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Global Forum on Competition

THE RELATIONSHIP BETWEEN COMPETITION AUTHORITIES AND SECTORAL REGULATORS

Contribution from Russian Federation

-- Session II --

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1. The most important object of structure reorganization in Russia is reforming of the sectors of natural monopolies, aimed at increasing of effectiveness of their activities by developing competition processes at corresponding commodity markets.
2. The Russian strategy of reforming and comprehensive approach are based at the following basic principles:
 - improvement of instruments of regulation aimed at cutting down efficiency losses by creating appropriate system of incentives for regulated market participants;
 - separation of competition segment apart of naturally monopolistic and factual introduction of competition into this segment;
 - incorporation of state owned companies in sectors of natural monopolies.
3. Increasing of effectiveness of regulation presumes a step by step transition in potentially competition sectors from direct regulation (including by setting tariffs) to market methods of regulation (including the methods of antimonopoly regulation and control) and subsequent reduction of natural monopolistic sectors.
4. Decision on preserving or phasing down of direct regulation is carried out from the market analysis, and the necessary condition for preserving regulation is the natural monopolistic state of the market.
5. Significant importance when regulating the activities of subjects of natural monopolies is paid to applying flexible tariff schemes and setting tariffs on economically reasonable level.
6. Division into natural monopolistic and (potentially) competition spheres of activity, as well as methods and scales of such division (from separate accounting to property separation) also depend on the situation at the market. Determination of potentially competitive sector is performed so that upon its allocation the competition is provided at this segment of the market.
7. In this regard, in the process of reforming the weak points are determined towards to which the demands of non-discrimination are the basic factor of decreasing market access barriers and are of key significance for competition development. Such spheres include infrastructure activities built on special capacities, which are hardly to be established due to economic and technological reasons as for market participants and for their associations, and whose services influence on competition development outlook at complemented markets.
8. So it is necessary to improve the present antimonopoly and sector legislation in the part of market access, as well as standard contracts for services rendered by the subjects of natural monopolies.
9. The established pro competitive monopoly sectors reforming vector presumes active participation of the Russian antimonopoly body in working out and realization of reformation programmes.

10. Antimonopoly body of the Russian Federation is the developer and responsible executor of a range of key documents concerning the build-up of competition market in natural monopolistic sectors, issues of non-discrimination access, etc.
11. Lately the process of electric energy sector reforming aimed to liberalization of electricity market and creation of conditions for competition development is going on rapidly.
12. For the present moment the criteria of attribution of electricity mail lines and objects of electricity networks economy to the Unified National Electricity Network are being determined.
13. The new basis of pricing and rules of state regulation of tariffs for electric and heat energy in the Russian Federation are being accepted.
14. The principles of pricing envisage stipulating a separate value of payments for services rendered in conditions of natural monopolies, including for transmission of electricity along the common national and regional networks, for transmission of heat energy, for connecting consumers to electricity networks, for granting system services at electricity wholesale market. These components should be excluded from the license fee while the respective institutions are being established, which grant such services (Federal Network Company, regional network companies, system operator). Calculation of tariffs will be based upon the validity of laid down capital profit rate. The basis of pricing also creates conditions for inciting costs reduction when granting services.
15. Besides, the rules of regulation are aimed for initiating the process of electricity prices liberalization at the wholesale market (the bottom limit of prices is being fixed, under which the market price will be determined as the result of demand and supply at this very segment of the market).
16. Basic tasks of electricity market technological and commercial infrastructure build up were fulfilled. So, Federal Network Company and System Operator were established as 100% branches. RAO UES and these affiliated branches signed agreements for granting system services and energy transmission services. The process of creating branches of backbone electricity networks of FSK UES is going on.
17. The procedure of signing agreements on system services granting was carried out, Administrator of Trade System (ATS) of electricity wholesale market was established. As ATS is an institution of competition market build up and functioning, according to the Government's decision Federal Antimonopoly Body was appointed as an authorized executive power body performing the control of ATS activity.
18. In addition to the functions specified in the Law on Competition, Federal Antimonopoly Body has a right to veto all decisions of ATS, which contradict the demands of competition market build up and operation. ATS Charter and in the immediate Federal Law No 35-FL of 26.03.03 "On electricity" say that federal antimonopoly body participates in preparation of the electricity market operation rules.
19. A package of "reforming" laws developed with direct participation of federal antimonopoly body is adopted.
20. The basic document is Federal Law "On electricity". It legally regulates the institutional model of the sector operation, its organization and technological infrastructure, the subject structure of the sector, mechanism of their interaction, the order of arguments settling, as well as measures of responsibility for non-performance of obligations.

21. Some amendments were introduced into the Federal Law “On electricity ”: into the spheres of activity of subjects of natural monopolies instead of granting services on energy supply only services on electricity transmission are included, services on operation control management and services on heat energy transmission. Thus, generation and distribution of electric energy are removed from under the power of the rules of Federal Law “On natural monopolies”.
22. The Rules of the wholesale market of electric energy have been established, on the basis of which on November 1, 2003 a sector of free trade was launched. The volume of the sector is limited by 15% of electric energy produced in Russia.
23. The list of generating companies of the wholesale market of electricity is already approved. Unification of all electric power stations owned by RAO UES Russia and its branches into 10 generating companies follows the aim of providing equal starting conditions for generating companies and non admission of dominance of some of them at the wholesale market of electric energy.
24. Obvious efforts on reforming are undertaken in the sector of railway transport. In the framework of de-monopolization of the market of railway transportation a transition from the subjects of natural monopolies activity regulation to the regulation of activity in the sphere of railway transport infrastructure of common use is implemented.
25. Under the initiative of federal antimonopoly body a separation of the functions of state management and functions of an economic entity is legally allocated.
26. In sector legislation a principle of provision of non discrimination access to infrastructure services is envisaged, contractual regime of relationship between carrier and infrastructure owner is established.
27. In the process of federal railway transport property privatization a vertically integrated company is established – an open joint stock company “Russian railways”, 100% of shares of the company are in the state property.
28. By present moment services on transportation are provided by more than 70 companies-operators, possessing their own rolling stock park.
29. Russian Federation has achieved the most success in competition development at the telecommunication markets. Tariff reform was realized in the sphere of regulation, which was aimed at decision-making on regulation application only when conditions for effective competition are absent, taking in mind market condition, combining flexibility of tariff regulation and antimonopoly control. The level of regulated tariffs provides compensating of the current expenses, modernization and development. Competition market of the mobile communication is actively developing. (there are more than 100 license holders).
30. Also liberalization processes taking place in gas fields. Gasprom was incorporated, separate business accounting was bring in for different persons in the frames of group Gasprom, also division into business (extraction, transport, distribution, realization by separate legal persons). The share of independent market participants in gas fields has increased from 1% to 5% from the beginning of reforming. Rules of non-discrimination access to gas transportation and gas distributing nets were taken.
31. At the same time, in spite of positive experience of natural monopolies reforming, reorganizing entails conflicts and contradictions. It was caused by the fact that products and services, providing by

natural monopolies subjects are the main resources of the number of industry fields, and tariffs for the services essentially influence on real incomes of the inhabitants.

31. As the result, the process of reforming should be followed by measures on competition advocacy, aimed not only at state power bodies and business community but also at the population of the Russian Federation.

32. Thus, Russia has substantially approximated to OECD standards on regulation principles and deregulation of natural monopoly subjects. The principles of free competition and following the rules of antimonopoly legislation become an integral part of business conduct and taking decisions by state power bodies when building and implementing reforming programmes in these sectors.