

Social Tariff Mechanism



Diego Petrecola



Introduction

- The regulatory framework of Argentina was constructed under the implicit assumption of macroeconomic stability and sustainability.
- But that implicit assumption on the macroeconomics has shown wrong.
- After the macroeconomic crisis devaluation increased abruptly costs for firms and the government decided to fix tariffs in pesos



Electricity Sector: Regulation and Social Aspects

- The privatization process began in 1991 and was successful in terms of expanding coverage, increasing productivity and reliability and fostering investment.
- Although, the regulatory framework included few considerations about social aspects.



The Problem

- How shall we compute tariffs that simultaneously meet the requisites of being sustainable for firms, affordable for impoverished customers and efficient for the economy?



Social Tariff Mechanisms

- The main objective of social tariff mechanisms is to promote access and affordability for infrastructure service for some target population.
- Main mechanisms are:
 - Subsidies Based on Consumption Level
 - Targeted Subsidies



Evaluation

Given the different proposal we evaluated the following alternatives:

Alternative 1: Households with consumption less than 300kwh/bim

Alternative 2: Households with consumption less than 400kwh/bim

Alternative 3: Head of household unemployed or reteried head of household with minimum income whitout cable tv and telephone line

Alternative 4: Head of household unemployed or reteried head of household with minimum income whitout cable tv

Alternative 5: Head of household unemployed or reteried head of household with minimum income without telephone line.

Alternative 6: Head of household unemployed or reteried head of household with minimum income.

Alternative 7: Multidimensional Indicator 1

Alternative 8: Multidimensional Indicator 2.

Alternative 9: Household included in alimentary subsidies program



Evaluation

- Data: Survey on Household Expenditure in Public Services.
- Coverage: Buenos Aires and Surrounding Area.
- Performance Measure:
 - Errors of Inclusion and Errors of Exclusion

Evaluation: Errors of Inclusion and Exclusion

Alternative	Beneficiaries	Objetivo: 1 y 2 Quintil		Objetivo: Poor		Objetivo: Indigent	
		Inclusion Error	Exclusion Error	Inclusion Error	Exclusion Error	Inclusion Error	Exclusion Error
Alternative 1	807,362	38%	59%	54%	73%	79%	66%
Alternative 2	1,429,904	44%	34%	46%	43%	77%	35%
Alternative 3	76,958	16%	95%	17%	95%	49%	92%
Alternative 4	249,275	19%	83%	24%	86%	61%	80%
Alternative 5	123,282	10%	91%	22%	93%	50%	87%
Alternative 6	403,262	23%	74%	29%	79%	65%	71%
Alternative 7	1,347,995	43%	37%	36%	36%	74%	29%
Alternative 8	751,752	40%	63%	26%	59%	59%	38%
Alternative 9	74,830	22%	95%	3%	95%	34%	90%

Subsidies: Amount for a 30 % increment in tariffs.

Quintil	Alternative 2		Alternative 6		Alternative 7		Alternative 8	
	> 3%	> 5%	> 3%	> 5%	> 3%	> 5%	> 3%	> 5%
1	8,312,090	7,408,575	5,338,570	4,875,502	7,807,264	7,080,624	4,741,454	4,302,071
2	5,074,562	3,451,986	1,194,989	804,548	6,599,980	4,802,803	3,876,764	2,880,010
3	3,079,520	995,706	871,964	329,262	2,614,700	1,084,601	1,077,886	427,310
4	963,846	5,029	37,007	0	1,776,184	49,674	917,480	22,959
5	27,216	0	0	0	85,996	0	54,179	0
TOTAL	17,457,234	11,861,295	7,442,530	6,009,311	18,884,124	13,017,702	10,667,763	7,632,350
5 Quintil / 1 Quintil	0.33 %	0.00 %	0.00 %	0.00 %	1.10 %	0.00 %	1.14 %	0.00 %



Conclusions

- Regulation can improve the way universal access is financed and delivered
- Dealing with social problems is a permanent issue to be addressed by regulators and political authorities
- Multidimensional indicators are the best selection criteria in terms of errors of inclusion and exclusion, if target populations are poor.
- Designing mechanisms to avoid political noise is an important (very difficult) issue