Session 4: Developing Countries Experience and Outlook

Getting the framework right

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Introduction

Examples of regulatory “failure” and their causes

Three examples of regulatory failure in developing countries...

Reasons for "failure"

In each case the approach that has been adopted has tended to be a partial adoption rather than a whole approach....

Regulatory philosophy

Underlying UK regimes is the concept of FCM – embodied in the rolling-forward of the asset base which then allows a focus on WACC

Picking and choosing aspects of the regulatory regime can break this philosophy

Approach and process

When setting prices there is a consideration of the efficient costs that a company would incur. These costs are then the ones recovered. The link between costs, recovery period and customer acceptance is key to ensuring legitimacy....

Why does this matter?

- In the first case the risk of stranding means that a higher WACC (or some other mitigation mechanism such as additional depreciation charges) is necessary to encourage investment.
- In the latter, the link between costs, revenues and financeability is key to a sustainable industry.

Lessons

Incentive regulation is appropriate in developing and transitional countries

But getting it right is not always easy (not just a developing and transitional country problem) especially as circumstances change

A willingness to periodically test whether the regime is fit for purpose is important – regulation is an evolutionary process!

When establishing or updating regimes it is important to understand the whole regime and the underlying philosophy/objectives of other regulatory regimes so that labli (t)lim4(n)-1(p)-2(raw2(i)2(n))2( )[(r)2(e)3( )approprate andcep2(u)-2ge!

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