



The subgroup proposal regarding duration of transitional period

A. Introduction

The SERC Decision on the Scope, Conditions and Schedule of Electricity Market Opening in BiH and the Entity Rules for Obtaining Eligible Customer Status provides that the market in BiH should be opened gradually. The Entity Commission Rules provide for a transitional period for the electricity market opening for all customers other than households until 1.1.2012.

At the joint request of the three regulatory commissions, a Market Working Group subgroup was formed by representatives of the three regulatory commissions and REAP to consider the prescribed transition period, given the likelihood of market opening.

Additional steps after 1.1.2012 must be taken before successful market opening is completed. The subgroup considered two options with regard to the duration of the transition period:

1. Gradual removal of regulated tariffs; and
2. Gradual removal of regulated tariffs and introduction of Default Supplier service.

In the further discussion of the first option – the gradual removal of regulated tariffs – the Transition subgroup agreed that an option of only gradually removing the regulated tariffs without a default supplier is not an attractive option. Instead, the group was unanimous that the institution of a default supplier program is the better way to segue into a competitive market, removing the shock of a sudden shift to full market pricing. As a result, two options for a scheme involving a default supplier have been created, one with a gradual move to the market or default supplier with the gradual removal of regulated tariffs, and the other moving directly to either supply at market prices or sold by a default supplier.

B. Discussion:

There are multiple issues connected with the two default supplier options, which will be discussed in the following order:

- Description of Options;
- DS Price Methodology;

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- Classification of customers with regard to a time schedule and readiness for market opening;
- Time schedule for gradual market opening
- Preconditions, impediments and proposed actions to create preconditions for market opening; and
- Action plan on activities that regulators must perform to implement a new decision on the extension of the transition period.

1. Description of Options:

As mentioned above there are two options for consideration that involve a Default Supplier:

Option A: Eligible Customers are required to buy their demand volume at market price. If a customer does not find a suitable market supplier, a Default Supplier (DS) will supply the customer at the DS price, which is higher than the current regulated price for specific customers. DS price will increase over the Transition period that ends on December 31, 2014. This option will apply as of:

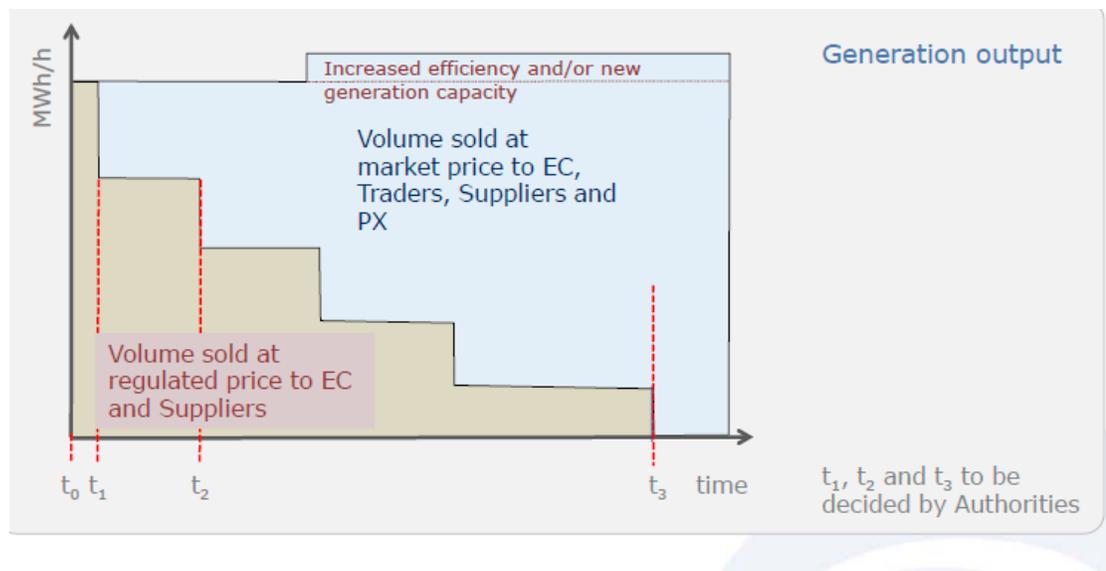
- (i) January 1, 2013, for large customers whose yearly consumption is above 10 GWh.
- (ii) January 1, 2014, for medium customers whose yearly consumption is below 10 GWh and installed capacity above 42 kW in RS and 23 KW in FBiH.
- (iii) Small commercial customers and household will be supplied at regulated tariffs.

Option B: Combination DS service and gradual removal of regulated tariffs:

- (i) Eligible customers are allowed to buy a gradually decreasing part of their demand volume at a regulated price (regulated volume).
- (ii) The customer will have two options for the purchase of the remaining volume:
 - buy it at market price
 - buy it at the DS price, a fully cost-based price with rate of return that will escalate over time toward the market price.
- (iii) The regulated volume will be gradually decrease during the extended transition period, and the volume sold at market or DS default supplier prices will increase during the extended transition period.
- (iv) The default supplier price will be gradually increased to fully reflect costs at the end of the transition period.
- (v) The DS price will increase over the extended transition period that ends on December 31, 2014.

This option will apply as of:

- (i) January 1, 2013, for the large customers whose yearly consumption is above 10 GWh.
- (ii) January 1, 2014 for the medium customers whose yearly consumption is below 10 GWh and installed capacity above 42 kW in RS and 23 KW in FBiH.
- (iii) Small commercials and households will be moved to default supplier service at regulated prices without the boost towards market prices.



There are pros and cons for both options. Under both options, there would be a gradual introduction of market conditions, the second option gives a softer landing to the customers. Also, the current existence of regulated tariffs is retained but with limited application. On the other hand, with these deregulation steps, the current prices for supply increase. Also, the interest of the current eligible customer suppliers in dealing with retail customers is questionable, and there is a complication as to how the utilities calculate charges for these customers -- as eligible, tariff or half-and-half. Finally, a balancing mechanism for customers who would choose to go to market is undeveloped.

2. DS Price Methodology

The basic principal that the DS price will be increased to fully reflect costs at the end of the transition period applies to both Options. For example, the methodology for the DS price could be:

- (i) A combination of the regulated price and export price; or
- (ii) Actual requested revenue without a reduction by export revenue and other unregulated activities.

3. Classification of customers:

- (i) Large customers whose yearly consumption is above 10 GWh. This group consists of all customers connected to the transmission and distribution network with demand above 10 GWh.
- (ii) Industrial and commercial customers (medium customers) whose yearly consumption is below 10 GWh and installed capacity above 42 kW in RS and 23 KW in FBiH. This group consists of all customers connected to 110 kV, 35 kV, 10 kV and 0,4 kV network with a consumption below 10 GWh and installed capacity above 43 kW/23 kW.

- (iii) Small commercial customers and household. These commercial customers have the installed capacity below 42/23 kW.

4. Time schedule for gradual market opening

Two options for scheduling gradual market opening were developed:

Option A:

Large Customers:

- (i) In the period January 1, 2013 – December 31, 2014, large customers will buy 100 % of demand volume either at market price or at the DS price.
- (ii) After January 1, 2015, large customers will buy their entire demand volume at market price.

Medium Customers:

- (i) In the period January 1, 2014 – December 31, 2014, medium customers will buy 100 % of demand volume either at market price or at DS price.
- (ii) After January 1, 2015, the medium customer will buy 100% of demand volume at market price.
- (iii) Small commercials and households will be moved to default supplier service at regulated prices without the boost towards market prices.

Option B:

Large Customers

- (i) In the period January 1, 2013 – December 31, 2013, large customers will buy 50 % of demand volume either at market price or at DS price.
- (ii) In the period January 1, 2014 – December 31, 2014, large customers will buy 75 % of demand volume either at market price or at DS price
- (iii) After January 1, 2015, large customers will buy 100% of demand volume at market price .

Medium Customers:

- (i) In the period January 1, 2014 – December 31, 2014, medium-sized customers will buy 50 % of demand volume either at market price or at DS price.
- (ii) Beyond January 1, 2015, the Medium customer will buy entire demand volume at market price
- (iii) Small commercials and households will be moved to default supplier service at regulated prices without the boost towards market prices.

5. Preconditions and impediments for market opening;

Each group of customers has its own set of preconditions and impediments for market opening, which are discussed in this section.

5.1. Large Customers:

| Preconditions | | met? | action needed |
|-------------------------------|----------------|---|---|
| Metering | | yes | no |
| Unbundling | Supply and TSO | yes | no |
| | Supply and DSO | yes in RS no in FBiH | yes in RS if ERS Suppliers are to supply eligible customers yes in FBiH (vertically integrated companies) |
| Cost-based tariff | | yes | no |
| Power Purchase Agreement | | yes, but should check if some improvements on standard contract conditions should be made | yes; need development of general standard contract provisions (not price and other unique provisions); |
| Ancillary Services Contract | | no | yes - Market rules and network code has to be changed? |
| Balancing Contract | | yes | SERC and ISO must be clarify the issue. Entire process and documents should be transparent. |
| Contract on access to network | | no | yes |
| Connection contract | | no | yes |
| SOLR | | partial | yes |

Recommended Actions:

- (i) Regulators to develop a time schedule/action plan to implement the chosen option.
- (ii) Regulators to determine time schedule of gradual increase of quantities that customers will buy at market price.
- (iii) Regulators to develop detailed document on the DS service processes, including but not limited to: the methodology to determine the DS price and the customer's ability to switch from a market to DS supply and back.
- (iv) Unbundle EPs in FBiH, including unbundling DSO and Supply.
- (v) Unbundle DSO and Supply in RS.
- (vi) Describe processes and develop/improve contracts: Ancillary Services, Balancing, TPA, and SOLR.
- (vii) ISO BiH and EPs to define and, according to the Market Rules, propose for regulatory approval and Agreement on Ancillary Services that defines the quantities of secondary and tertiary reserves for the

generators that will be engaged by the ISO according to the defined criteria.

- (viii) EPs in BiH that do not have meters at all transmission network delivery points install appropriate meters in accordance with the Grid Code by October 31, 2010, which enables transition to phase I.b. as Balance Responsible Party.
- (ix) ISO to develop and SERC to approve revised Market Rules and Network Code.
- (x) Perform the Case study

5.2. Medium Customers:

| Preconditions | met? | action needed |
|-------------------------------|---|--|
| Metering | no | yes-Regulators to require EPs to install adequate metering system before ending the transition period; |
| Unbundling | yes in ERS;distribution system operator not unbundled from Supplier no F BiH; two fully vertically integrated company exist | yes in RS if ERS Suppliers are to supply eligible customers yes in F BiH (vertically integrated companies) |
| Cost based tariff | yes – ERS and EPHZHB network tariffs are cost reflective no – EP BiH network tariffs are not cost reflective no- cross subsidization still exists in F BiH. These customers cross subsidize households | yes – F BiH needs to establish cost reflective tariffs before end of transition period |
| Power Purchase Agreement | No. Check if some improvements on standard contract conditions should be made | yes |
| Ancillary Services Contract | Not relevant for these customers | Rules should prescribe a supplier to sign the contract on behalf of customer |
| Balancing Contract | Not relevant for these customers | to define supplier to sign the contract for customer |
| Contract on access to network | yes | no |
| Connection contract | yes | no |

| | | |
|------|---|--|
| SOLR | No. Broad framework in place, but processes need to be developed in detail. | Yes, develop detailed processes and documentation. |
|------|---|--|

Recommended Actions:

- (i) Regulators to develop a time schedule-action plan to implement the chosen option.
- (ii) Regulators to determine time schedule of gradual increase of quantities that customers will buy at market price.
- (iii) Regulators to develop detailed document on the DS service processes, including but not limited to: the methodology to determine the DS price and the customer’s ability to switch from a market to DS supply and back.
- (iv) Unbundle EPs in FBiH, including unbundling DSO and Supply.
- (v) Unbundle DSO and Supply in RS.
- (vi) Describe processes and develop/improve contracts: Ancillary Services, Balancing, TPA, and SOLR .
- (vii) ISO BiH and EPs to define and, according to the Market Rules, propose for regulatory approval and Agreement on Ancillary Services that defines the quantities of secondary and tertiary reserves for the generators that will be engaged by the ISO according to the defined criteria.
- (viii) EPs in BiH that do not have meters at all transmission network delivery points install appropriate meters in accordance with the Grid Code by October 31, 2010, which enables transition to phase Ib as BRP.
- (ix) ISO to develop and SERC to approve revised Market Rules and Network Code.
- (x) Install adequate metering systems.
- (xi) Create fully cost-based tariffs, including removal of cross-subsidization in FBiH.
- (xii) Perform load research.

5.3. Small commercials and households

Recommended actions to terminate the transition period: In addition to the recommended actions for Large and Medium customers, the following actions are recommended for small commercials and household customers:

- (i) Create fully cost-based tariffs, including removal of cross-subsidization;
- (ii) Perform load research

A. Conclusion and Recommendation *(To be written in the meeting)*

B. Attachments *(To be written by regulatory commissions)*