

Decree of the President of RF dated September 4, 2001 No. 1091 "On Amendments to the Decree of the President of the Russian Federation dated November 29, 1995 No. 1194 "On Federal Energy Commission of the Russian Federation"

In order to ensure the unified state policy in the area of price-formation and state regulation of the activities of the natural monopolies I hereby decree:

1. To amend clause 2 of the Decree of the President of the Russian Federation dated November 29, 1995 No. 1194 "On Federal Energy Commission of the Russian Federation" (Collection of Laws of the Russian Federation, 1995, No. 49, art. 4770) to read as follows:

"2. To establish that the Federal Energy Commission of the Russian Federation is a federal executive body vested with the following functions:

- state regulation of tariffs for electric and heat power pursuant to the Federal Law "On State Regulation of Tariffs for Electric and Heat Power in the Russian Federation";
- regulation and control over the activities of the natural monopolies pursuant to the Federal Law "On Natural Monopolies" (except for natural monopolies in the general access electric and mail communications industry);
- state regulation of prices (tariffs) for certain types of goods (work, services) not within the domain of natural monopolies which are subject to regulation in accordance with the laws of the Russian Federation pursuant to the list established by the Government of the Russian Federation."

2. The Government of the Russian Federation shall have its regulations conformed herewith within 2 months.

3. The chief state legal directorate of the President of the Russian Federation shall within one month submit proposals regarding conforming the acts issued by the President of the Russian Federation with this Decree.

4. This Decree shall become effective as of the date of its official publication.

President of the Russian Federation

V. Putin

Source: "Vremya Novosti"
Date: September 5, 2001

HERE'S YOUR AGENCY

President Putin yesterday signed a Decree establishing a new agency to regulate tariffs for the services of natural monopolies. It is still unknown who will head it. The six-month battle over the form and content of the new agency has become the cabinet's most intense dispute of the year.

President Putin has signed a decree transforming the Federal Energy Commission (FEC) into a common agency to regulate tariffs for the services of natural monopolies. According to analysts, the new department will indirectly regulate around 65% of the national economy. As for the amount of "direct" regulation, no one can estimate it as yet. The same applies to the influence of the person who will head the new agency. Putin himself initiated the creation of the new structure; and the six-month battle over its form and content has become the Cabinet's most intense dispute of the year.

The presidential decree specifies that the new agency will regulate prices and monitor the activities of natural monopolies as listed in the corresponding law. Among them are electricity and heating, gas tariffs, as well as transit of gas and oil by pipelines. Railroads, ports and terminals are also included in natural monopolies. Besides, according to the law, electronic communications and postal communications also fit into the category - but the presidential decree excludes these services.

Communications Minister Leonid Reiman managed to secure his interests in dividing the tariff pie.

The tariff agency will also gain a number of powers in spheres of activity which are not always included among the natural monopolies. This list will be covered in a Cabinet resolution, and the main battle will be connected with its contents.

At Prime Minister Kasianov's orders, the FEC has submitted a list to the Cabinet: this includes services of the ice-breaker fleet, loading railroad cars, navigation and airport services for planes. Regulating "nuclear fuel cycle products" is also included there.

There is a lot of talk behind the scenes. In part, the Cabinet is discussing the possibility of allocating other functions to the new common tariff agency, such as regulating fuel oil prices and coal prices for consumers. There has been a proposal to include water supply and sewerage in the list of natural monopolies, as well as regulating prices for pumping oil through local pipelines, and other things.

Now they will have to fight against those who used to have these powers until now - either government departments, or regional leaders. That is why the final variant of the list of powers for the new tariff agency still remains unpredictable.

The question of who will head the new agency is slightly clearer. According to a top-ranking official, present FEC head Georgy Kutovoi will not be in charge of the new structure. The official is guessing that it will be headed by a person whose name is not widely known yet: "One thing is obvious - it will be someone from the presidential team." Well, it could not be otherwise - there is much talk in the ministries that the powers of the person in charge of this agency will be equal to those of a minister.

Source: The St. Petersburg Times
Date: January 22, 2002

FEC OFFICIALS CRY FOUL AS UNIFICATION ON HOLD

The government is making a big mistake by shackling what should be an independent regulator of natural monopolies, the deputy chairperson of the Federal Energy Commission warned Monday. Vyacheslav Ovchenkov said the government, by pushing the State Duma to amend tariff-regulation law that would strip the FEC - Russia's supposedly independent regulator - of its authority, is making it just another government department, defeating a key purpose of its existence.

"The amendments, which effectively have been approved by the cabinet ... raze the FEC's independence to the level of a government department," Ovchenkov said at an Organization of Economic Cooperation and Development presentation on efficiency and competition in infrastructure sectors.

"This decision is a mistake," he said. The amendments are part of a plan to transform the FEC, which regulates the country's railways, natural-gas and power tariffs, into a unified tariff organ. "We interpret independence not as absolute independence from all government bodies, but when we come up against what is happening now, when tariffs are in fact set at the government level, this is another picture," Ovchenkov said.

Last week Prime Minister Mikhail Kasyanov repealed an FEC decision to raise railway tariffs by 14 percent as of Monday, and set a 35-percent cap on all natural-monopoly tariff hikes this year. Although formally the cabinet can only recommend which tariffs to increase and by how much, in practice its word is the law, said Kakha Kiknavelidze, analyst at Troika Dialog. "The FEC's power is widening in terms of industry coverage. However, the government's involvement in these decisions is also increasing," said Kiknavelidze. "The government appears to be quite concerned with its macroeconomic benchmarks."

The ideal role of an independent regulator is to make neutral, transparent decisions on issues such as tariffs, free from short-term political pressures and business interests. Russia lags significantly in shaking free from government intervention, said Nikolai Malyshev of the OECD's Center for Cooperation with Non-Members.

Independently set tariffs are also an important factor in increasing the investment attractiveness the sectors, according to the OECD report. Russia is set to become the first OECD non-member country to undergo a two-year review relating to reforms in the country's railways, gas, power and telecommunications sectors, said Joe Phillips, head of the OECD's competition-law and policy division Monday. "The decision has been made on a political level," and an agreement should be set by spring, said a presidential administration official.

Source: Prime TASS Economic News Agency
Date: September 5, 2001

CHAIRMAN SAYS RUSSIA'S FEC WANTS 15%-18% HIKE IN DOMESTIC GAS PRICES

Russia's Federal Energy Commission /FEC/, the natural monopolies' watchdog, wants to raise domestic gas prices by 15% to 18%, Georgiy Kutovoi, chairman of the FEC, told reporters Wednesday. The FEC has been transformed into a unified tariff agency by President Vladimir Putin's decree signed Tuesday. The FEC's proposal is subject to the Economic Development and Trade Ministry's review and approval. If the ministry approves the hike, the commission's plans still have to be approved by the Federation Council, the upper house of parliament. Gazprom, Russia's gas giant, requested the FEC to increase domestic gas prices by 20% to 25%, citing the urgent need for investment in the gas industry, Kutovoi said.

Gazprom said the investment would boost the industry's appeal for independent gas producers. Currently, the low domestic gas price prevents major investment in the sector, Kutovoi said.