**Effects of incentive regulation under non-credibility of regulatory decisions: impact of RAB and incentive regulation on investments in Russian distribution network**

**Abstract**

The research investigates the influence of the tariff regulation reform on the amount of capital expenditures in Russian electricity distribution sector.

The database is comprised of financial and regulatory information on 44 out of more than 60 Russian regional electricity distribution entities (all Rosseti’s brunches) and investments risks of Russian regions as their institutional characteristic for the time period 2008-2015. It is believed that this data set is a representative sample; it gives 50% of revenues from electricity distribution controlled by Rosseti and 80% of Rosseti’s revenues from electricity distribution excluding Moscow city, Moscow region, Saint-Petersburg, Leningrad region and Tyumen region. We estimate panel data with the dynamic investment model using system GMM method.

It was found that transition from the short-term regulation to the long-term tariff system in Russian electricity distribution sector has had positive effect on the regulated companies’ investments. The effect is significant regardless the lack of regulator’s commitment and frequent renegotiations of the essential parameters. At the same time we find that the actual designs of long-term incentive regulation applied in Russia in 2009-2015 (namely RAB-regulation and incentive price-cap) have had no effect on the amount of investments of Russian electricity distribution companies. The obtained results are important for adaptation of incentive tariff regulation in developing countries proving its limited but still sound effects.