

Power Sector Reforms in Chile : Lessons for Developing Countries

<Abstract>

This paper traces the history of reform in the Chile power sector, assessing the progress that has been achieved and suggesting lessons for developing countries. Chile is one of the earliest countries in the world that implemented privatization and reforms of the power industry. Privatization of the electric power sector was promoted in the mid 1970's, and the electric power law was enacted in 1982. Chile's power sector reform was considered innovative and many countries followed Chile's example. Although Chile's experience demonstrated success in implementing effective privatization and increasing electricity coverage in rural area, several deficiencies in power sector policy framework were recognized by the end of 1990's. First of all, there was a possibility of potential market power abuse by a certain company due to incomplete unbundling. Chilean power sector law in 1982 failed to recognize the necessity of complete separation of generation, transmission and distribution activities so that the companies were able to form de facto vertical integration. The largest generation company, Endesa, and its affiliates (Transelec and Chilectra) had to face with lawsuits at Anti-Trust Commission throughout 1990's for accusation of noncompetitive behavior. Secondly, the law in 1982 failed to determine transmission charge and many disputes between generation and transmission companies occurred. Uncertainty of transmission prices even became a serious barrier to entry for generation investment. Thirdly, the nord pricing system turned out to be ineffective to respond short-term price signals when Chile experienced serious electricity shortage in 1998 and 1999 due to severe draught. The nordal price continued to indicate cheaper price even when the electricity outage was in-

evitable. Forth, regulatory agencies, CNE and SEC, were argued to lack clarity of their role, coordination between them and independence from the government. In addition, only large scale generation companies can participate CDEC board, CDEC has been criticized for vulnerability from an influence of large share generators. The electricity crises in 1998–99 revealed the lack of governance mechanism in the management of the system operator, CDEC.

In order to address these problems, Law No.19940 (Ley No. 19940 : Ley Corta) was enacted in 2004, and a long-term node pricing system was introduced by Law No.20018 (Ley No. 20018) in 2005.

It is the case that in developing countries, the break-up of vertically integrated state-owned industries into privatized enterprises requires efforts to improve infrastructure as a prerequisite for the introduction of competitive practices. Bearing this in mind, this paper lays out measures that would be useful to consider in power sector reforms in developing countries from the following three perspectives : (1) Transition from a state-owned power companies to private enterprises ; (2) Development of conditions required to promote infrastructure projects ; and (3) Development of conditions for the establishment of a healthy and fair competitive environment, assuming that liberalization is achieved once the conditions in (1) and (2) are met.

One of the lessons from Chile's power sector reform indicate that it is possible to minimize the role of the government by creating policy framework that facilitates participation from the private sector. Another important points to ensure quality of service and adequate investment from private sector and to enhance competition, shall be : 1) to implement complete unbundling of generation, transmission and distribution functions 2) to clarify role and responsibility of the independent regulator and the government and to ensure independence of the regulator, 3) to remain some flexibility at the hands of regulatory agencies and other agencies in order to act quickly in time of crisis, although respect toward market rules should not be undermined.