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MARKET OPENING AND REGULATION IN POWER SECTOR

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Elektroprivreda HZHB

Jane Wilson, Ognjen Markovic and John Gulliver

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Market Opening

- **Moving from system where all sales fully regulated to one where energy, capacity and other services purchased and sold at negotiated prices**
 - **Regulator may pre-approve form of negotiated contract and define non-price terms in secondary legislation**
- **Eligible Customers can enter into bilateral contracts for services available in the open market**

Market Opening

- **Market opening is already BiH policy**
- **Required by State and Entity Laws**
- **Required by Energy Community Treaty**
- **Often customer-driven: Eligible Customers beginning to choose suppliers – Aluminij and BSI**
- **New environment for EPs**

Overview of Workshop

- **Objective – Dealing with market opening**
- **Market opening conditions in BiH**
 - **Primary**
 - **Secondary**
- **Specific market opening BiH issues**

Implications of Eligible Customer Choice

- **Cost and revenue impact on EP and remaining customers**
- **Necessary metering, billing and contracts**
- **Remaining obligations of EP**
- **Role of regulators**

Critical Conditions for Market Opening – Primary

- **Accurate and time differentiated metering**
- **Cost-based tariffs for all functions**
- **Protection for vulnerable customers**
- **Unbundled functions and diverse supply**
- **Deregulation of generation**

Metering

- **Most important factor**
- **Accurate and time differentiated metering, with remote reading capability**
 - **For wholesale and retail**
 - **Monitor participant behavior, measure losses**
 - **Critical for billing and settlement**

Cost-Based Tariffs

- **Tariffs should allow for:**
 - **Full cost recovery of justified costs**
 - **Correct allocation**
 - **Reduction of cross-subsidization**
 - **Impact on ability to pay**

Vulnerable Customers

- **Utilities and tariff customers currently subsidize vulnerable customers**
 - **Inefficient**
 - **Should be public obligation, not utility or customers**
- **No Federation government social programs to protect vulnerable customers**

Vulnerable Customers

- **Develop and implement specific program**
 - Identify customers qualified to receive support
 - Funded by credit from government budget
- **Develop block tariffs with lower rates for lower usage?**
 - Appears to be a simple solution
 - Research shows weak correlation

Unbundled Functions and Diverse Supply

- **Not all EPs legally or functionally unbundled**
 - Process begun, but not complete
 - Functional and accounting unbundling by distribution, generation and supply
- **More extensive unbundling necessary for complete cost recovery:**
 - Ancillary services
 - Balancing
 - Third party access and diverse supply
 - SOLR/Default supply

Critical Conditions for Market Opening - Secondary

- **Eligible customer processes**
 - **Enforceable contracts**
 - **Third Party Access (TPA) - Non-discriminatory access to transmission and distribution network**
 - **Ancillary services and balancing**
 - **Supplier of Last Resort (SOLR)**
 - **Customer switching**
 - **Prompt and transparent financial settlement**

Enforceable Contracts

- **Power purchase agreements**
- **Ancillary services**
- **Balancing agreements**
- **Grid access contracts**
- **Financial settlement contracts**
- **Connection agreements**

Contract Development

- **Regulators convene participants to develop (and regulators approve) detailed, pro forma contracts for all services**
- **or**
- **Regulators issue rule describing essential terms**
- **In both cases regulators prescribe appropriate pricing structures for each service**

Other Preconditions

- **Non-discriminatory access to T&D network**
 - **Potential economic incentives for integrated utilities to control access**
 - **Regulator's role to assure access**
- **Balancing and ancillary services**
 - **Commercialization**
 - **Measurement: two data points**
 - **Options include regulated pass-through or bid-based price**
- **Procurement Law**

SOLR/Default Supplier

- **Supplier of Last Resort/Default Supplier**
 - **SOLR: Limited functions (failure of competitive supplier)**
 - **Default Supplier: Different role**
 - **Supplier for customers who do not choose their own supplier**
 - **Raises switching issues, depending on market price**

SOLR/Default Supplier

- **Develop price methodology based on competitive tender monitored by regulator**
- **SOLR usually straight pass-through**
- **Default Supplier can be based on other factors**

Customer Switching

- **Customer switching**
 - Ability to remain or return to tariff service
 - Impact of departure/return on other customers
- **To limit repeated switching:**
 - Tariff could track market price
 - Regulators may impose restrictions, time requirements or other conditions on ability to switch
- **Importance of EP deep unbundling and cost accounting**

Procurement Law

- **Analysis of Procurement Law restrictions and combined regulator and participant efforts to obtain necessary amendments**
- **As alternative, regulatory protection of EPs from adverse effects of compliance**

Next Steps

- **Regulators and EPs must prepare for market opening**
- **Whatever the overall market design, EPs must institute preconditions**

Priorities and Responsible Parties – Next Steps

Impediments in Priority Order	Primary Responsible Parties
1.Measurement	Regulators and EPs
2.Unbundling/deep unbundling	Federation Government, regulator, EPs
3.Cost based tariffs	Regulators
4. Deregulation of generation	Governments, regulators
5.Vulnerable customer program	Federation and Cantonal Governments
6. SOLR, default supplier, customer switching	Regulators and market participants
7. Contracts and full clarification of processes for: Third party access Ancillary services Balancing Financial settlement	Regulators and market participants
8. Procurement Law revisions	State Government



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