

# Status of Electric Sector Reform in Russia and the United Kingdom: A Comparative Analysis of Liberalization Policy Implementation

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## ABSTRACT

The restructuring and deregulation of the electric power sector has had a long-term history in many countries. The sector management and government of each country endeavors to apply positive experiences from other countries, taking into account technical and economic conditions and features of their own power sector. The article describes the main characteristics of the power sectors in Russia and the UK, as well as concepts and principles of the power sectors liberalization. The basic benefits of and differences between the reforming policies in both countries are shown. Although some elements of the Russia-UK power sector liberalization experience can hold less comparative value, the analytical comparison of aims and main components of the liberalization process, such as the principles of privatization, structure of property, competition promotion, and regulation practice can enhance policy learning.

## KEYWORDS

Power Sector, Ownership, Competition, Electricity Market, Generation Sources, Regulatory Framework, Comparative Policy Analysis, Policy Learning, Liberalization

## 1. INTRODUCTION

The spread of the power sector reforms across both developed and developing countries has become an increasingly important policy trend over the last two decades. If the sector is not reformed, it is likely that the existent inefficiencies will decline further due to lack of available resources for necessary investments. If reforms are successfully implemented there are prospects for efficient and high-quality power supply.

The major elements of the reform consist of vertical and horizontal unbundling of the production chain, in other words, separating generation, transmission, distribution and retailing functions. The other key elements of the reform include the adoption of a regulatory principle of incompatibility between competitive and monopoly businesses, as well as third party access to transmission and distribution networks. An important requirement for success of reform is efficient privatization when the business units are created from public sector companies under federal control. The only exceptions are nuclear plants and large power stations that remain in federal property.

The reform measures are focused on the enhancement of (i) energy trade and security; (ii) financial viability of energy supply entities and the sustainability of energy services; (iii) social protection in the

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energy sector; (iv) sector restructuring and commercialization; (v) sector regulation; (vi) promotion of private sector participation; (vii) cooperation in international energy resources utilization; (viii) littoral agreements; (ix) alternative and renewable energy options; and (x) energy efficiency and initiatives under Clean Development Mechanism (CDM). The choice and sequencing of these policy measures depend on the situation in each country and optimal forms of cooperation.

Bringing the positive experience of some developed countries into the power sector transformation and effective regulation is able to accelerate development and improvement of new markets. To take full advantage of this chance, developing countries had to deepen the opening of their markets, eliminate political interference and place all productive resources for stable power supply. They had to become an opportunity for the world and offer competitive and favorable conditions in order to attract new investment flows unleashed by market.

Great Britain was one of the few developed countries which began the evolution of public policy in the sphere of power engineering. The conclusion that liberalization in that sector is to benefit Britain's economy was made up in 1990. Power reforms in England and Wales were designed to permit the introduction of competition at both the retail and the wholesale level. Generation was vertically separated from transmission. The sector was almost completely privatized (only the nuclear capacity remained in public hands). Regulation was applied both to promote competition and to ensure that the remaining monopolies did not exploit their advantage.

The changes in England and Wales of early 1990s coincided with rising popularity of power sector reforms around the world. The spread of liberalization across both developed and developing countries has become an increasingly important policy trend over the last thirty years. There was growing evidence that privatization in the context of liberalization and effective regulation can bring efficiency gains for consumers. However, the success of market-oriented electricity reforms depended on the development of market-based institutional framework in different countries. Therefore, similar approaches to power sector reform led to different outcomes depending on the formal and informal institutions existing in each country.

Reform of the power sector has been one of the key policy challenges facing Russia for the last two decades. As it was the case in many countries, Russia's electricity sector was dominated by a vertically integrated, state-controlled monopoly. The problems of ageing infrastructure, large distribution losses, very low retail tariffs, and lack of market incentives to reduce production costs encouraged Russia to embark on large reforms to liberalize the power sectors in the 1990s.

It was essential for Russia to draw on the positive international experience of the sector reforms. A new scheme, implemented initially at the federal level, was inspired by the reform of the British electricity sector. The reform roadmap envisaged a breakup of vertically integrated structures into competitive generation and supply sectors and regulated transmission and distribution businesses. Deregulation of generation and supply was expected to create a competitive market environment, incentivize efficient production of electricity, reveal fair economic costs of production and to improve the attractiveness of the Russian power sector to strategic investors.

This article provides an overview of the power sector characteristics and reform results in Russia and the UK. The paper situates the Russian reform in the international context by comparing it with the British experience. The comparison of restructuring steps and liberalization benefits and elements is made at a conceptual level. The objectives of this paper are to:

- Provide comprehensive literature reviews of primary and secondary sources to determine the current status of Russian and British power sectors in the light of market and regulatory liberalization policy implementation.
- Identify and analyze the respective sectors' comparative categories derived from the literature reviews with an investigative lens applied to determine if the current British example provides comparative 'value' and enables useful 'lessons learned' for Russian policy makers.

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