

Energy Regulatory Office

Draft Rule on Calculation of Tariffs in Electricity Sector

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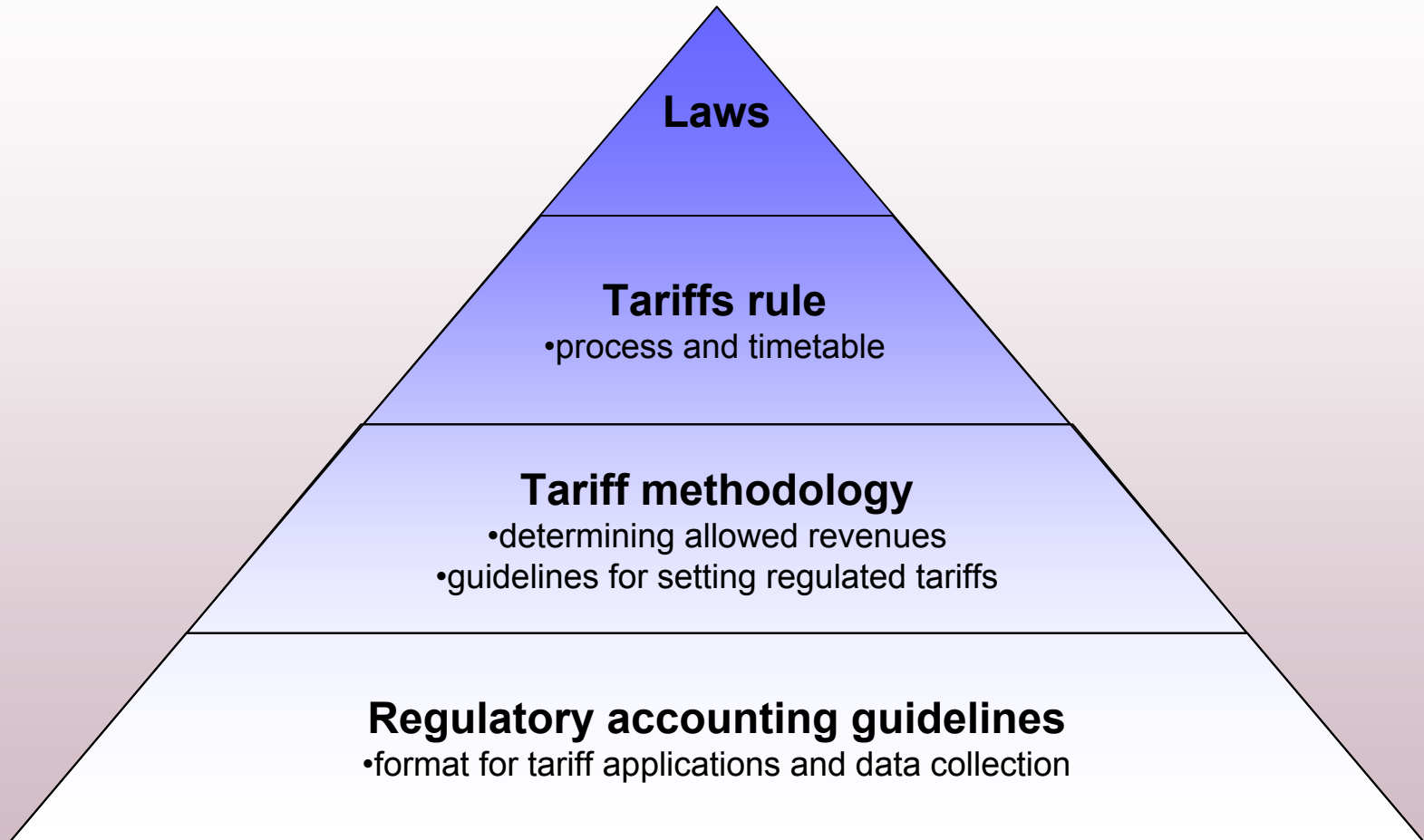


Legal framework

- **Law on Energy Regulator, Article 46.1:**
*The regulation of prices shall be governed by a **tariff methodology**, which shall be developed and issued by the Board of the Energy Regulatory Office*
- **Law on Energy Regulator, Article 47.1:**
*The Energy Regulatory Office shall review, approve or fix tariffs based on **proposals by energy enterprises** and the tariff methodology*
- **Law on Energy Regulator, Article 47.4:**
*The procedures for reviewing, approving and fixing the prices and tariffs shall be established by the Energy Regulatory Office. [the **'Tariffs Rule'**]*
- **Law on Energy Regulator, Article 58.6**
Not later than four months after the appointment of the initial members of the Board, the Board shall prepare and approve secondary legislation on pricing



The legal hierarchy



Tariffs Rule contents

- **Chapter 1 General Provisions**
- **Chapter 2 Submission and Approval of Regulated Tariffs**
- **Chapter 3 Tariffs for the Sale of Electricity to the Public Supplier**
- **Chapter 4 Tariffs for the Sale of Electricity by the Public Supplier**
- **Chapter 5 Transmission Tariffs**
- **Chapter 6 Distribution Tariffs**
- **Chapter 7 Public Service Obligations**
- **Chapter 8 Stranded Costs**
- **Chapter 9 Decisions**
- **Chapter 10 Final Provisions**



Regulated tariffs – legal requirements (i)

- **Sales by Public Producers (Law on Electricity, Article 8)**

A producer with a power plant of installed capacity above 5MW, which...is operating on the date of promulgation of this Law [30 June 2004], shall be required to offer the electricity produced...to the public supplier at a regulated price, if the public supplier needs the electricity

- **Sales by IPPs to Public Supplier (Law on Electricity, Article 21)**

The public supplier shall conclude PPAs...Annual contracts [under these PPAs]...shall stipulate the price...for charging electricity...The provisions of any PPA under this Article shall be subject to the approval...[of] the Energy Regulatory Office

- **Use of System Charges (Law on Electricity, Article 25.2)**

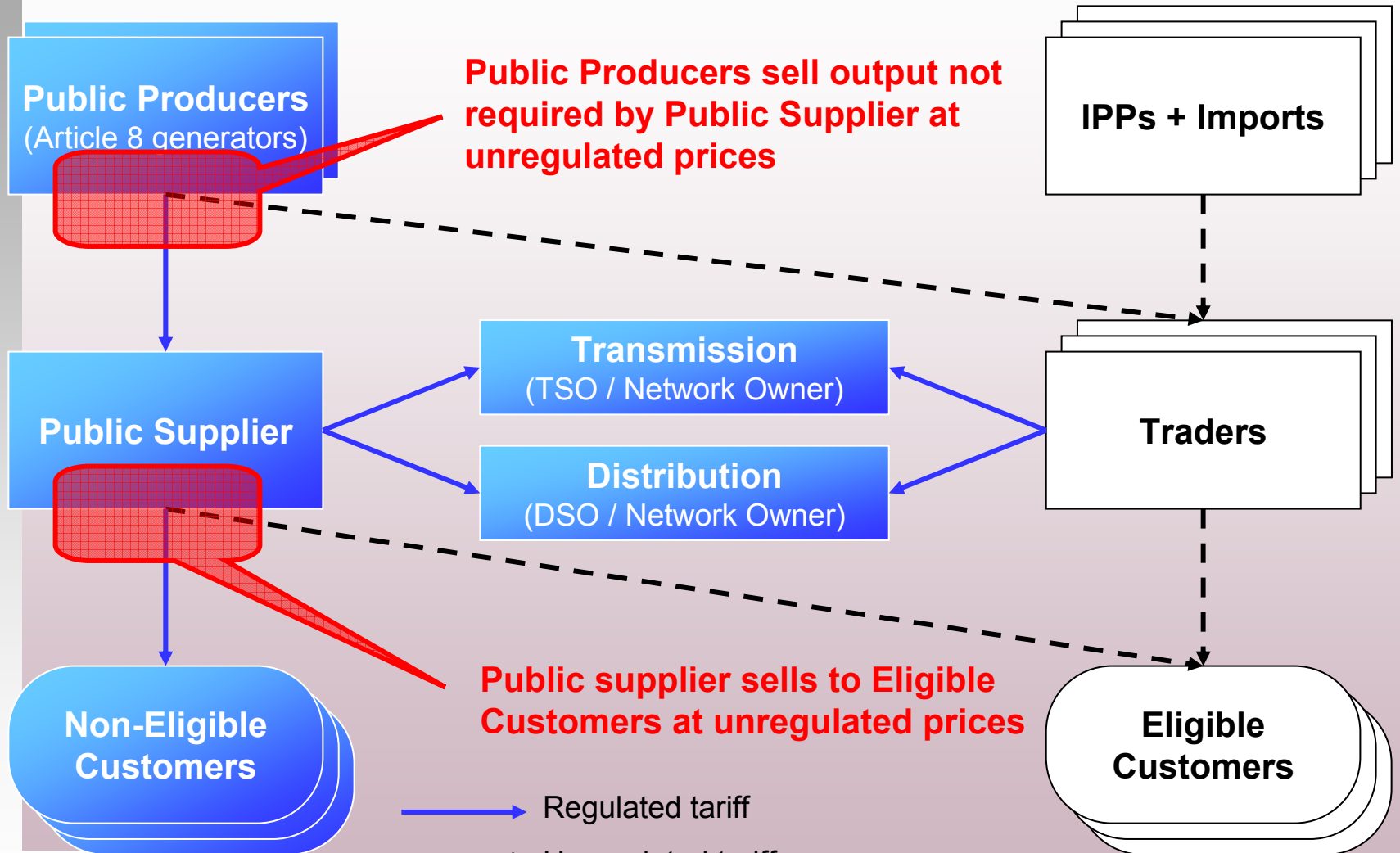
The price for the use of the networks shall be proposed by the...network operators once a year...The tariffs shall be approved by the Energy Regulatory Office



Regulated tariffs – legal requirements (ii)

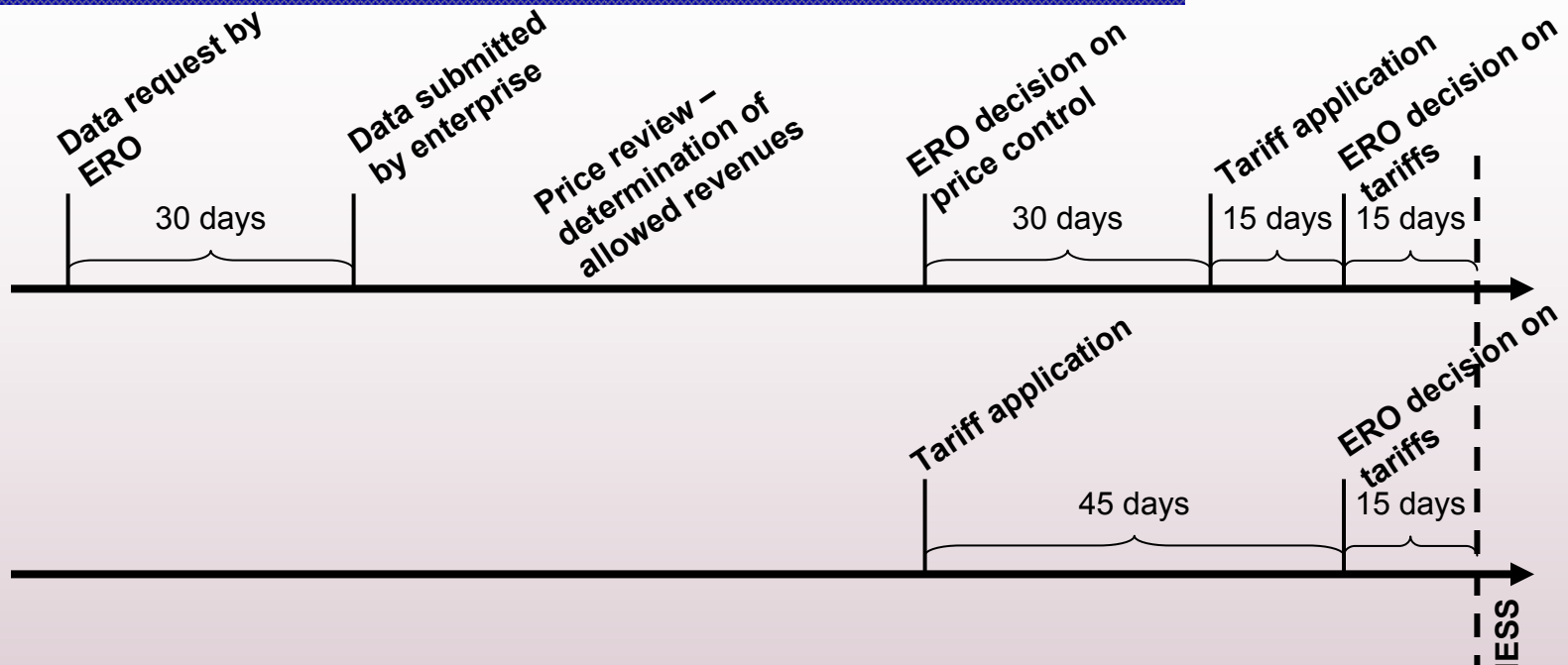
- **Connection Charges (Law on Electricity, Article 30.1)**
The transmission or distribution network operator shall connect any customer or producer...at a regulated connection price
- **Sales to Non-Eligible Customers (Law on Electricity, Article 21.2)**
...the public supplier shall have the right to sell, on an exclusive basis, electricity to non-eligible customers at regulated prices and tariffs...
- **Sales to Eligible Customers (Law on Electricity, Article 23.3)**
...a trader shall have the right to sell...electricity to eligible customers at unregulated prices...

Regulated tariffs - summary



Ancillary service/balancing services/MO costs recovered through transmission charges
Connection charges separately regulated

Price review and tariffs approval timetable



- **Price reviews take place at intervals specified by ERO**
 - annual reviews for generation (required by law)
 - propose 3-year review period for networks and public supplier
- **Tariff applications submitted at 12-month intervals**
 - under PBR, proposed tariffs must conform with allowed revenues set by ERO following price review
 - under non-PBR tariffs, application must justify costs to be recovered from proposed tariffs



Public Service Obligations (PSOs)

- **ERO can impose PSOs relating to the security, regularity, quality and price of supply and to environmental protection, such as**
 - obligations to purchase output from renewables generators
 - maintenance of minimum levels of fuel stocks
 - provision of supplier of last resort services
- **PSOs are defined and costed in ERO decisions**
- **Any otherwise unfunded costs of PSOs are recovered through a PSO charge**
 - may be a levy on all customers or restricted to a category of customers
 - separately identified on bills



Stranded costs



- **Stranded costs arise where**
 - a regulator approved the costs of an investment
 - the later, unforeseen, introduction of a competitive market means that these cannot be recovered in full from market revenues
- **ERO will issue a decision determining the maximum potential stranded costs**
- **The difference between these and energy market revenues are recovered through a Competition Transition Charge**
 - levy on all customers
 - separately identified on bills

Expert reviews

- **Enterprises may request an expert review of ERO decisions on price reviews or tariffs**
 - reviewers proposed by enterprise and approved by ERO
 - must be competent, experienced and have no conflicts of interest
 - costs of review borne by enterprise
- **Reviewers publish (via ERO) opinion within 30 days**
 - retain original ERO decision
 - amend original ERO decision
 - replace original ERO decision with tariffs initially proposed by enterprise
- **ERO publishes decision on opinion within 7 days**
 - accept expert reviewers' opinion and replace original decision
 - reject expert reviewers' opinion and retain original decision
- **Further appeal to courts – expect this to take form of judicial review**



Major changes from Draft Tariffs Rule

- **Article 4 – Definitions and interpretation**
Additional definitions of terms not defined in laws added
- **Article 8.3 – Price reviews**
Minimum time period of 30 days for submission of information to ERO by enterprises specified
- **Article 16 (new) – Costs of the public supplier**
New article added defining costs recovered from retail tariffs (similar to those already included for transmission and distribution)
- **Article 33 (previously Article 32) – Entry into force**
Requirements to separately identify PSO levy and CTC introduced at later date, specified by ERO, to remainder of Rule to allow time for changes to billing systems