Electricity Markets: Interface between Regulation and Trade

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Power Sector: Regulatory Overview

- Historically Subject to Strong Regulatory Oversight
- More Recently: Unbundled with Varying Degrees of Regulatory Oversight
  - Bottlenecks Tightly Regulated
  - Non-Bottleneck Functions Subject to Less Regulatory Oversight
- Rationale for Regulation
  - Monopoly Abuse, e.g. Extraction of Rents, Consumer Protection
  - Reliability and Social Concerns
  - Lack of Market Contestability

Central Elements of Traditional Power Sector Regulation

- Rates and Tariffs (Retail vs. Wholesale)
- Cost and Risk Allocation
- Quality of Service/Reliability/Consumer Protection
- Interconnections and Access
- Financial Arrangements (e.g. Rate of Return, Capital Structure)
- Market Entry and Exit
- Affiliate Relationships and Diversification
- Prudence Considerations

Regulatory Changes When Power Market Opents to New Entrants?

- Unbundling Assets Is a Necessary Prerequisite to Opening Market
- Regulations Relaxed (Not Eliminated) When Market Segments Are Contestable:
  - Rates and Tariffs
  - Cost and Risk Allocation
  - Consumer Protection (Changed if Not Relaxed)
  - Financial Arrangements
  - Market Entry and Exit
  - Affiliates Relationships and Diversification
  - Prudence
- Bottleneck Facilities Remain Regulated Regardless of Other Market Segments

Trade Considerations and Power Sector

- The Core Tenets of Regulation Remain/Should Remain Unchanged as Long as They Are Applied on a Non-Discriminatory Basis

Intersection of Regulatory and Trade Issues

- Regulatory Issues Affected (Generally Non-Central Tenets)
  - Local Labor Force/Skills Transfer
  - Technology and Resource Choices
  - Foreign vs. Local Ownership (State or Private)
  - Outsourcing Abroad (Including Affiliate Transactions)
  - Exporting Capital
  - Allocating Currency Risks
  - National Security
  - Cross Border Exports/Imports (e.g. Chile-Argentina and South Africa)
  - National Regulation within International/Regional Integrated Markets