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Regulatory and Energy Assistance

CASE STUDY WORKSHOP

GAP ANALYSIS, CONT. I

Vlašić, BiH, December 5-6, 2012

USAID/BIH REAP

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Regulatory and Energy Assistance

Gap Analysis Workshop

Vlašić, BiH

December 5-6, 2012

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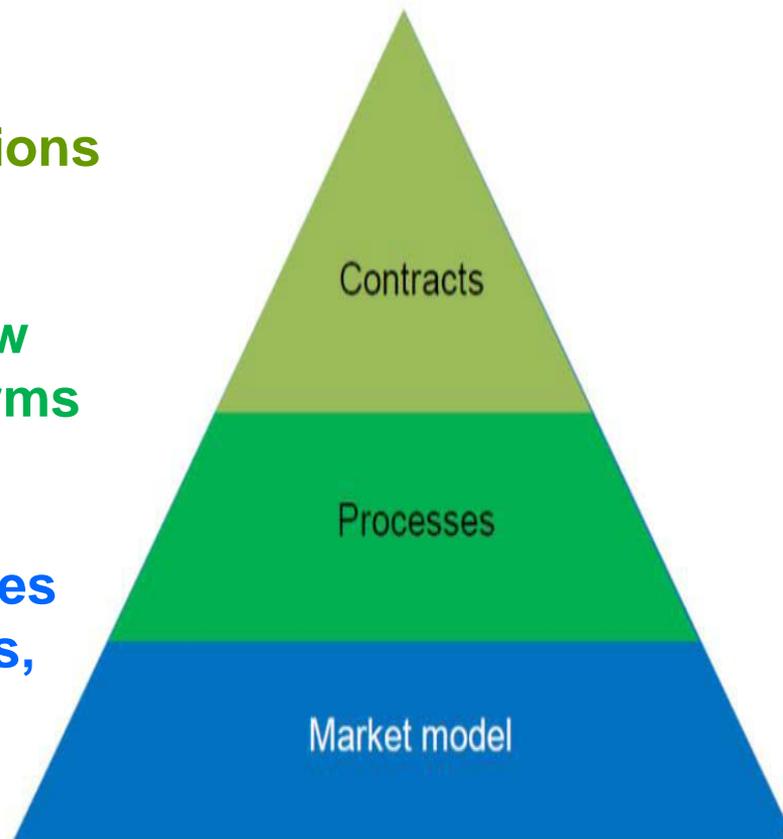
GAP ANALYSIS

Purpose of analysis:

- **Does the legal and regulatory framework in BiH provide a straightforward process for a competitive supplier to provide electricity to an eligible customer?**
- **If not, what are the obstacles?**
- **And what changes need to be made in the legal framework to facilitate customer choice and supplier market entry?**



- **Does the legal and regulatory framework in a clear way . . .**
 - **Support fair commercial relations between market participants**
 - **Determine what, when and how each market participant performs its role**
 - **Define roles and responsibilities of different market participants, and interactions between them and customers**





- **Gap Analysis reviewed seven functional areas:**
 1. **Retail Supplier Licensing**
 2. **Customer Switching**
 3. **Information Sharing**
 4. **Default Supplier and Supplier of Last Resort**
 5. **Metering**
 6. **Billing and Collections**
 7. **Contracts**
- **Did not address an eighth area, scheduling/
balancing – detailed workshops on these issues
in 2013**



- **Focus of review:**
 - **Licensing Rules, General Conditions of Supply, Eligible Customer Rules**
 - **Also looked at Grid Codes and relevant provisions of other rules (e.g., Rules of Procedure or Rules on Metering Points)**
- **For Brčko District, Eligible Customer Rules not yet adopted**
 - **Assumed they would be similar to Entity Rules**
 - **Did not denote noncompliance on an issue due to lack of this rule (but indicated the need for provisions to address the particular issue)**



General Conclusions

- **For certain market functions, the legal and regulatory framework complies with EC standards, with only minor clarifying modifications needed**
 - E.g., licensing, customer switching, default supplier/SOLR
- **For others, the rules require moderate or substantial revision before BiH customers and suppliers can effectively participate in open market**
 - E.g., information sharing, billing and collections, metering at distribution level



- **For example:**

- Generally, the rules require suppliers and system operators to provide necessary data to each other

FERC	RSERC	SERC (Brčko)
Elig. Customer Rule Arts. 15(2) & 17 (supplier – DSO after customer request) Gen. Conditions of Supply Art. 38 (mutual relations contracts)	Elig. Customer Rule Arts. 12(2) & 15 (supplier – DSO after customer request) Gen. Conditions of Supply Art. 59 (mutual relations contracts)	Eligible Customer Rules to be developed Gen. Conditions of Supply Art. 59 (mutual relations contracts)

- But rules are not explicit with regard to:
 - **How information is exchanged between suppliers and system operators**
 - **What information supplier can receive prior to a request by a customer to switch**



- **Rules need to be clear about:**
 - **What data suppliers can access**
 - **How they access it**
 - **At what point in the marketing process**
 - **For what purposes suppliers can use this data**
 - **What customer authorization is necessary (which can be in the contract with the supplier)**
 - **How customer's confidential information will be protected**



Market Model –

Are roles of market participants clearly defined?

- *Mostly, for defined market participants:*

- “Market Participants” are identified in the laws and rules as:

DSO

Suppliers/traders

Transco

Balance responsible parties

ISO

Customers (sometimes)

- The basic roles and responsibilities of the main market actors in BiH are relatively clear and described in the respective legislation

- The DSO is the key market participant in the competitive market

- Customers appropriately are not identified as “Market Participants” in the Grid Codes and Market Rules, which principally focus on licensee responsibilities



Market Model – Are interactions between market participants clearly described?

- ***Sometimes***
 - For several functions, such as licensing and supplier switching , there are explicit interaction protocols described in the rules
 - For others, such as access to metering data, billing options, and contracting, there are gaps in how these functions are to be performed
 - **The lack of a standardized electronic data exchange system is the greatest impediment to streamlining the interactions between market participants**



Processes –

Is it clear how and when each market participant acts?

- *Sometimes*

- It is clear that system operators have responsibility for almost all technical operations – connections, meter installation, maintenance and reading, and operations (the ISO Grid Code imposes some technical responsibilities on directly connected system users)
- It is relatively clear how DSOs, suppliers and eligible customers execute switching
- It is not clear how suppliers and system operators communicate and coordinate to deliver supply to and bill customers for services



Contracts –

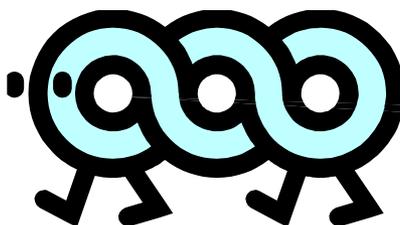
Are the commercial interactions between market participants clearly delineated?

- **No**

- There is confusion concerning the interactions between the DSO and supplier on the one hand, and eligible customers on the other
 - Can supplier execute the contract on access (network contract) only on behalf of particular customers
 - Can supplier execute the contract for itself
- The parameters for a contractual arrangement between the DSO and supplier for billing and collections are not defined
 - How does supplier collect for and pay DSO for network services



- Rules may seem clear to regulators and EPs, who know the system
- However, the rules are unclear for customers and new suppliers
- The result is a closed system that keeps new entrants out and customers without choice

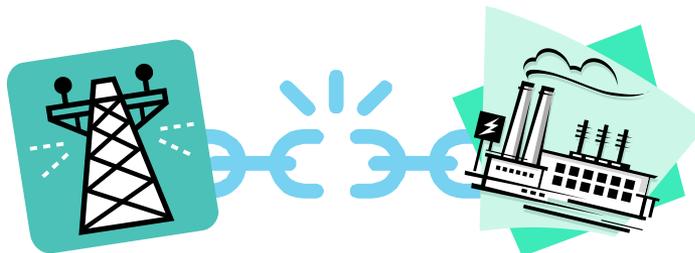




- **The most significant barrier to customers' ability to obtain competitive supply is the lack of full unbundling**
 - **In most primary laws, incumbent DSOs (and Transco) are able by law to hold supply licenses**
 - **FERC:** Electric Power Law Arts. 46 & 78
 - **RSERC:** Electricity Law Art. 62
 - **SERC:** Transco Law Art. 2
 - **For Brčko District, Licensing Rule Art. 6 does limit supply license for eligible customers to companies unbundled from DSO (but has not occurred in practice)**



- **Why is unbundling essential for market opening?**
 - DSO must be neutral as to which supplier serves customers
 - DSO must share information among suppliers in nondiscriminatory fashion
 - Customers must be motivated to leave default supplier (in bundled system, more convenient to remain with incumbent)





- **Even if the laws and rules provide for the necessary market functions, regulators could do more to encourage market opening**
 - **Education (public outreach)**
 - **Accessibility of Information**
 - **Harmonization of Rules**
 - **Enforcement**



Education

- **Commissions have both the legal authority and responsibility to engage in public education and outreach efforts**
 - **Primary Laws give all three commissions broad authority to supervise relations between market participants, to ensure fairness and transparency in the market, and to promote competitiveness**
 - **Examples of educational efforts include speaking engagements, newspaper articles, and community or public meetings, as well as circulation of materials and a user-friendly website (with a price comparison tool)**





Accessibility of Information

- **Websites can be more user-friendly**
 - Many rules, forms, and other important information are not available in English (or links to English versions are broken)
 - Requirements are spread over several rules – unavoidable but helpful to have the list of all rules on one page
 - Need to keep sites updated (ensure that most recent versions of rules are on the site)
- **Need “one-stop” guidance document that links to relevant forms or rules**
 - EC Consumer Checklist a helpful guide





Harmonization of Rules

- **Unified market requires same or very similar requirements**
- **Suppliers must have uniformity with regard to:**
 - **Licensing requirements and conditions**
 - **Bill contents and procedures**
 - **Customer switching procedures**
 - **Access to DSO information**
 - **Sanctions for violation of rules**
- **Also *helpful* to have parallel requirements for default suppliers and SOLRs**



Enforcement

- **Commissions must**

- **Be consistent in interpreting rules and licensing requirements**
- **Be proactive in investigating licensee activities (monitor websites, review press statements and bills)**
- **Act on complaints against licensees in transparent and reasoned manner, based on the requirements of law and regulations**
- **Impose sanctions in accordance with the laws and regulations, in proportion to the licensee's violation**



Assessment and Recommendations

- **Retail Supplier Licensing**

- **All three Licensing Rules generally compliant with EU requirements and practices**

- **Give commissions adequate legal authority to obtain necessary information and monitor supplier's activities**
- **Provide for broad categories of financial and technical data to be submitted**
 - **Regulator must ensure detailed data submitted is sufficient to demonstrate supplier has requisite financial and technical capabilities**
 - **Use technical expertise to probe contents of application and follow up until satisfied**



- **Retail Supplier Licensing (*cont'd*)**
 - **Licensing application processes are relatively uncomplicated, with forms to facilitate the process**
 - **Not all forms available in English on websites**
 - **Discourages potential suppliers from outside BiH**
 - **Recommend adding timeframes within which decision must be made (relatively short – 45-60 days from confirmation of completed application)**
 - **FERC and RSERC: Rules state conditions “may” be imposed; several conditions should be mandatory (e.g., third party access in DSO licenses)**



- **Retail Supplier Licensing (*cont'd*)**
 - **Licensing Rules are not clear to third parties as to the difference between *supply* and *trade* activities, e.g.,**
 - **SERC: Definitions are similar (Art. 2), and there are licenses for “trade and supply” and for “supply of eligible customers”(Art. 4), which is PSC Brčko (Art. 6)**
 - **FERC: Definition of supply includes trading activity and licenses cover both (Arts. 4 & 6)**
 - **RSERC – Supply and trade are not different in definitions (Art. 3: both “trade” and “supply with electricity” include resale)**
 - **Consider clarifying the difference between these two activities and ensure meanings are the same in all rules to avoid the “closed loop” problem**



- **Retail Supplier Licensing (*cont'd*)**
 - **Biggest gap: Network operators should not be supply licensees (unbundling issue in primary legislation)**
 - **SERC: Law Establishing Transco Art. 2 (Transco can be supply licensee with SERC approval)
Brčko: Licensing Rule Art. 6 (incumbent DSO supplies tariff customers; other supply licensees must be unbundled from DSO)**
 - **FERC: Electric Power Law Arts. 46 & 78 (DSO can be tariff customer supplier, and Tier 1 and Tier II supplier)**
 - **RSERC: Electricity Law Art. 62 (separates license for trade and supply – cannot be DSO – from license for supply of tariff customers)**



- **Customer Switching**

- **CEER Guidelines – Switching process must:**

- **Be intuitively comprehensible**
- **Enable optimal customer service**
- **Help provide a non-discriminatory environment (by expanding supplier access to customers)**
- **Ensure cost efficiency**

- **EU Best Practices require:**

- **Single contact to make switch (supplier)**
- **No fee for switching**
- **Switch occurs within 3 weeks**
- **Standardized switching procedures approved by regulator**
- **Flexible switching date**
- **Meters read in conjunction with switch**
- **Existing supplier has limited rights to object**



• Customer Switching - BiH

➤ Process set out in Eligible Customer Rules

- FERC and RSERC have similar requirements (Brčko Rules not yet issued)
- Rules provide that supplier can handle almost all aspects of the switch, except for notification to existing supplier (Brčko Decision on Supply does have new supplier inform existing supplier)
 - **RSERC: Requires that customer authorize supplier to submit application to system operator**
- Timing requirements are confusing and potentially extend time within which switch occurs to 2+ months
 - **Notice requirements of 30 days (FERC) and 40 days (RSERC) before cancelling existing supply unnecessary – supply contract can provide for notice requirements**



Timing of Switching Process

Customer cancellation of existing contract	30-40 days' notice
Old supplier confirms and sends data, or denies and sends complaint, to DSO and new supplier	10 days
If denies, how long before complaint resolved?	(+15 days ?)
New supplier submits application to system operator at least 20 days before beginning of new supply contract	20 days
If after 10 th of month, new supply contract begins the 1 st of the following month	(+30 days)
Within 10 days of receipt of application, system operator approves or informs of necessary changes, and informs old supplier of contract cancellation date	—
If changes necessary, does this extend date new contract begins?	?
Total	60 – 115+ days





- **Customer Switching (*cont'd*)**

- **Both Entity Eligible Customer Rules restrict effective date of the switch to the first of the month:**
 - Not clear why this is necessary
 - Nor how it coincides with meter reading
 - **Both rules require meter to be read by the system operator on the date of application of switch and data provided to new supplier within 3 days (RSERC) or 5 days (FERC)**
- **FERC rule also requires selection of a new supplier before certain dates (e.g., Sept. 30 or if 10GWh+, June 30)**
- **No switching rules for customers directly connected to the high voltage network**



- **Customer Switching** (*cont'd*)

- **Both Entity Eligible Customer Rules require that suppliers notify customers of price change**

- **Not clear in FERC rule whether customer can terminate contract in event of price change**

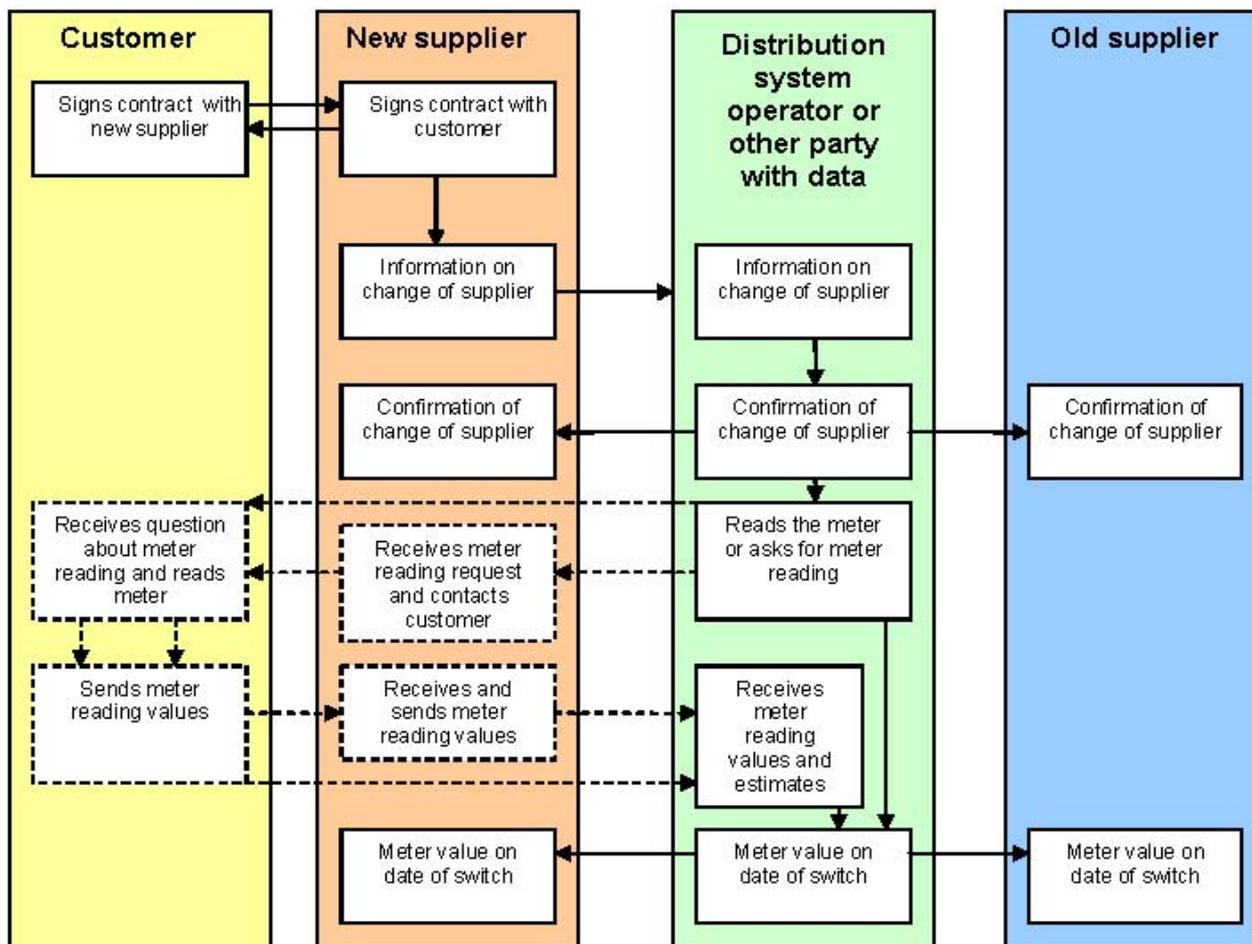
- **Both Rules limit ability of existing supplier to object to switch (based on contractual terms only)**

- **But can prevent switch based on nonpayment of bills, and also if existing supplier had already requested termination of supply or customer already disconnected (FERC Art. 18; RSERC Art.16)**

- **Not clear how or why these requirements necessary (risk on new supplier? other contractual remedies?)**

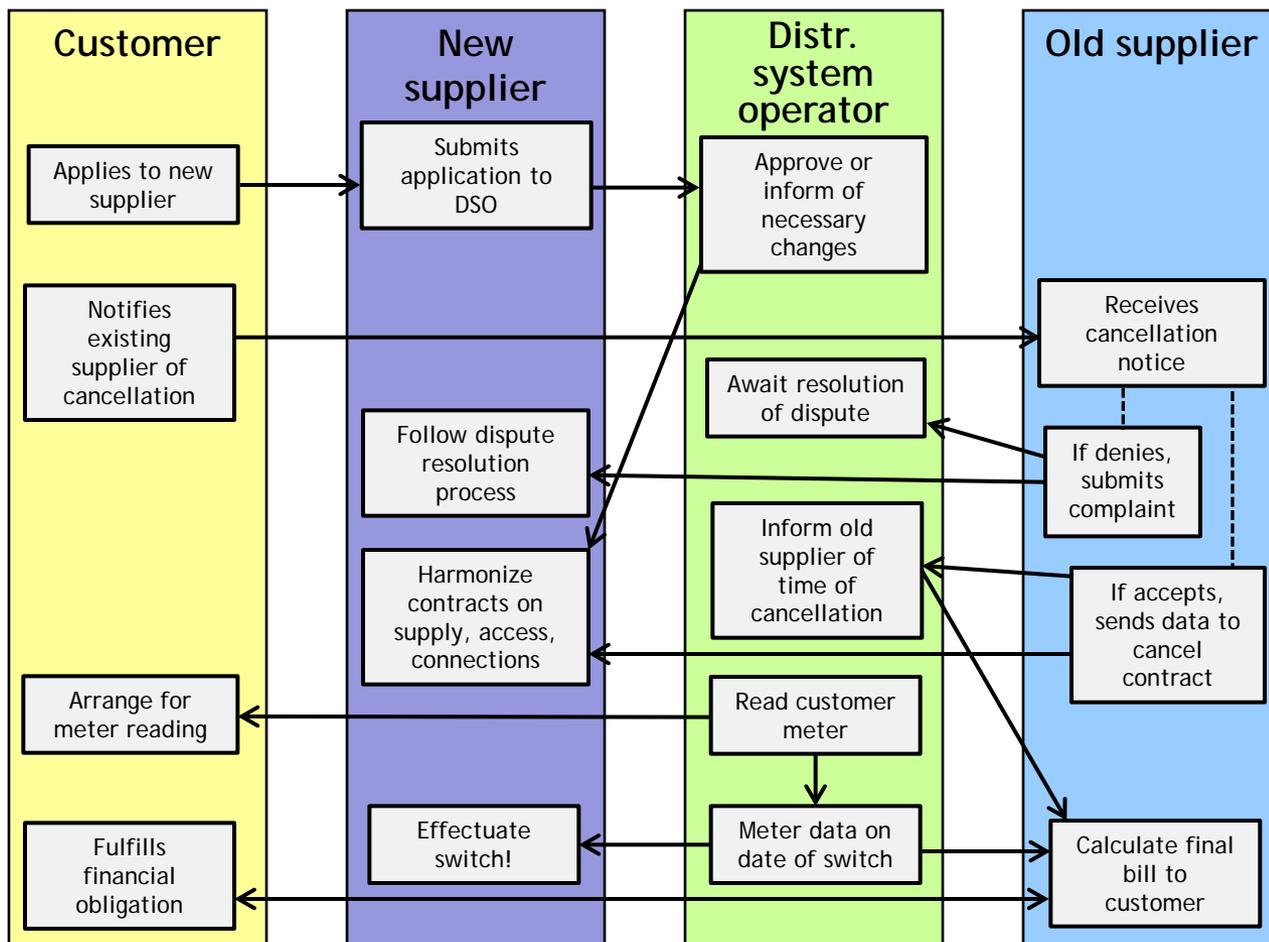


Switching Process Described by ERGEG





Switching Process in Entity Rules





- **Customer Switching (*cont'd*)**
 - **Because both suppliers and eligible customers are not familiar with the laws and rules governing the electricity sector, it is very important to have a clear guide that explains every step in the process**
 - **RSERC website has a good explanation of market opening in English – can build on this and add links to useful sources (forms, rules, consumer agencies)**
 - **Use EC Consumer Checklist as a model**
(<http://www.energycustomers.ie/electricity/euchecklist.aspx>)
 - **All websites should have links and contact information for licensed suppliers**



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“Mini- Workshop on Customer Switching”

**Assignment -
Complete the Table with Relevant Procedures**



- **Information Sharing Among Market Participants**
 - **Reviewed regulations to determine flow of information (means of communication) between:**
 - **Suppliers and Customers**
 - **System Operators and Customers**
 - **Suppliers and System Operators**
 - **Looked at both the type of information that must be provided and the method of providing it**



- **Information Sharing** (*cont'd*)

- Suppliers and Customers**

- **Type of information:**

- Customers need to have knowledge of their consumption and unit prices in order to properly assess supply options (“price transparency”)
 - Customers need information about licensed suppliers (price options, services, contact information)
 - The terms of supply contracts should be known by customers sufficiently in advance of signing so customer can compare options
 - Customers need to know how to resolve dispute with supplier



➤ **Means of communicating information to customers:**

- Recommended practice is to include electricity consumption and current unit prices in bills
- Method of dispute resolution also on the bill, though can be in the supply contract
- Standard supply contracts (nonconfidential terms) should be on file at regulator or on supplier website
- Contact information, links to suppliers, and neutral price comparison information should be available on regulators' website



- **Information Sharing** (*cont'd*)

- System operators and customers**

- **Type of information:**

- Customers need information on connection, access terms, disconnection requirements, meter responsibilities, technical issues (system repairs and maintenance, reporting of outages)

- **Means of communication:**

- Recommended practice is that suppliers be the single point of contact for customers on most aspects of network service
 - Supplier then communicates with DSO to resolve the issue
 - Exception is for technical problems (outages or disconnections) – DSO can directly communicate (or have a hotline to call) regarding network operation issues



- **Information Sharing** (*cont'd*)

- Suppliers and system operators**

- **Type of information:**

- Suppliers need to have knowledge of available system capacity, meter data to calculate bills, network access requirements
 - Suppliers usually do not have access to a specific customer's data (e.g., contact information, monthly bill, consumption) without customer's consent
 - DSOs, the Transco and ISO need information about customer consumption (load data) and non-price contract terms (e.g., interruptible or firm supply)



- **Information Sharing (*cont'd*)**
 - **Means of communication between suppliers and system operators:**
 - For notices and requests, manual dispatch instructions, applications for service, can have multiple communication channels (e.g., email, internet; often established by contract)
 - For usage (metered) data, recommended practice is to have a neutral data hub or, if not, a standardized electronic data exchange
 - Need regulated framework for meter value management
 - Manual work during data exchange between DSO and suppliers should be minimized



- **Information Sharing** (*cont'd*)
 - **BiH Eligible Customer Rules and General Conditions of Supply** have broad provisions for access to information by suppliers, customers, and system operators
 - Suppliers are obligated to include certain content in bills (including consumption and unit prices) and on websites, and to inform customers of contract terms in advance
 - Suppliers can obtain data on a customer from DSO after the customer authorizes switch
 - Rules are not explicit with regard to exchange of information before customer switch (either what information is available or how to get it)
 - DSOs must inform customers and suppliers on connection rules, access requirements



- **Information Sharing** (*cont'd*)

- **It is less clear in the rules *how* data is communicated between suppliers and system operators**

- Rules require DSOs and suppliers to enter into “special relations contracts” that include terms governing the manner of system linking and data exchange

- **Not clear that such contracts have been concluded or that commissions have approved them**

- Need to ensure that data exchange methods are compatible in all jurisdictions

- Efficient and timely metering data exchange necessary for switching, billing



- **Role of Commissions in Facilitating Sharing of Information**
 - **Require development of standardized electronic data formats and approve formats for entire BiH**
 - **Publish comprehensible guidelines for customers on switching on website**
 - **Provide price comparison tools on website**
 - **Review and approve terms of “mutual relations” contracts to ensure coordinated communication and access to necessary data among all market participants**



Default Supplier/ SOLR - EU Practices

- **Default supplier typically longer term for customers who do not choose; SOLR shorter term to cover failure of supplier**
 - **Rules should distinguish between roles of DS and SOLR, with clear responsibilities**
- **At present (in most jurisdictions), the incumbent supplier performs both roles**
 - **Not best solution for competitive markets due to DSO affiliation**
 - **Need to maintain separate accounting for DS and SOLR roles due to different pricing**
- **Customer should not be involved in switch from failed supplier to SOLR (process should enable “seamless” switch)**
 - **Switching from SOLR to public or market supplier uses standard process but should be expedited**



Default Supplier/ SOLR - BiH

- **Eligible Customer Rules have clear responsibilities**
 - RSERC rule uses term “public supplier (supplier of last resort)” in definition and throughout rule; some confusion as to circumstances entitling customers to public supply service (at particular price) vs. SOLR service (at higher price)
- **Both Eligible Customer rules have limitations on use of public supplier (once per calendar year), and notice requirements for leaving**
 - Need to consider extent to which these requirements discourage switching
 - Pricing solution
- **For SOLR, both rules describe a process that assumes no interruption of supply to customer, but this could be made more clear**



- **Metering**
- **The ability to obtain metered data information is fundamental to robust markets – the basis for all financial settlements**
- **Regulations must clearly address roles and responsibilities of market actors in the metering process**
 - **Parties responsible to provide metering data**
 - **Technical characteristics of the metering system**
 - **Metering data acquisition**
 - **Transmission of metering data**
 - **Means of data transmission**
 - **Time schedule**
 - **Specific parties involved**

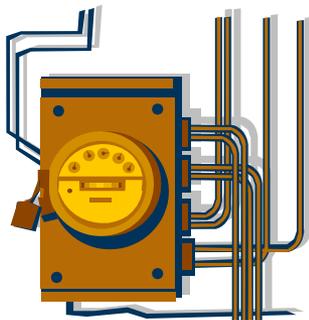


• Metering - BiH

- Metering processes set out in a number of rules in each commission (Grid Codes, General Conditions of Supply, and Eligible Customer Rules)
- System operators have clear responsibilities over technical aspects of meters (installation, maintenance, operations, reading, data collection)
- No clear process for transmittal of data between system operators and suppliers

– Rules and approved mutual relations contract need to describe:

- Data aggregation and validation
- Methodology for profiling for non-incremental metering data
- Communication of metered data (data flow)





- **Metering (*cont'd*)**

- **Rules need to make clear:**

- **DSO has responsibility for preserving confidentiality (limiting access) to meter registry information (register of network junction and metering points, ID numbers, and technical information)**
 - **Can provide to appropriate system users on request – e.g., customer or its supplier**
- **The processes and responsibilities for data aggregation and validation**
- **The methods for transmission of metered data to suppliers for calculation of invoices**
- **Confidentiality of metered data (e.g., provide limited access to metered data, such as by assigning user codes as in ISO Grid Code)**



- **Metering (*cont'd*)**
- **Rules should describe process for delivery of billing data**
 - **Billing Data delivery format**
 - **Means to deliver billing data**
 - **Recipients of the billing data and the list of delivery data per each recipient**
 - **Time schedule to deliver data**



• Billing and Collection

- **Recommended model: Mandatory combined billing by supplier**
 - Supplier responsible for collecting both the electricity cost and the network tariff
 - Establishment of efficient billing systems a condition of supply license
 - DSO must provide supplier with relevant billing information and implement IT solutions that ensure billing information provided to suppliers in non-discriminatory and efficient way
 - **A separate billing system (two bills) discourages market entry by suppliers (customers have only one bill with incumbent, unbundled supplier, but would need two with different supplier)**



- **Billing and Collection** (*cont'd*)

- **Bills must be accurate, transparent, readable, and thus easily understandable**
- **Bills should contain sufficient information to enable customers to properly adjust consumption and to compare market offers (consumption, pricing)**
- **Bills should offer customers a choice in billing methods and payment service (e.g., electronic)**
- **Customers should be billed regularly (e.g., monthly)**





- **Billing and Collection - BiH**
- **Ambiguity in the General Conditions of Supply with respect to combined billing**
 - **Combined billing is not mandatory**
 - DSO contracts on access/usage can be signed with customer and contents of contract includes billing, implying direct billing
 - Licensing rules provide for suppliers to have efficient billing systems, but under General Conditions of Supply suppliers only “regulate” access contracts for certain categories of customers
 - DSO can also bill for unauthorized usage, which is inconsistent with a supplier-billing model (how is supplier compensated?)



- **Billing and Collection** (*cont'd*)
 - **RSERC and SERC (Brčko) rules authorize combined billing, but it is optional**
 - This approach requires DSO to have dual billing system
 - **Even if supplier bills, there are no rules on how DSO collects from supplier for network charges**
 - **Eligible Customer Rules allow multiple suppliers to serve a single customer - which supplier will be responsible for including network charges in its bill?**



- **Billing and Collection** (*cont'd*)
 - **Although process to communicate metered data for billing is not clear, meters are read monthly and billing occurs monthly**
 - **There is no requirement to include historical consumption in bill**
 - **In RSERC and SERC General Conditions, supplier policies may provide special payment options for vulnerable customers (but not a requirement)**
 - **In FERC, no provision on vulnerable customer issue**



• Collections

- **Although collection provisions refer to the supplier, it is not clear to whom payment is made**
 - If bill combines supply and network charges, it is not clear how dispute over network portion of bill is resolved
- **Rules allow termination of supply for nonpayment without any time limits for correction of default to avoid termination**
 - Add a notice period before supply can be terminated
- **Regulators' websites should inform customers of**
 - Payment obligations (including amount of “legal default interest” that can be charged)
 - Notice requirements for termination of supply
 - Dispute rights



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**Same “Assignment” -
Complete the Table with References
to Procedures**