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CASE STUDY WORKSHOP

GAP ANALYSIS

Vlašić, BiH, December 5-6, 2012

USAID/BiH REAP

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Regulatory and Energy Assistance

Gap Analysis Workshop

Vlašić, BiH
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Historical perspective

A decade ago, BiH started the regulatory and unbundling process literally from the ground

There were no:

- State laws on energy
- Entity laws on energy
- Law requiring unbundling of EPs
- Opportunity for customer choice
- Concepts of data transparency

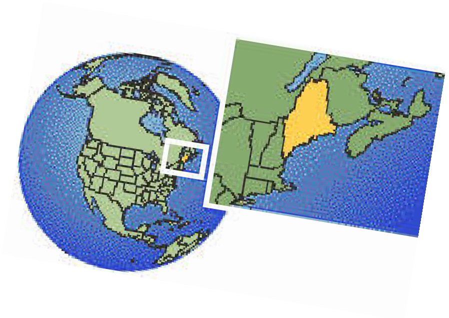
- **Since then, BiH has accomplished multiple building blocks**
  - **State laws on transmission regulation, establishment of SERC, establishment of Transco**
  - **Entity laws on creation of FERC, RSERC, and distribution and generation regulation**
  - **Entity laws on unbundling**
  - **Secondary legislation on all aspects of regulation (e.g., tariffs, licensing, procedural rules, grid codes, eligible customers, supply)**
  - **Active Commissions engaged in hearings, monitoring, decision-making**

- But much still to do for market opening to happen
  - Mandates for complete unbundling and complete customer choice in very near term – but not yet ready
  - Gap analysis shows some progress, some areas needing work
  - This is typical for any jurisdiction, not just BiH
- Next steps are practical, specific, more than just legal

- Stakeholder Process is key step
  - How do stakeholders work out the multiple issues to achieve effective, efficient, transparent, consumer-friendly markets
- Need to assure that what happens in fact is what is envisioned in laws and policies
- Will require hard work, attention to detail, and formal work sessions

- Other jurisdictions have closed the gap between theory and practice with the following:
  - Multiple formal working groups
  - Organized around specific, defined topics
  - With clear mandates and instructions
  - With deadlines
  - With cross-section of stakeholders and with regulators taking facilitator/coach/teacher/staff sergeant role

- Process not a smooth line in any jurisdiction



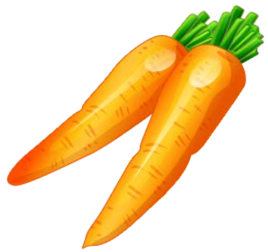
- Maine example
  - ➢ Small state (1.3 million)
  - ➢ Not a wealthy state (not California)
  - ➢ Early leader in unbundling and retail competition for all customers
  - ➢ Electricity sector structure and markets similar to BiH

- **Maine history is informative**
  - **Unbundling legislation adopted in 1998, unbundling and full retail choice effective January 1, 2000**
  - **Out of 600,000 residential retail customers in Maine in 2000, only 3 – YES, "3" – selected market supplier**
- **Why?**
  - **Lack of information and public awareness**
  - **Lack of price transparency**
  - **Complex contracts from market entrants**
  - **Lack of competition with few new market entrants**
  - **Concerns about risk**

MAINE LEARNED MULTIPLE LESSONS

- Distribution company becomes centerpiece of the market
  - Possesses customer data
  - Controls metering
  - Maintains existing billing systems
  - Controls network usage/access

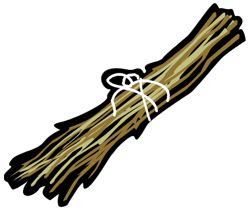
Distribution companies therefore received "carrots" and "sticks" from regulator



- **Carrots**
  - Allowed to keep for shareholders portion of gains on sales of generation assets
  - New tariffs in place to assure recovery of all legitimate distribution (and transmission costs)
  - Made financially indifferent as to whether they sold electrons or a new supplier sold electrons

Sticks

- New, strict non-discrimination and TPA rules, with sanctions if failed to observe
- New Customer Performance Indicators to measure utility effectiveness (e.g., time to install new service, restore outages, resolve billing errors, etc)
- These are publicized, and tariffs also reflect Customer Performance Indicator achievement rates



- The regulator then helped identify restrictions on customer choice and remove blockages
- For example:
  - Retail contracts that were short, uniform, and easy to read
  - Utilities were charged with developing and maintaining real time electronic data that could be easily shared between utility and supplier so that customers can switch easily
  - Commission, utilities and stakeholders moved to on-lir capability to select supplier

Today, customers in Maine can switch online, with a click of a mouse

- Maine Public Utility Commission (PUC) website was totally redesigned and revamped as part of public outreach
- Website contains supplier information and guidance on how to switch
- Website is constantly refreshed and updated
- Utility tariffs are indifferent as to whether customer takes default supply or on the market
- Utilities' profits are derived from the distribution and transmission role

Maine PUC Website Snapshot

Electricity

Electric Rates

- Standard Offer Rates
- Delivery Rates

Standard Offer

- Rates
- Disclosure Labels
- Standard Offer Information
- Current Standard Offer Solicitations

RFP's and Awarded Contracts

- Current Long-Term Contract RFP
- Awarded & Archived Long-Term Contract RFPs
- Request for Proposals for Long-term Contracts for Deep-Water Offshore Wind Energy Pilot Projects And Tidal Energy Demonstration Projects
- Request for Proposals from Suppliers to Launch Green Power Offer
- Awarded and Archived Community-Based Renewable Energy Contracts

Electric Supply Choice

- List of Retail Electricity Suppliers
- Customer Migration Statistics
- Buying Green Power

Other Electric Information

- Maine's Transmission & Distribution Utility Information & Statistics
- Electric Laws & Rules
- Electric Links

Information for Electricity Suppliers

- General Information for Electricity Suppliers
- Licensing Requirements
- Standard Offer Information
- Customer Migration Statistics
- Standard Offer Solicitations (Including Current RFPs)

Current Items of Interest

MPUC Request for Proposal: Electric Standard Offer Service for Commercial and Industrial Customers (11/15/2012)

MPUC Approves Standard Offer Price Reductions for CMP and BHE Residential and Small Commercial Customers Effective March 1, 2013 (11/7/2012)

MPUC Provides Information to Consumers about Competitive Electricity Providers (11/1/2012)

MPUC Issues Request for Proposal for Long-Term Contracting of Electric Power Supply (10/24/2012)

Consumer Information

Frequently Asked Questions

- What Should Consumers Know About Competitive Electricity Providers
- How do Maine's electricity costs compare with those of the region?
- What is "Standard Offer Service"?
- What is Electric Restructuring?
- What Are the Benefits of Competition in Electricity Supply?
- Issue Information: CMP Transmission Line Expansion
- How do I choose an Electricity supplier?

Delivery Service

- Electric Delivery Rates
- List of Distribution Utilities

Special Interest

- Proposed Offshore Wind Project Term Sheet
- Community-based Renewable Energy Pilot Program
- Energy Efficiency
- Renewable Energy / Green Power

Consumer Complaints

Brochures & Other Publications

- Risk mitigation important − customers are assured of default supply and a supplier of last resort if their supply fails
- To date, no supplier has failed, though some exit the market
- Today, approximately 25% of all Maine residential and small commercial customers now take supply from the market, instead of from default supply (including the Gullivers!)
- This trend is rapidly growing

- This conversion process takes time
  - 2 years in Maine doable, but generation had already been sold, system largely unbundled before customer choice implemented
- Process is continual
  - Regulators and stakeholder groups consistently improve customer access, information, ease and transparency of functions
- Regulators are guardian angels for consumers - ever watchful

Bosnia and Herzegovina has two years - can you achieve this opening?

Yes! But you must start now

Other Countries Have Experienced The Same Path

- First step is reconfiguration of distribution company into DSO
- With supply becoming a commercial process and customer-oriented
- In some countries, process was relatively quick (Bulgaria) while others took many years due to incomplete unbundling (Hungary)

- **Instructive experiences in other countries**
  - **Albania**
    - **Very difficult to encourage switching because there is not much competition (generation largely hydro-based, and process has not been forced to a conclusion)**
  - **Bulgaria**
    - **By contrast, effectively unbundled generation (more diversified, better cross-border supply options); privatization of both generation and distribution helped encourage competition, and market penetration**
  - **United Kingdom**
    - **Massive public awareness campaign, real time measurement, metering and data information available to all participants, regulator fully supportive and aggressively pushing retail petition**
    - **The result, many customers in London are served by French (!) suppliers**

Critical Prerequisites for Market Opening

- <u>Cost-based tariffs</u>
  - Role of the regulator to ensure that utility gets enough revenue, but not too much
  - Cost-based tariffs should reflect cost of generation, transmission and distribution
  - In an unbundled network, EPs recover full costs of transmission and distribution but are indifferent as to whether they or another party supplies the electrons

Prerequisites *(cont'd)*

- <u>Metering</u>
  - Need accurate, time-differentiated metering with multiple meter points that show consumption by customer, line losses, and other relevant, time-based data
  - Need to be multi-functional
  - Meters measure quantity, quantity flowing by time segment, information flows from the meter to the utility, ability of the utility to control uses behind the meter
  - Can load profile for customers as transitional step

Prerequisites *(cont'd)*

- Multiple sources of supply
  - Cannot have a genuine market without multiple suppliers and real competition
  - Generation must be separately owned, and aggressively competed, not brother/sister companies
    - One of the problems, for example, in Albania
- Vulnerable customers
  - Political and social issue that is not for the utilities to solve (but until vulnerable customers are adequately protected, there will not be full market opening)
    - BiH in general has done a good job here

- **So, in this Workshop, our goals should focus on**
  - ✓ **Next key steps**
  - ✓ **Stakeholder groups**
  - ✓ **Practical actions**
  - ✓ **Process to achieve goals**
  - ✓ **Customer friendly data and easy ability to choose**
  - ✓ **Risk mitigation**

Next key steps ~ beginning today

- Identify the legal gaps in regulation/legislation
- Regulators fill in the gaps according to their procedural rules
- Establishment of a formal plan for market opening: assignment of missing roles and development of processes and contracts
  - Two stages: design and implementation
  - Accomplished by EPs and Regulators, separately and collectively so the market fits together
  - Should have an opportunity for public comment
  - Practical timeframe, given the deadline

Hvala!