

Energy Regulatory Office

Regulatory Issues Tariffs and Service Quality

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Fourth Poverty Reduction Strategies Forum

Athens, 27 June 2007



Kosovo Legal Framework

Established since June 2004

- ☑ Law on Energy
- ☑ Law on Electricity
- ☑ Law on Energy Regulator

Promoting integration of Kosovo

- ☞ *in European Economic area – EU in future*
- ☞ *in all relevant international agreements*
- ☞ *in legal framework of EU harmonizing Kosovo's energy legislation with the EU energy legislation*



Mandate of ERO

Economic Regulation of all Energy Activities (Electricity – District Heating – Natural Gas)

Objective

“Set the Regulatory Framework for a transparent and competitive Energy Market, in compliance with EU directives and ESCEE Treaty”

Tasks

- Perform the twin function of protecting Customers and ensuring Investors’ interests
- Protects vulnerable customers and promotes price stability
- Set criteria, issue & monitor Licences for Energy Enterprises.
- Is transparent and does not discriminate between users;
- Promote economic efficiency by providing appropriate short and long term price signals

The Regulatory challenge

- **Customers won't pay for poor quality service**
 - However, improving service quality costs money
- **How to close the gap?**
 - raise tariffs with the promise of improved service standards in future?
 - improve service standards now and fund it from increased tariff revenues in the future?



Key Issues in Kosovan Pricing policy

In deciding what objectives to give priority to when designing pricing policy, consideration was also given to the current key issues facing the Kosovo electricity sector and the introduction of reformed prices, including:

- The generating availability constraints, in particular at times of peak demand.
- The high proportion of poor people in Kosovo. There are 44% of Kosovars that are living below the World Bank poverty line of €1.42 per adult equivalent per day.
- The high level of commercial losses and money billed by KEK that are not collected



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The Kosovan situation

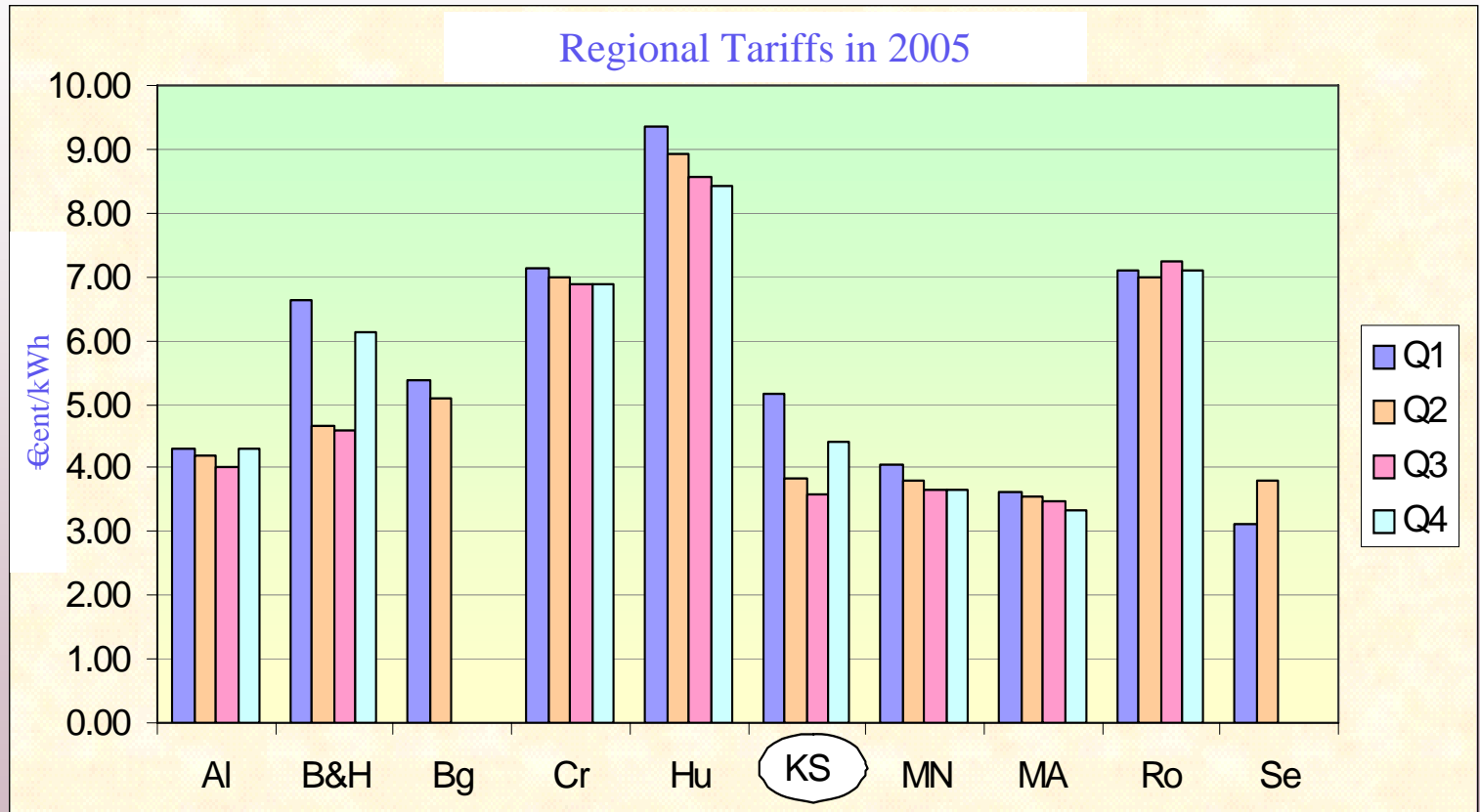
- **Service in Kosovo is particularly poor**
 - severe load shedding is experienced
 - 8%- 10% Load shedding*
 - technical and non-technical (commercial) losses are extremely high
 - infrastructure is old, unreliable and cannot meet rapidly growing demand
 - (10 years lack of maintenance, before the war)*
- **Revenues are inadequate to upgrade and expand ageing infrastructure and to fund imports to meet energy shortfalls**
 - Kosovo suffers from a widespread culture of non-payment for utility services (*after the war*)
 - 70% of billed energy is paid for (35% of energy sent out)*

Tariffs in Kosovo

- Tariffs in Kosovo are reasonable by regional standards
- Recent price review have concluded that, if ignoring commercial losses - only moderate tariff increases are needed for financial viability
- The challenges are
 - how to get customers to pay their bills now?
 - Psychological effects – increase in tariff will decrease the payment level
 - how to avoid increases in tariffs being offset by lower payment levels?



Regional Retail tariffs vs. Kosovo



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ks.org

Measures taken

- **The distribution/supply company (KEK) has initiated an ‘A-B-C’ policy**
 - distribution substations are categorised as A, B or C depending on the payment record of the customers connected to that feeder
 - category A customers receive the best service and category C the worst
in winter months, category A might have a supply regime of 5:1, category B of 3:3 and category C of 2:4
 - the allocation of customers to categories is revised twice annually to reflect changing payment records
 - customer categorisations and supply regimes are published by KEK on its website and in newspapers
- **KEK is urgently seeking donor funds to allow a priority programme of investments aimed at improving supply reliability**

What can the regulator do?



- **ERO acts as an impartial reviewer to assure consumers that tariffs are fair and reasonable**
 - sets allowed revenues
 - approves tariff structure
 - approves the A-B-C policy and customer categorisation
- **ERO's independence reduces regulatory risk and increases revenue certainty for the utility**
 - allows longer-term planning by KEK
 - reassures donors and commercial lenders, making them willing to make long-term loans for investments to improve service quality
- **ERO emphasises transparency and consultation**
 - increases acceptance of outcomes by stakeholders
 - allows for all stakeholders to input to the regulatory process



Tariff design

- **ERO emphasises the need for tariffs to be**
 - *affordable* – so customers are able to pay
 - *acceptable* – so customers are willing to pay
 - *cost reflective* – to protect the company
- **Measures taken include**
 - introducing a new lifeline block for the small (and poor) household customers.
 - gradually reducing existing cross-subsidies to household customers
 - not allowing KEK to recover collection losses from customers – so that ‘good’ customers do not see themselves as paying for ‘bad’ customers
- **Allowed revenues for network businesses are set on three-year cycle, with declining loss targets**
 - KEK can earn additional revenues by beating targets
 - creates strong incentive to reduce losses



Tariffs and cooperation with government

In order to ensure that low income customers are able to consume electricity, some support is required. This is currently made up of two main mechanisms:

- **System for free electricity for social cases - Direct payments from Ministry of Finance to KEK JSC which has a system where Social case are registered (identified and registered by MLSW)**
- **The existence of a lower priced block tariff assists lower income customers that do not receive direct support.**
 - *The first block tariff offers a much reduced rate in comparison with the tariff charge on the second and third block*

Future directions

- **The immediate priority is to allow restoration of a reasonable quality service**
 - investments in infrastructure rehabilitation and upgrades
 - procurement of imports on longer-term basis to increase reliability and reduce costs – improving the credit rating of company
- **Once this is achieved, ERO plans to introduce a set of monitored performance standards**
 - likely to be a mix of overall and customer-specific standards.
 - standards, targets and penalties still under review
- **ERO expects that this will**
 - consolidate and, over time, lead to further improvements in service quality to customers
 - assure customers their interests are being taken into account, thereby increasing willingness to pay for electricity

Energy Regulatory Office

Thank You

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