERRA members have made noteworthy advancements in involving the public in energy regulation. Some ERRA members adopted public hearing procedures; those in NARUC regulatory partnerships frequently adapted their U.S. counterparts' procedures to their national situation. Most ERRA members have public relations staff that assist the regulators in communicating upcoming issues and decisions. Many ERRA members have also created customer service programs or departments. While regulators around the world all face a similar challenge in drawing criticism for any price increase decisions, participation in NARUC/ERRA activities has encouraged many ERRA members to develop proactive relationships with the media, parliament, non-government organizations (NGOs)/consumer groups, and other stakeholders to help ensure the reasons for the price increase or other regulatory decision are effectively communicated.

Diversification of Funding Sources for Financial Sustainability

It is very difficult for an association to operate solely on revenues from membership dues. Unlike the utilities they regulate, regulators around the world face budgetary constraints. In order to ensure continued strong participation in ERRA, members decided to keep membership dues at modest levels while increasingly assuming the costs of participation in ERRA activities (ex. airfare, hotel) beginning in 2003. NARUC and ERRA staff provided detailed information to each ERRA member country 1-2 years in advance to help them integrate dues, travel, and training costs into their operating budgets. This gradual approach as well as the forecast budget information provided by NARUC/ERRA was critical to ensuring that the vast majority of ERRA members continued to fully participate in ERRA activities.

In examining the revenue sources for similar regulatory associations, it was clear that ERRA would need to develop a variety of revenue sources to supplement membership dues. ERRA's current revenue sources include membership dues, Investment Conference registration and sponsorship fees, training registration fees, the Energy Tariff Database, and in 2008 a grant from the European Commission.

Long-Term Donor Support

Steady long-term donor support is necessary to achieving a viable, efficient international organization. Steady USAID funding ensured that regulators were able to see the value of ERRA as an institution and the impact that participation in ERRA activities provided to their national regulators. Given the financial constraints many national regulatory agencies face, it was important for regulators to see benefits to ensure they would be able to increasingly assume responsibility for the costs of their participation. USAID and NARUC also provided substantive advice and guidance on both organizational

development and examination of critical regulatory issues. The active participation of the European Bank for Reconstruction and Development and World Bank, especially in ERRA's Investment Conference and during financial sustainability planning meetings, were important and validated ERRA's role and credibility.

USAID and NARUC no longer provide core financial support to ERRA.

Regulatory Partnerships & Bilateral/Sub-regional Capacity Building

NARUC serves as the administrator of the bilateral and multilateral energy regulatory partnerships through the financial support from individual USAID Missions and the Bureau for Europe & Eurasia. The partnering institutions have also provided small monetary contributions. The partnerships are typically established for at least two years and can be extended through continued financial support of the Missions.

The Regulatory Partnership Program is designed as a vehicle for the exchange of regulatory experience and information between U.S. and E&E regulatory bodies with the goal of improving regulatory practices, enhancing institutional and operational aspects of the participating commissions and fostering strong relationships between the regulatory entities. The purpose of these partnerships is to create a collaborative framework and two-way learning process through which a specific U.S. Commission works with an individual energy regulatory authority in developing its institutional capacity, improving technical expertise, and establishing or refining

practices in market-based regulation.

Partnering organizations are paired based on mutual interest in common regulatory issues and similar energy sector portfolios. The partnerships consist of 2-3 exchange visits per year, with venues divided between the U.S. and the foreign partnering



Regulators from Vermont and the Republic of Macedonia visit the Green Mountain Power Corporation in VT, June 2004.

Snapshots Of Partnership Successes

ALBANIA-INDIANA

The Albanian regulator initiated public hearings on price and quality of supply issues and implemented a more streamlined decision-making process. Additionally, Albania restructured its regulatory agency based on institutional discussions with their Indiana partners.

BULGARIA-NEW JERSEY

Bulgaria improved its relations with customers and consumer advocacy groups as a result of two tailored internships at the New Jersey Board of Public Utilities.

CROATIA-NEW YORK

Croatia implemented electric tariff methodologies for its restructured markets as a result of the New York Commission's discussions on competition and unbundling. Croatian regulators also adopted some of the incentive regulatory practices, methodologies for natural gas storage and pricing for new customers.

KYRGYZ REPUBLIC-WASHINGTON

Kyrgyzstan implemented a number of legal practices and procedural tools following examples of the administrative law judge functions in Washington.

MACEDONIA-VERMONT

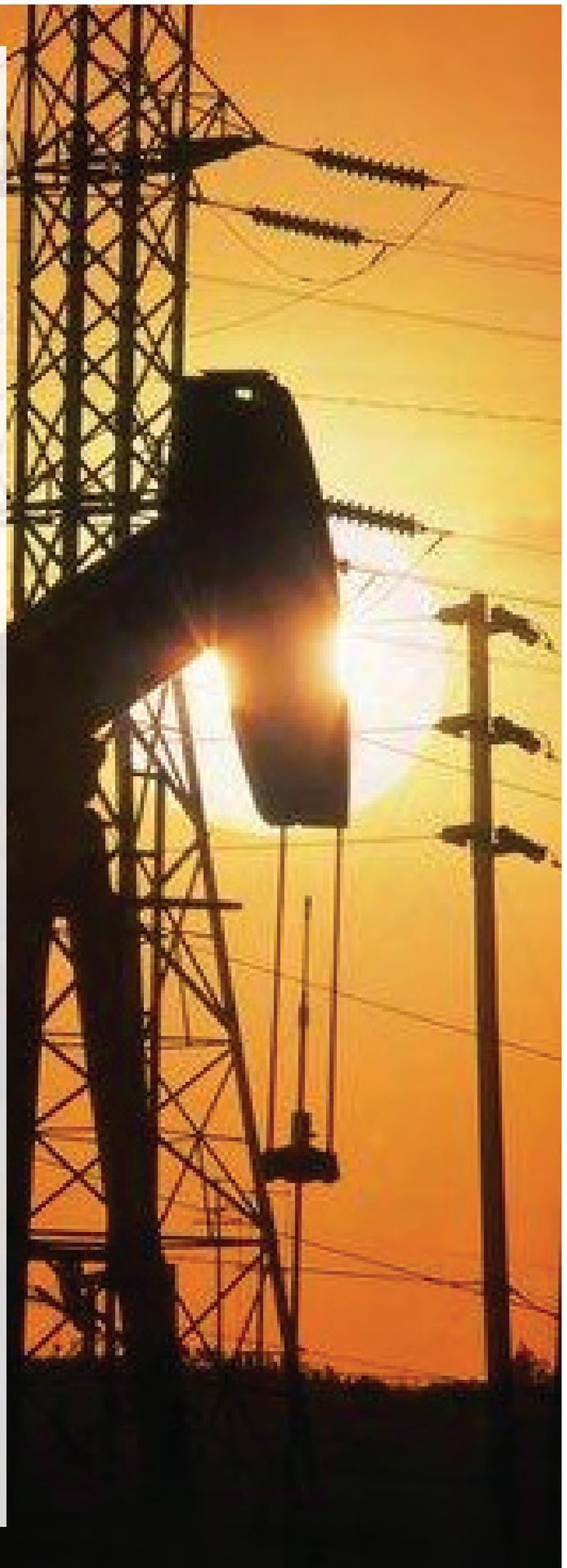
Considered many new regulatory practices in application of energy efficiency, demand-side management programs, monitoring and price reviews. Additionally, the Macedonian regulatory authority now conducts effective public hearings and has a better understanding on the role of other stakeholders in the regulatory process.

MOLDOVA-IOWA

Moldova improved its consumer education and public involvement functions.

SERBIA-PENNSYLVANIA

The Serbian regulators are seeking to improve specific technical capacities and methodologies for price regulations in the power and natural gas sectors, and to gain better understanding of regulatory functions in addressing fuel poverty.



commission. The exchanges are demand driven beginning with basic regulatory issues and evolving into more targeted technical topics. There are also opportunities for short-term internships and specialized U.S.-based training. The regulators correspond and exchange documents via email between activities to prepare for the next round of discussions and to identify issues, which arise in the interim.

NARUC's first energy regulatory partnership program for Eastern Europe and Eurasia was established in early 2002. Since then, the program has grown to incorporate the following 14 partnering institutions:

- **Albania – Indiana**
(10 activities, 1 study tour and 1 internship)
- **Bulgaria – New Jersey** (7 activities and 2 internships)
- **Croatia – New York**
(7 activities and 4 U.S. utility strategy training programs)
- **Kyrgyz Republic – Washington**
(6 activities)
- **Macedonia – Vermont**
(5 activities)
- **Moldova – Iowa**
(6 activities)
- **Serbia – Pennsylvania**
(3 activities, 1 internship, 1 U.S. utility rate school)

NARUC also implemented regulatory capacity development programs for USAID Missions in Azerbaijan and Kosovo, including workshops, seminars and exchange visits.

The partnership and regulatory capacity development programs have contributed to increased visibility, industry oversight and expert standing of the foreign partnering agencies in their respective countries, and have led to a number of positive results and accomplishments, such as adoption of new tariff methodologies to eliminate cross-subsidies, establishment of service quality monitoring,

implementation of public hearings, development of customer service programs, and creation of market rules.

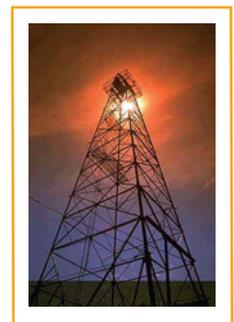
The partnerships and the in-country capacity development program have also strengthened the institutional arrangements

and management practices of the emerging regulatory commissions through more streamlined decision-making, expanded technical staff resources, institutionalized practices and overall understanding of the international regulatory environment. The programs have also offered the U.S. commission partners and regulatory practitioners the chance to expand and



re-evaluate their own regulatory practices.

The involvement of U.S. regulators has enabled ERA to remain on the cutting edge of U.S. regulatory issues which are of particular interest to ERA. Per the USAID/NARUC cooperative agreement, NARUC provides the expertise of U.S. commissioners and commission staff as an in-kind contribution to ERA activities as well as its regulatory partnership program. NARUC has exceeded the in-kind requirement outlined in the agreement, thanks to the generous time and efforts of U.S. commissioners and staff members. To date, representatives from more than half of the U.S. commissions have participated in ERA and other USAID-funded activities, with the value of NARUC membership's in-kind contributions totaling \$1,547,843.84 in donated time. Moreover, many of NARUC's bilateral partnership programs have been endorsed by the State governors who acknowledge the importance of foreign policy and development interests. The contribution of time and effort by NARUC commissioners and staff has enabled ERA members to learn from the more than 100-year history of regulation in the United States.



Prepared by the

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

Erin Hammel Skootsky

Director, International Programs

Martina Schwartz

Manager, International Programs

NARUC

1101 Vermont Ave, NW, Suite 200

Washington, DC 20005 USA

Tel: 1-202-898-2210

Fax: 1-202-898-2213

eskootsky@naruc.org

www.naruc.org

