



USAID
FROM THE AMERICAN PEOPLE

Best Practices in Structuring and Targeting Energy Subsidies in Nicaragua

Activity:	Best Practices in Structuring and Targeting Energy Subsidies in Nicaragua
Program Area:	Energy Sector Governance
Implementer:	PA Government Services Inc.
Geographic Focus:	Latin America & Caribbean
Country:	Nicaragua
Duration:	March 2003 – December 2003

Project Background

USAID worked on an initial diagnostic of the power sector in Nicaragua, identifying key areas for technical assistance, focused on energy policy and regulatory issues.

Development Objective

Objectives for CNE: To assist the National Energy Commission Comisión Nacional de Energía (CNE), in the development of a power sector strategy and action plan to strengthen development of the sector in a sustainable manner, and to complete the reform and restructuring process begun in the country, as well as improving mechanisms to transfer the benefits associated with the reform to the public.

Objectives for INE: To provide technical assistance to the Instituto Nicaragüense de Energía (INE) - the power sector regulatory agency - for creating or improving methodologies and procedures necessary to fulfill the functions assigned to INE by the regulatory framework. Also, to evaluate power market operating rules and transmission rules to resolve

contradictions in existing regulations applied by the power system operator (CDNC) and the transmission company (ENTRESA). Resolving these deficiencies and inconsistencies will also enable INE to adequately act as regulator and enforce them.

Approach

Numerous meetings in-country were carried out, toward obtaining a general discussion of the key issues and recommendations, and building general consensus among the stakeholders.

Project Partners

- National Energy Commission (CNE) - The energy policy entity.
- Instituto Nicaragüense de Energía (INE) - The power sector regulatory agency.
- Centro Nacional de Despacho de Carga/ Empresa Nacional de Transmision Electrica (CNDC/ENTRESA) - The power system operator and transmission company.



Project Activities

Activities with CNE

- Develop strategy and action plan addressing the priorities in the sector, primarily the continuation of the restructuring and privatization of the power sector to better assure the success of the various initiatives taken, and rural and social issues that are associated with the restructuring and privatization of the power sector.
- Develop policy for establishing subsidies and prices, including rural and social issues that are associated with the restructuring and privatization of the power sector.

Activities with INE

- Review current state of the uniform system of accounts (SUC) and propose necessary adjustments in order to achieve its integral application to support INE's requirements for the upcoming tariff review process.
- Develop methodology and model to be used by INE to monitor the functioning of the wholesale market including commercial (economic) transactions.
- Review system operation regulations and proposal of adjustments under CNDC/ENTRESA in order to achieve just and equitable competition in the national electricity market, avoiding price manipulation or the exercise of market power.

- Review transmission regulations under CNDC/ENTRESA, especially the appendix addressing quality of service, proposing modifications and improvements needed to fix critical aspects that are currently generating conflicts.

Project Results

All power sector participants now have a uniform and consistent set of regulations and operating standards that: (i) contribute to maintaining a more reliable system, (ii) clarify some stakeholders' responsibilities, (iii) permit the system operator to function more efficiently by providing a more sustainable framework for new investments in the sector.

Specific aspects of USAID's technical assistance already under implementation by CNE, include:

- Initiated the process of creating a unit within CNDC that will focus strictly on regional electricity exchanges;
- Draft regulation to allow distribution companies to sell their excess energy to the regional market;
- New regulation under development to introduce incentives for wind power and run-of-river hydro plant operation;
- CNE, the policy setting entity, has now for the first time a document integrating all key issues and recommendations,



- with an action plan that is being used in the energy sector strategy formulation for maintaining and attracting private investments. CNE also now has an integrated policy on subsidies and definition of prices, which will be presented to the economic commission of congress for approval. CNE also presented this policy to INE to be used in the upcoming electricity tariff determination.
- INE, the power sector regulator, has regulations and operating standards that contribute to a transparent tariff setting process, and help to ensure that final customers receive a service that is fairly priced.

Development Impact

Improvements in overall efficiency, which results in lower electricity prices to the consumers, subsidies to low-income populations, and economic signals that will attract new investments in the sector.

Lessons Learned

Development of a strategy and policy formulation requires considerable resources and time, in order to obtain the consensus of all stakeholders and as such, assure its proper implementation.

USAID Contact

Jeff Haeni
Office of Infrastructure and Engineering
+1 202 712 0546
jhaeni@usaid.gov

Project Contact

Ignacio Rodriguez
PA Government Services Inc.
+1 571 227 9000
ignacio.rodriguez@paconsulting.com