

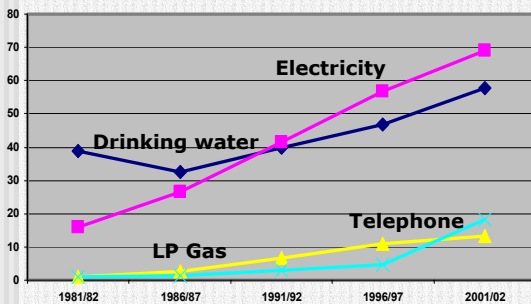
Overview of utility regulation in Sri Lanka: Problems & prospects

Rohan Samarajiva
Samarajiva@lrn.net
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Agenda

- Utility sector performance
- State of infrastructure reform and regulation in Sri Lanka
- Design of Public Utility Commission of Sri Lanka as a possible solution
 - Current uncertainties
- Continuity of infrastructure policy

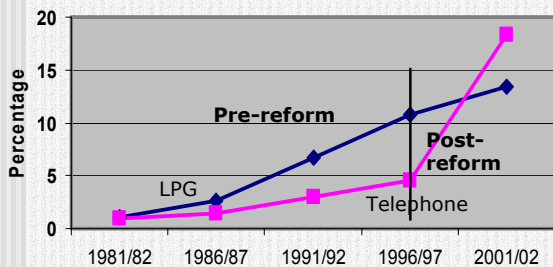
Household access to selected utility services, 1981-2002 (Consumer Finance Survey)



Access is good performance indicator in dev'ing country

- Significant growth in access to electricity but chronic undersupply, overpricing & quality-of-service problems
 - Unreformed; unregulated; undersupplied
- Drinking water figure includes own wells; pipe-borne water is 30% nationwide
 - Unreformed; unregulated; undersupplied
- LPG & telecom sectors partially reformed in 1996-97
 - LPG not yet subject to ex-ante regulation; but subject to a not fully defined form of regulation by Minister

Pre- & post-reform LPG and telecom performance

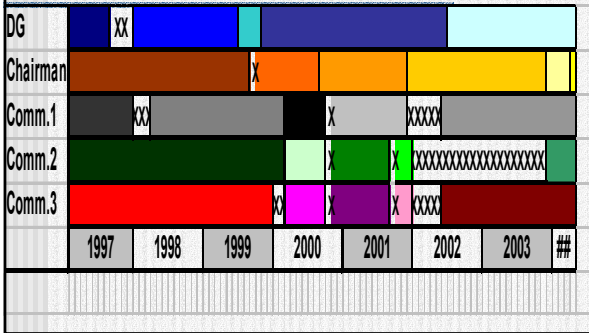


Utility regulation in Sri Lanka

- Overall, utility performance is unsatisfactory
- Experience with regulation also unsatisfactory
 - National Transportation Commission (1991) functioned as arm of Ministry
 - Telecom Regulatory Commission (1991; strengthened in 1997) has under-performed for the most part
 - One indicator of structural problems: instability in the decision making body: the Commission



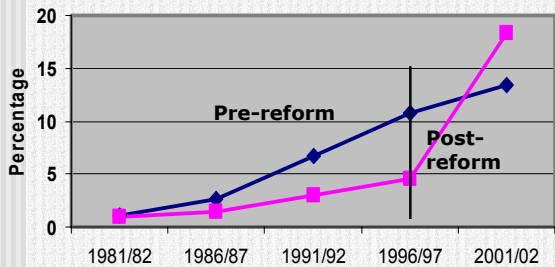
TRC: Decision maker churn



Utility regulation in Sri Lanka

- Given weak government capacity, reforms that can make do with sub-optimal regulation are best
- BUT, utility reforms yield highly imperfect markets that require regulatory intervention
 - Relatively inferior performance of LPG industry sans competition & regulation
- What is the optimal mix of market reform and regulation?

Pre- & post-reform LPG and telecom performance



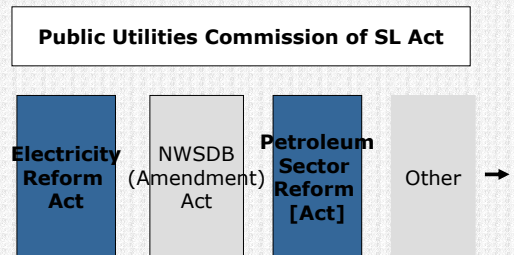
An attempt at a solution . .

- Public Utilities Commission of Sri Lanka Act, 35 of 2002, responding to
 - Challenge of ensuring effective independence
 - Because "line" ministries tend to identify with reformed incumbents
 - Constraints of human resource scarcity, including desire to contract (at least, not expand) already bloated government

Modular design

- Act sets out constitution, funding and general powers of Commission
- Commission exercises powers set out in Industry Acts
 - Electricity (2002)
 - Water (2003)
 - Petroleum (2004?)
 - Ports & marine services

Physical infrastructure regulatory framework



Independence

- Own fund; license fees & start up money from government
- Accountability to Parliament through annual report and audit process
- Staggered appointments of members by Minister in charge of subject of Policy Development with concurrence of Constitutional Council
- Defined removal procedures by Parliament

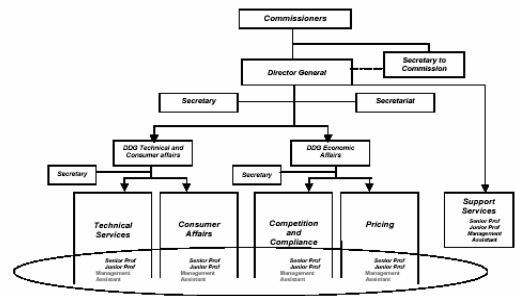
Independence

- Five members defined by subject expertise and experience
 - Part-time
- Director General (CEO), appointed by Commission
 - Attend meetings, but no vote
 - Separate "proposal" and "disposal" functions
- Policy directions
 - May be given only by Cabinet in writing, in consultation with Line Ministry

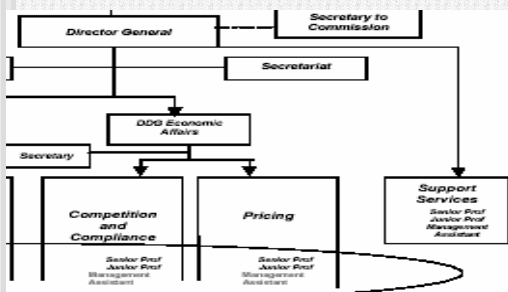
Capacity

- Organizational structure, recruitment and training that
 - Emphasizes commitment to new regulation
 - Breaks from command and control mindset
- Effective leadership
- Adequate compensation packages to attract persons with skills and potential
- Significant reliance on outsourcing for international best practice

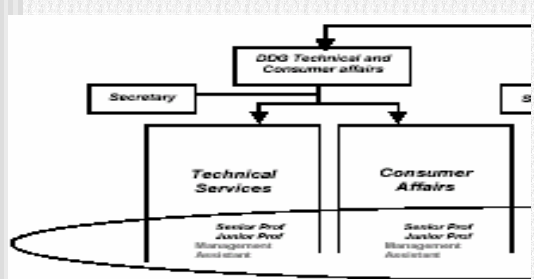
PUCSL organizational structure



PUCSL organizational structure (detail)



PUCSL organizational structure (detail)



Modern organizational form

- Emphasis on commonalities of infrastructure & core economic principles
- Multi-disciplinary teams & flat hierarchy
- In line with trend away from silo organization & toward teams

Status of PUCSL

- Commission members in place for almost one year
 - First vacancy ready to be filled
- DG, 2 senior professionals & 4 junior professionals in place
 - Training for SPs and YPs of over 1 year
- Regulatory Manual, first annual report, etc., ready
- Regulatory instruments for implementing ER Act ready for adoption

Stalled electricity reforms?

- Relevant parts of 2002 Act have to be gazetted
 - To unbundle integrated government owned monopoly into 9 companies, including
 - 1 GenCo
 - 1 TransCo
 - 5 DisCos
- Is the new government having second thoughts?

Importance of continuity in infrastructure policy

- Private investment is needed
- Zig-zags in infrastructure policy increase regulatory risk
 - ER Act reflected policy compromises of Steering Committee in 2000-01 (under PA government)
 - UNF merely implemented SC proposals, except for substituting PUCSL for Electricity Regulatory Commission

Importance of continuity

- Not gazetting the unbundling provisions
 - Allows narrow private interests to hijack the 2000-01 Steering Committee process
 - The waste of resources used to develop regulatory instruments to implement the ER Act
 - Deprives new Strategic Enterprise Management Agency of information necessary for its work

What ex-ante regulation do we need?

- Competition wherever possible; regulation where necessary
 - Well designed infrastructure reforms
- Focused regulatory agencies that have
 - Independence
 - "New regulation" mindsets
 - Capacity
 - Organizational form to support new regulation and not conducive to empire building