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**BOSNIA-HERZEGOVINA**

# Retail Contract Issues

May 2013

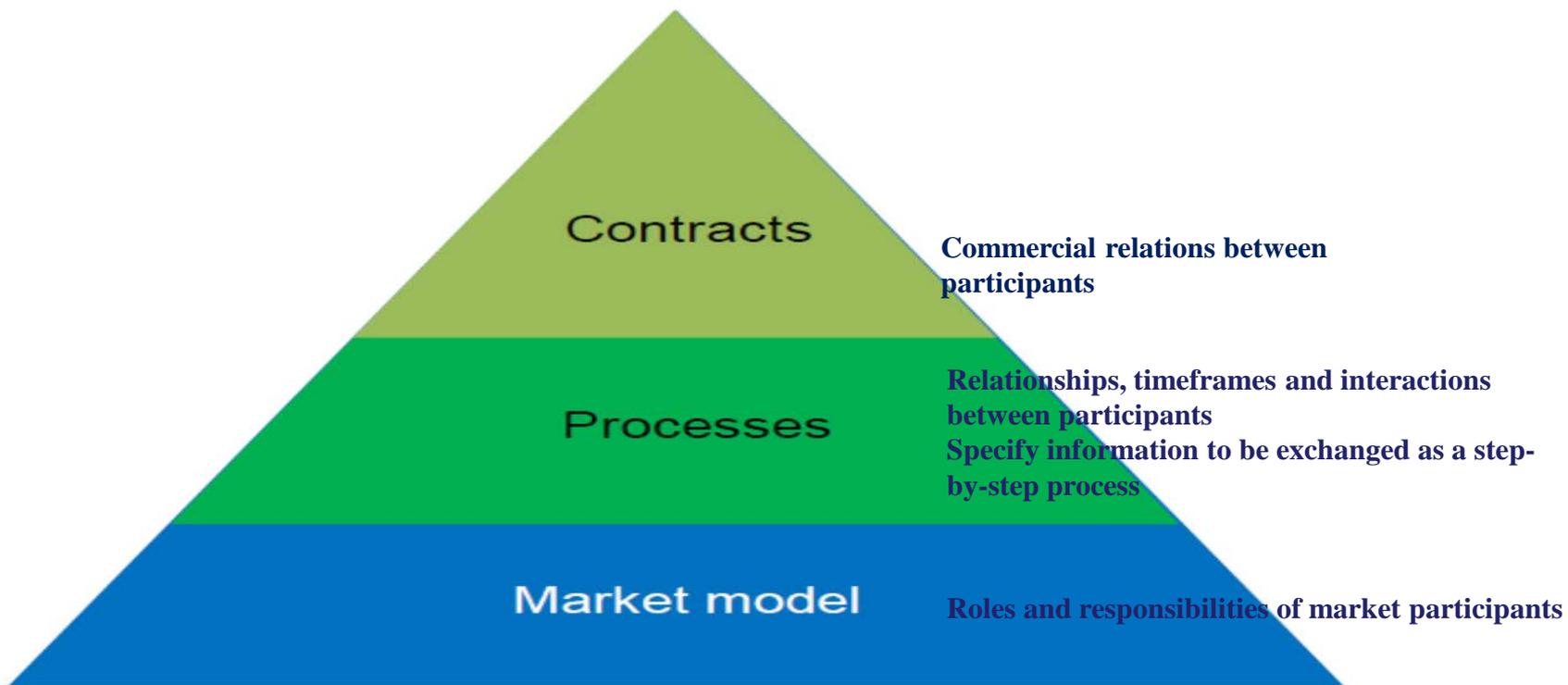
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## Pyramid illustrates market design





## Context

- Gap analysis indicated need for
  - Supply contracts
  - Mutual relations contracts
    - General Conditions require some mutual relations contracts between distributors, suppliers and other entities
      - DSO
      - Supplier
      - BRP
      - ISO
      - Transco
      - Customers
      - Generators



# Template

- Templates developed for:
  - Supplier/household and small customer
  - DSO/Supplier
- Templates contain key provisions that can be developed further for other kinds of customers
- Competitive suppliers may have their own forms that are similar to the template
- Regulator directly involved in supervising the default supplier and supplier of last resort contracts but can also require certain customer protection mechanisms in all supply contracts



## Templates and Next Steps

- Today reviewing two templates:
  - Supply – households/small customer
  - DSO – Supplier mutual relations contract
- Basic next steps:
  - Regulators, working with the EPs, must adapt these templates for use in the market
  - Develop other mutual relations contracts and regulators must develop other kinds of supply contracts
  - Select best contract model for BiH



## Services Provided

- Sale of Electricity
  - Supplier → Customer
- Delivery of Electricity
  - Supplier → ISO → DSO → Customer
- Connection to Grid
  - DSO → Customer





## “Supplier Centric”

- Focus on customer-friendliness
  - Mandatory joint (combined) billing
    - Customer receives single invoice containing consumption and network usage charges
  - Supplier is single point of contact for customer
    - Possible exceptions: initial connection to network, reliability issues
  - Supplier is responsible for billing, collection, and payment to DSO
- Removal of barriers to market entry
  - Standard terms for use of grid (same for all suppliers)



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# SUPPLIER CENTRIC MODEL

- Supplier is single point of contact for customer
- Does BiH primary legislation permit this?
  - **Yes – indirectly**
  - Laws provide general authority to regulators to supervise and regulate relationships between market participants and to define general conditions of supply
    - FERC Electric Power Law Art. 14
    - RSERC Electricity Law Art. 23
    - *Brčko [?]*



## Supplier as Single Point of Contact

- Do BiH rules permit this?
  - **Yes for switching, not clear for billing**

Switching	Billing
<p><b>Eligible Customer Rules</b></p> <p><u>FERC</u>: Art. 17 (customer authorizes supplier to take necessary steps to switch)</p> <p><u>RSERC</u>: Arts. 11(2) &amp; 15 (same)</p> <p><u>Brčko</u>: Supply Decision Art. 12 (new supplier notifies DSO and old supplier) (Elig. Customer rules not yet adopted)</p>	<p><b>General Conditions of Supply</b></p> <p><u>FERC</u>: Arts. 5, 63, 70, 71 (supplier bills for “consumed energy”; DSO notifies customers on usage; DSO bills for unauthorized consumption)</p> <p><u>RSERC and Brčko</u>: Arts. 10, 46, 83, 84, 93 (supplier bills for “electricity consumed”; supplier can “regulate” access contract; bill contains elements for both consumption and usage; DSO bills for unauthorized consumption; )</p>



## Contract Approaches

- “All-inclusive” contract model (single-point contract)
  - Supplier has separate contracts with customer and DSO
    - Customer ↔ Supplier ↔ DSO
  - DSO and customer *do not have direct contractual relationship*
    - Possible exception: initial connection to network
- “Separate” contract model (dual-point contract)
  - Customer enters into supply contract with supplier and use of the network contract with DSO
  - Supplier may be authorized to act on behalf of the customer to enter into use of network contract with DSO
  - DSO may authorize supplier to collect network charges on DSO’s behalf



## “All-inclusive” Model

- Supplier contracts with DSO for network access (usage)
- Supplier offers “bundled” service to customer
- Customer contracts only with supplier and does not have a direct contract with the DSO





Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Customer views electric service as single package</li><li>• Customer presents all claims to supplier</li><li>• Customer can legally hold supplier responsible for all aspects of electric service</li><li>• Can decrease DSO's administrative costs</li><li>• Promotes competition by strengthening position of supplier</li></ul>	<ul style="list-style-type: none"><li>• Increases supplier's liability<ul style="list-style-type: none"><li>- Supplier is contractually responsible to customer for grid service</li></ul></li><li>• Increases nonpayment risk to DSO<ul style="list-style-type: none"><li>- DSO cannot "disconnect" supplier for nonpayment</li></ul></li><li>• Increases nonpayment risk to State (tax payments)</li></ul>



## Possible Solutions

- Problem: Supplier's increased liability for grid failures
  - Supplier contract with DSO specifies right of recourse for customer claims related to grid services
    - Supplier may not enjoy same customer protection under the laws as end user, so DSO/supplier contract must specifically provide
  - Legislation (or regulation) can provide that customers can submit direct claim against DSO
- Problem: DSO's increased liability for supplier insolvency/nonpayment
  - Ensure that SOLR licensees are financially strong
  - Have clear and fast process to transfer customers to SOLR service
  - Require mandatory guarantees and security from suppliers to ensure payment (of DSO services and State taxes)
    - Must be reasonable and not too expensive for suppliers



## “Separate” Model

- Two options:
  - Customer communicates and is billed separately by both Supplier and DSO
  - Customer and DSO may authorize supplier to perform billing and collection functions, and handle complaints
  - Contracts authorize supplier to act as other party’s agent
- No separate contract between supplier and DSO for network usage
- Customer has direct contractual relationship with DSO



# SEPARATE CONTRACT MODEL

## Advantages

- Customer can still contact supplier, if authorized, to forward complaints to DSO
- Customer also has direct recourse against DSO for network service failures
- DSO also has direct claim against customer for payments
- Supplier can remain single point of contact by assuming responsibility for billing and other administrative functions

## Disadvantages

- If supplier is authorized to act on behalf of customer or DSO:
- Can confuse customers about the division of functions and responsibilities between the supplier and DSO
    - Creates impression of legal responsibility where there may not be any
  - Can place additional risks on customer (if supplier fails to forward customer's payments to DSO)
  - May require increased regulatory control and supervision of DSO/supplier relationship
    - Potential for supplier conflict of interest
  - Similar increased risks of nonpayment to State as direct contract model



## Possible Solutions

- Problem: Customers' and DSO's increased risk of supplier insolvency/nonpayment
  - Same as with all-inclusive contract model – strong SOLR licensees and process to transfer customers to SOLR
  - Require reasonable mandatory guarantees and security to ensure payment (of DSO services and State taxes)
    - Query whether applicable to customers (and consider administrative costs)
- Problem: Customer confusion as to DSO/supplier roles and recourse and conflicts of interest
  - Limit supplier authorization to executing contract only, not contract performance
  - Impose marketing responsibilities on suppliers to clarify functions, dispute resolution process, payment obligations



## BiH primary laws support both all-inclusive and separate contract relationships

- *Primary laws* are somewhat general
  - FERC Electric Power Law
    - Suppliers *and* eligible buyers are “required to conclude a contract with a company for the transmission of electric power and/or a contract with a distributor” (Art. 47)
    - Eligible buyer must obtain “electric power approval” for connection to network (Art. 49)
  - RSERC Electricity Law
    - DSO shall enable nondiscriminatory access to network for generators and eligible customers (Art. 43); not specific as to contract parties



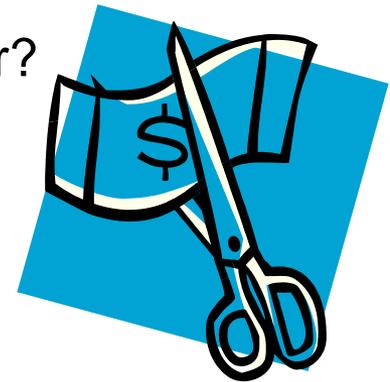
## *Secondary legislation is ambiguous and internally inconsistent*

- Envisions an authorization relationship between customers and suppliers for switching, is unclear on use of the network contracts, and supports a separate contract relationship between suppliers and DSOs as well as customers and DSOs for grid services
  - Eligible Customer Rules
    - Customers can authorize supplier to act on their behalf in switching, including interactions with system operators (FERC Art. 17; RSERC Art. 15)
  - General Conditions of Supply
    - Customers must execute access/usage contracts with DSO, but rules provide that supplier can “regulate” the contracts (FERC Art. 32; RSERC & Brčko Arts. 45-46)
    - Suppliers and DSO relationships are determined by “mutual relations” contracts, but rules are not specific about rights and responsibilities (FERC Art. 38; RSERC & Brčko Art. 59)



## *Whichever approach used, . . .*

- What happens when customer fails to pay supplier?
  - Consider how this affects supplier/DSO
  - Can supplier have DSO disconnect customer?
- What happens when supplier fails to pay DSO?
  - Consider how this affects customer/DSO
  - Can DSO disconnect customer?
- What happens when customer only partially pays, or is past due, and also owes interest?
  - How much goes to DSO?





## *Also need to clarify ....*

- What happens when supply fails? When network fails?
  - What are damages for supply failure if customer immediately switched to SOLR?
    - Typically, costs of replacement service in excess of contract price
  - Can customer receive compensation from supplier for network failure?
    - In all-inclusive contract model, yes, with supplier entitled to then submit claim to DSO
    - In separate contract model, no – supplier will forward claim to DSO for resolution



## Supplier - Customer

- Under “all-inclusive contract” model, where supplier is the DSO’s customer and offers “bundled services” to the end user:
  - Contract provision should limit supplier’s liability for network failures to that of the DSO under the Laws
  - Required security from customer for supply, network services or taxes should be commensurate with current DSO practices (*i.e.*, smaller customers should have no or minimal deposit requirements unless there is a history of nonpayment or credit risk)
  - If supplier absconds with customers’ payments, DSO does not have separate recourse against customer



## Supplier - Customer

- Under “separate contract” model, where supplier acts on behalf of either DSO or customer:
  - Contract and laws should provide for only DSO liability for network failures
    - Customer can submit claim to supplier and supplier will forward to DSO for resolution
  - Same issue as with all-inclusive model regarding appropriate security from customer for payment of all services
  - If supplier absconds with customers’ payments, DSO has separate recourse against customer
    - Laws and contract should protect customer who has paid supplier from having to pay twice



## Supplier - DSO

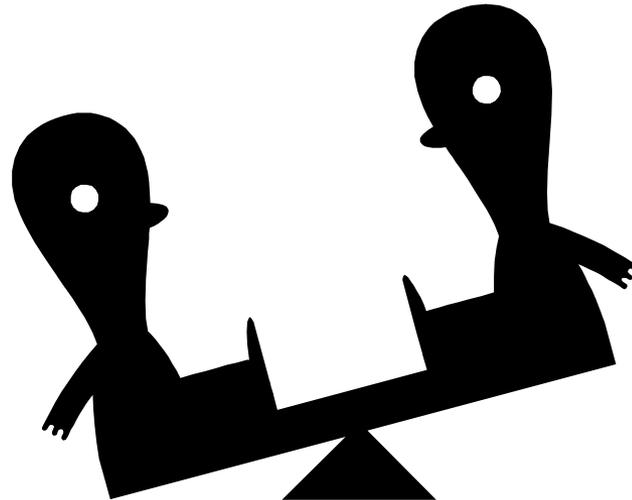
- “All-inclusive contract” model
  - Supplier purchases network services from DSO for anticipated load; is responsible for payment regardless of whether customer pays
- “Separate contract” model
  - If supplier acts on behalf of customer and if customer does not pay, DSO does not get paid



## Who bears greatest risk of nonpayment?

### All-inclusive Contract model

Customer  
Decreased risk  
of supplier  
nonpayment  
(DSO has no  
recourse)



Distributor  
Increased risk  
of supplier  
nonpayment  
(no recourse  
against customers)

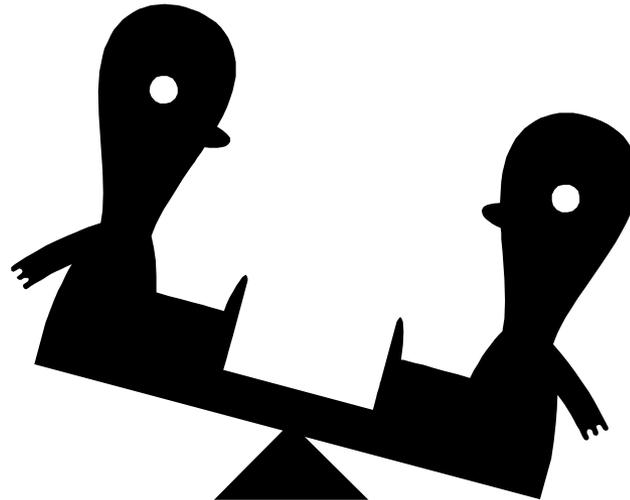
Supplier  
Increased risk  
of customer  
nonpayment  
(must pay DSO  
regardless)



## Who bears greatest risk of nonpayment?

### Separate Contract Model With Supplier as Billing Party

Customer  
Increased risk  
of supplier  
nonpayment  
(DSO has  
recourse)



Distributor  
Decreased risk  
of supplier  
nonpayment  
(can pursue  
customers)

Supplier  
Decreased risk  
of customer  
nonpayment  
(pays DSO amounts  
actually collected)



# TRANSACTIONS



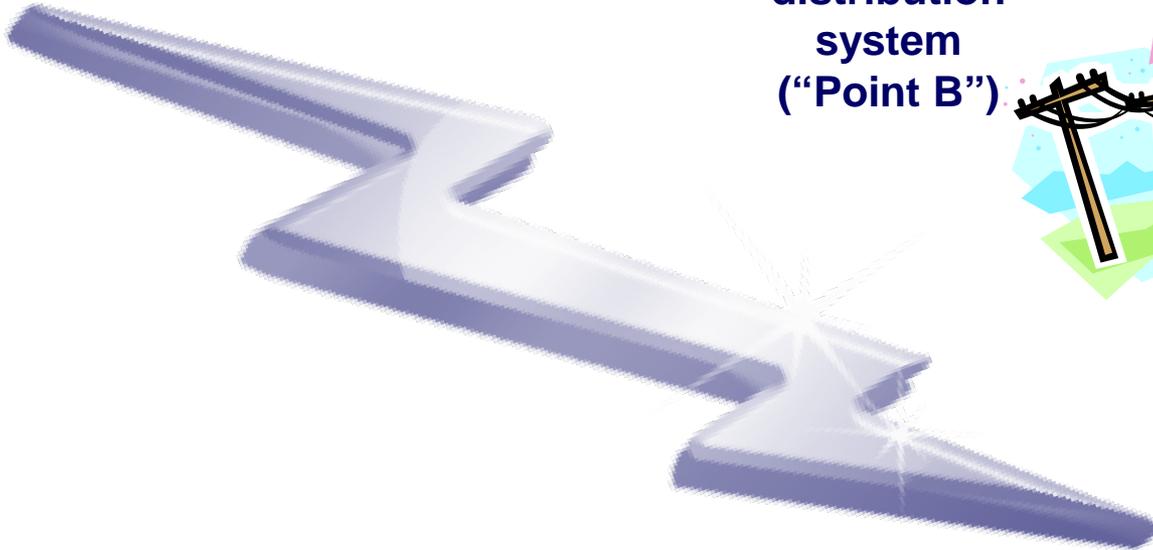
**Delivery of power to transmission system ("Point A")**



**Delivery of power to distribution system ("Point B")**



**Delivery of power to end user ("Point C")**





## For each transaction, need to address the following elements in a harmonized manner

- Point of interconnection (e.g., “A,” “B,” or “C”)
- Delivery of the quantity of energy purchased, for each segment from the generator to the end-user
- Price for the particular service, billing and payment
- Scheduling responsibilities
- Responsibility for imbalances: i.e., what is the consequence of Supplier delivering, or Customer consuming, either more, or less, than the amount scheduled for each hour



## Supplier-Eligible Customer Contract

- Distribution network access rights and obligations of Eligible Customer under the General Conditions of Supply
- Responsibility for supply failures and network failures
- Payment obligations to DSO
- Circumstances justifying disconnection



## Large Eligible Customer Contracts

- Unique issues for supply of larger customers may include:
  - Capacity sale and purchase
  - Scheduling
  - Treatment of imbalances (variances between load scheduled and actual load)
  - Possibility and payments for demand response (curtailment)
  - Credit support arrangements and financial information
  - Tax liabilities
  - Netting of offsetting transactions



## Supplier-DSO Contract

- Should contain DSO's obligations to customers
  - Ensure customer protection provisions in laws are preserved (e.g., distribution service, dispute settlement, disconnection, billing and payment)
- Address load-serving obligations at ISO
- “All-inclusive” vs. “separate” contract obligations
  - Payment of distribution services
  - Network failures
  - Process for disconnection
  - Customer claims



- Contracts (or regulations) need to have clear communication protocols (electronic data exchange) that are the same throughout BiH
- Work with EPs to determine levels of risk/security under either contract model



## Next Steps

- Determine appropriate contract model and revise regulations accordingly
  - Review and accept or revise regulatory language to address issues raised today, including Slides 19 and 20
    - Redlined General Conditions of Supply
    - Appendix A to Gap Analysis
- DSO
  - Separate DSO and supplier databases
  - Design and implement standardized IT protocols
  - Determine amount and methods that provide adequate financial security (for both tax and service obligations)



## Sources

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