



Transition Period Default Supplier and Supplier of Last Resort Other Countries' Regimes and Recommendation for BiH

The anatomy of the default supplier service of Bosnia and Herzegovina's neighbors who have received a "green light" from the European Union is not readily apparent. The basic configuration of market opening in the five countries examined by REAP is that generation is deregulated (market price), and the default supplier service price is regulated. Supply is provided to the default supplier by various ways, but at least a portion, if not all, of the supply is provided by the former integrated utility's generators.

The key areas of interest are the pricing scheme for Default Supplier Service (is it regulated?) and the way that Default Suppliers acquire supply. From a policy point of view, the regulation of generation prices is unacceptable for markets since it could be considered state aid, which is not permitted. The only special services that can be regulated are system services.

On May 4, 2010, the joint regulators voted to adopt "Option A," (renamed for purposes of this paper as the "Market Opening Default Supplier Plan"). This Plan provides that customers are required to buy their demand volume at market price on the following dates:

- Large Customers on 1-1-12,
- Medium Customers on 1-1-13,
- Small Customers on 1-1-14, and
- Households on 1-1-15

If the Large and Medium Customers do not find a suitable market supplier, they may utilize the to-be-created default supplier service at prices that differ from the current regulated tariffs, primarily due to a higher-priced deregulated generation.

Other Countries' Regimes

Croatia. Croatia set forth its framework for default supplier service in a very circuitous, if not inscrutable, manner. After examining the Croatian Law on the Electricity Market, all addenda to the Law and the Regulatory Agency Decision on the Methodology for Service to Provide Electricity for Imbalances (Decision), the following issues were the most interesting:

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- Pieces of the Default Supplier scheme were scattered throughout several documents – the Law, the Amendments to the Law on the Electricity Market and the Decision;
- The SOLR and DS prices are regulated, while balancing prices are 70 % regulated and 30 % based on the electricity market prices.
- All eligible customers in Croatia can choose to be supplied by the DS at regulated price.
- It appears that these prices are only slightly above the previous tariff prices.

The EC and the Energy Community Secretariat have fully approved the Croatian regime as meeting all requirements, and it is understood that there are no more regulated prices in Croatia throughout the region. REAP’s analysis, however, indicates that default supplier prices are indeed regulated.

Slovenia. At the time of market opening, three measures impacted the behavior of the Slovenian electricity market participants: (i) Supplier of Last Resort and Default Supplier service was implemented to ensure that households, small and medium customers who did not choose their suppliers, would be supplied without interruption; (ii) The capacity allocation mechanism, due to limited capacity at the border with Italy, which had better market prices, limited the export of electricity from Slovenia to Italy; and (iii) Since all generators and suppliers are state owned, the government issued an “informal” instruction to suppliers to buy all electricity from local generators.

Montenegro. The Montenegrin Law prescribes the establishment of the “Public Supplier,” defined as a supplier carrying out a public service to supply households and all customers connected to the distribution network who choose the Public Supplier as their supplier, at regulated tariffs. At the same time, the Public Supplier acts as the Supplier of Last Resort. It is in the Montenegrin Regulatory Agency’s jurisdiction to determine the methodology and approve tariffs at which the Public Supplier will supply customers. The Government determines who the Public supplier will be.¹ The Public Supplier seems to have the Default Supplier function.

Romania. The default supplier is created by the primary energy law in Romania. It is regulated by the regulator (ANRE) through secondary regulation; as a result, ANRE issues the default supplier’s regulated tariff. The default suppliers are the distribution and supply companies. The default suppliers purchase their energy through contracts, whose prices and quantity are regulated. Further, the default suppliers buy or sell energy on the day ahead market at the market price, depending on the consumption forecast. However, the default supplier must separately account for its activities, separately from its other network activities.²

¹ The information from Slovenia and Montenegro was obtained from Mr. Marko Sencar, the head of Slovenian Regulatory Commission and the expert who drafted the new Montenegrin Law on Energy, adopted in the Montenegrin Parliament last year on April 22, 2010.

² Source for information on Romania was Ms. Mihaela Constantinescu, an employee of OPCOM.

Portugal. In Portugal, the default supplier price is regulated according to a number of parameters (production price, transmission and distribution tariffs, including a profit. The source of supply for the default supplier is from (i) producers that still have long term generation contracts established before the advent of the market and did not accept termination of these contracts, (ii) the day ahead market, (iii) “special regime generation” renewables at subsidized tariff prices.³

Report on Progress in Creating the Internal Gas and Electricity Market that the European Commission sent to the EU Council and European Parliament, dated March 11, 2010. The report states it is still quite common in Member States for open energy markets and regulated energy prices to coexist, and more than half of the Member States have regulated prices. In most Member States, price regulation is not confined to household customers only. It should be noted that the Commission sent letters of formal notice to some member states, including Romania, for maintaining a system of regulated prices in violation of the EU directives on electricity and gas.

Other than Croatia, the default service mechanisms appear to follow the same pattern: Generation is deregulated, the default supplier has a public service obligation and its price is regulated, and the Default Supplier’s supply indirectly comes from the integrated utility’s generation. Croatia gets to the same result through a more circuitous route.

Recommendation for BiH

Given the above, the following default supplier framework for the BiH market opening could be considered:

- The Electricity/Energy law(s) should prescribe full deregulation of generation;
- The Electricity/Energy law(s) should prescribe the services of Default Supplier and Supplier of Last Resort, delegating the development of the procedure, conditions and terms for default supplier service in the event that customers do not choose a supplier or a supplier is unavailable after market opening to the applicable regulator;
- The Electricity/Energy law(s) should prescribe a Public Service Obligation for the Default Supplier to provide electricity for households, small commercial and all eligible customers who did not choose a market supplier at the time of market opening, all as prescribed by the regulator;
- The regulator could provided default supplier service to all until 2015, and thereafter only to households and small commercial customers;
- Incumbent Suppliers should be appointed as the Default Supplier on their geographic supply territory.
- Regulators must ensure there is no cost subsidization between network users and between customer classes.
- Each EP should establish a new business unit, the supplier of eligible customers, unbundled from the DSO unit;

³ Source for information on Portugal was Mr. Nuno Fidalgo, from the INESC Porto Institute.

- Independent suppliers must be allowed to enter the market;
- The Default Supplier should be the Supplier of Last Resort;
- The Regulators must develop and apply the methodology for Default Supplier and Supplier of Last Resort tariffs.
- The Default Supplier tariff must be a price cap to force it to negotiate prices with its own utility's generators to keep the end user price within the limits determined by the Regulator.
- The Default Supplier tariff should be established to reflect all costs with a gradual increase of rate of return to move toward market price.
- At market opening, the Default Supplier tariff can be equal to the present tariffs;
- In later stages, as a rule, Default Supplier and Supplier of Last Resort tariffs should be above the current tariffs (In Croatia, these tariffs are determined based on the household tariffs multiplied by a coefficient (multiplier). The multiplier reflects the difference between these tariffs tariff and the present tariffs);