

**6<sup>th</sup> Meeting of the Stabilisation and Association Tracking Mechanism  
Energy Workshop**

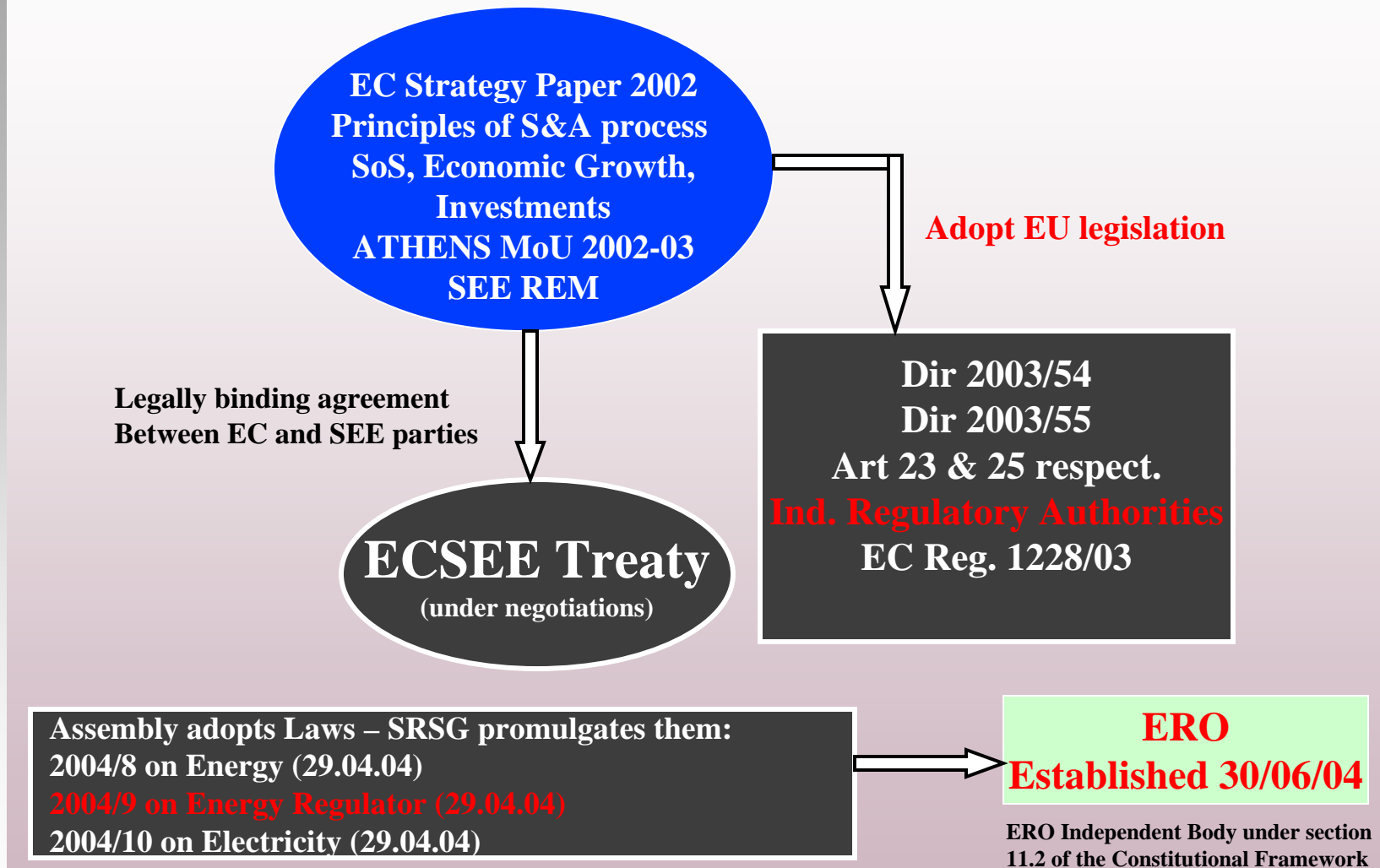
**Energy Regulatory Office  
(mandate, organisation & structure)**

*Dr. Nick F Frydas  
Head of ERO  
& Chairman of the Board*

**Prishtina  
14 February 2005**



# Kosovo Regulatory Framework



# Mandate of ERO

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

## Objective

“Set the Regulatory Framework for a Transparent and non discriminatory Energy Market based on free Market principles – promote competition”

## Tasks

- Perform the twin function of protecting **Customers** and ensuring **Investors’** Interests
- Ensure **non-discriminatory access** to all transmission network users **at prices reflecting true economic costs**
- Promote economic **efficiency** of the customers/users’s consumption by providing short and long term price signals



# Statutory Powers of ERO (i)

- **Issue Secondary Legislation** (Rules, Codes, Decrees, Ordinances, Guidelines)
- **Set the Criteria and Issue Licenses** for Energy Enterprises (exemptions)
- **Approve Tariffs on Public Services Activities** (non Market-based). Regulated Prices based on “ex-ante” Methodology issued by ERO and Tariffs approved by ERO.
- **PSO imposed by ERO** – Public Services are: **T – D – PS**. “Last Resort Supplier” procedures established by ERO. ERO Approves PPAs for PS.



## Statutory Powers of ERO (ii)

- Monitors **License Compliance**, Abuse of Market Power. Imposes Fines, withdraws Licenses
- Grants **Permits** for Construction of new Capacity, Lines and Pipelines and Direct Lines
- Issues **“Certificates of Origin”** for RES – Approves **“compensation cost”** of PSO. Recovery of **“Stranded Costs”** determined and approved by ERO
- Grants its consent for the **separation, merger, reduction in capital or acquisition** of Energy Enterprises

## Statutory Powers of ERO (iii)

- Approves Grid/Distribution/Metering/Market/etc. **Codes**
- Resolution of **Disputes** between Customers/Licensees, Arbitration Procedures
- Monitors the effective legal and accounting **unbundling** of Energy Enterprises
- GCES and **Standards of Services** to be met by Licensees
- Rules of **Allocation of Interconnection** Capacity
- Maintains a **Public Register** (Licenses, Eligible Customer, Certificates of Origin)



# Other involvement of ERO

**Energy Strategy** (10 years) – “White Paper” – prepared by MEM – ERO input

**Power Balance** - Long Term (10 years) and Annual – prepared by TSO – adopted by MEM - ERO input

Secondary Legislation by MEM on promoting efficient use of Energy and use of **Renewables** – ERO input

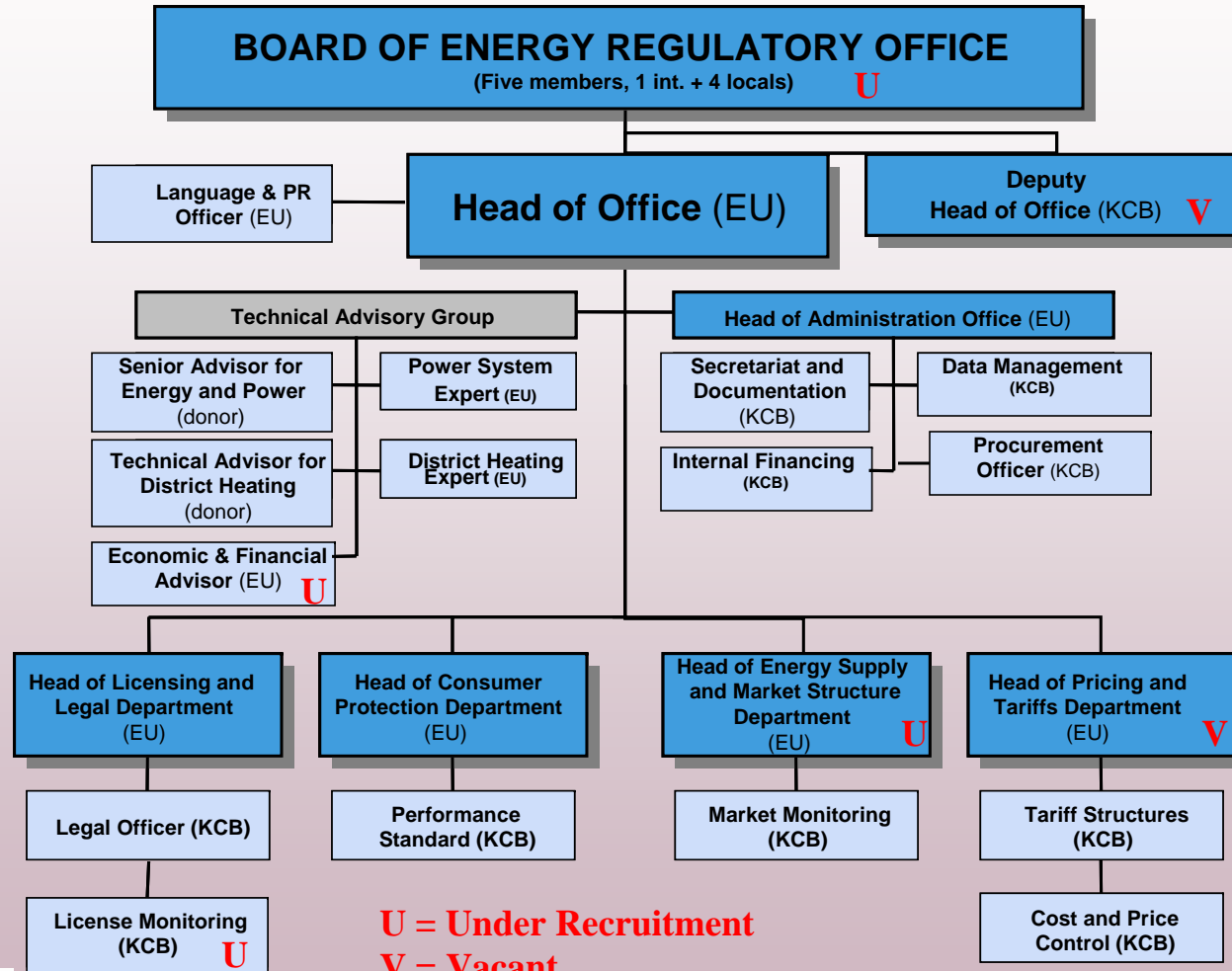
SO Rules on how to share “**deep connection**” and “**shallow connection**” costs and Assets – Approved by ERO

ERO ensures **Grid fees** do not discriminate against RES



# Organisational Structure

ERO: currently 19 staff – 24 by mid 2005



# Role of the ERO Departments (i)

**Legal, Licensing Monitoring Department:** Provides Legal Support to all ERO issues. Follow up of EU Directives, Laws and Regulations applicable to Kosovo. Preparation of all types of Licenses, Applications, Procedures and authorizations for establishment and operation of all energy activities and their supervision, monitoring of compliance with License conditions and relevant decisions of the Regulator.

*Controlling (monitoring) the licensed activities:*

- *Analysing the activities of the Licensees, comparing them to each other and preparing Benchmarking studies regarding licensed activities*
- *Answering the questions of the Licensees, investors, other interested parties regarding licensing and monitoring*
- *Preparing data/information requirements of the Regulator requested from the Licensees (as license conditions)*
- *Analysing annual reports of the Licensees*
- *Creating and managing database on the licensing/monitoring related data, information*

**Customer Protection (Complaint handling) Dept.:** represents the interest of consumers, investigates consumer complaints and co-operates with the organizations legitimately representing consumers. The Dept. shall create a Dispute Settlement Forum for the typical complaints.



# Role of the ERO Departments (ii)

**Energy Supply and Market Structure Department:** The Dept. is responsible for modelling, analysing the energy market supporting regulatory activity. Modelling the different markets, analysing behaviour of market participants, proposing amendments of market rules creating efficient competition. The Dept. analyses market power questions. It is responsible for the implementation of new elements of competition and handles the model (system) issues, theoretical regulatory questions. The Dept. aims to have the collection, analysis of adequate information regarding capacity, and energy balance in all segments of the Energy Industry. Analyses the effect of different circumstances (inflation, fuel price, exchange rate, depreciation, ...) on market price and on regulated end-user price. Creates, manages the monitoring system of the market prices.

**Tariff Structure and Price Control Department:** main objective is to prepare position of the Regulator on tariff system, on network tariff structure, on the structure of regulated end-user (retail) tariff. Giving incentive – through the suggested tariff system, structure – to the Licensees on least cost operation. The Department shall analyse the suggested tariff systems, structures and tariff levels. Creates cost monitoring system. Prepares Benchmarking studies on those costs and prices that are comparable with other national and international companies. Analyses connection fees paid by connecting consumers.



## Activities so far

- Recruit and train 13 staff
- Various Study Tours (Slovenia – Czech – Lithuania – Albania - Hungary)
- Issue Temporary Instructions and **Perform Price Review** for 3 DH Companies
- Consent on Annual Power Balance of KEK
- Participate in Athens Forum process – ERRRA Membership

# Legislation under preparation

- Statutes of ERO (operation, structure, procedures, administration, auditing....)
- Code of Professional Conduct & Ethics
- Rule on Licensing (Application Guidelines, Pro-forma Licenses)
- Rule on Disconnection
- GCES (Approve Internal Procedures of KEK)
- Rule on Pricing and Tariff Methodologies (Regulatory Accounting Guidelines, Submission of Data Guidelines, Regulatory Calendar)
- Schedule of Fees
- Dispute Settlement Procedures



# Donor Support

- USAID (Secondary Legislation)
- EAR (Technical Assistance in setting up ERO)
- WB (ESTAP II & ESTAP III)
- SIDA (TA on District Heating and 1 staff member on DH)
- KfW (1 staff member)
- EU Pillar IV (Consultancy Services)



# Work for 2005

- Complete Secondary Legislation (Rule on **Disconnection** – KEK)
- Approve **Retail Tariff** of KEK - PS
- Approve **Tariff of TSO**
- Approve Grid, Distribution, Metering Codes
- Market Model conceptual Design – Market (Trade) Code?
- Rules for Allocation of Interconnection Capacity
- Work of SEEER WG – Regulator's Board
- **New Power Plant** – Authorisation or Tender Procedures