

〈Summary〉

## **Power Sector Reforms in Argentina and Lessons to the Developing Countries**

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This paper traces the history of the Argentine power sector reform and assesses its progress and lessons before and after the collapse of the Argentine peso in early 2002 and suggests lessons for the developing countries.

The liberalization and privatization of power sectors have been proceeding around the world since the 1990s, starting with Chile in 1982 and extended to Latin American countries. Before the macroeconomic crisis of early 2002, Argentina had been recognized as the country which realized one of the most successful power sector reform in the world. The Argentine power sector reform is characterized by its improvement in designing the institutional arrangements of the sector by learning lessons of the precedents as Chile, England, etc. In particular, in order to avoid the problem of the insufficient unbundling and restrictions in competition as experienced in Chile, measures were taken for thorough unbundling of utility companies, restricting inter-company transactions, etc. Utmost attention was paid to the division and privatization of state electric power utilities to prevent the market power from being realized. The power sector reform was performed as part of the structural reform of the overall Argentine economy. This brought about success in mitigating concerns about changes in policies, expropriation, etc., that characterized the ways of Latin America.

Argentina has been successful in delivering low electricity tariffs and increasing private investments. A system operator, CAMMESA, was estab-

lished with equal equity participation by all interested parties in the power market except small size users, which is in contrast to the Chile model where system operation is controlled only by some of the power generation companies. Although the pool market operates on a peso denominated basis, due to the introduction of the fixed exchange rate system, there was no exchange risk until 2001.

Although voluntary expansion and development of transmission grids was expected thorough a market signal, the nord price which reflects transmission line limitations, the investments to solve problems of transmission congestion was not actually progressed. Upon this situation, a government-initiated plan for the inter-regional high voltage transmission grid development was created. For other transmissions, expansion mechanism of public contest method showed a considerable success in terms of meeting the requirements of users efficiently, which shows successful outcomes including construction of the 4<sup>th</sup> line. Although ENRE, the regulatory agency of the power sector, is vested with financial independence and a wide scope of authority, its independence from the politicians was questioned.

After the economic crisis and peso devaluation, although the generation, and gas supplier are in financially critical situation and additional investment are halted, the sector framework of liberalization has been sustained and functioned. The current challenges of the Argentine reform are to tackle the financial consequences of the peso devaluation and encourage private investments.

The lessons we could learn from experiences of Argentine for developing countries are that the government should assume its responsibility in stabilizing the macroeconomy including exchange rate, and should design framework to facilitate competition among private investors and should assume its responsibility in the area where market principles cannot be applied to, such in the fields as transmission investments and rural electrification and the reinforcement of grid code, market rules, setting up of incentives to facilitate investments in generation and transmission, establishment of a regulatory agency independent of political influence, and ensuring neutrality of market operators, etc.