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Regulatory and Energy Assistance

MARKET OPENING AND REGULATION IN THE BOSNIA- HERZEGOVINA POWER SECTOR

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LINK - Entrepreneurs Association

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Overview

- **Goals and Objectives**
- **Description of Market Opening**
- **Traditional, Vertically-Integrated Model**
- **Current Market Model**
- **Tariffs - What Customers Can Do**
- **Critical Conditions to Market Opening**
- **Leaving the EP**

Goals and Objectives

- **Identify customer options and choices that will emerge in future**
- **Understand market opening so customers can make informed choices that:**
 - **protect their businesses, and**
 - **are financially sound**

Description of Market Opening

- **Moving from system where all sales fully regulated to one where electricity purchased and sold at negotiated prices**
- **Generators and suppliers will compete for customers**
- **This does not mean prices in future will be lower than today**
- **Eligible Customers can enter into contracts for electricity available in open market**
- **This system is still evolving – not all preconditions for open competitive electricity market in place**

Description of Market Opening

- **Market opening is already BiH policy**
- **Required by State and Entity Laws**
- **Required by Energy Community Treaty**
- **Some Eligible Customers beginning to choose suppliers**
- **New environment for both EPs and their customers**
- **Long-term, fundamental change**

Eligible Customer

Definition:

- **New category of customer that can choose own supplier and negotiate price and conditions**
- **Rights and obligations defined under laws and regulations**
- **Regulations state that as of 1-1-08 all customers except households may obtain Eligible Customer status**
- **But, “status” does not mean you are no longer Tariff Customer**

Eligible Customer

- **To shift from Tariff Customer to Eligible Customers who buy electricity in market, you must proactively purchase it in accordance with regulations**
- **There is no supermarket for electricity purchases**
- **How do Eligible Customers find their suppliers?**
 - **Regulators' websites list licensed suppliers**
 - **Solicit proposals**
 - **Suppliers market to Eligible Customers**
 - **Customer Association hosts meeting**

Eligible Customer

- **In both Entities schedule for customers to become Eligible is defined:**
 - **>10 GWh – 1-1-07**
 - **All but households – 1-1-08**
 - **All customers – 1-1-15**
- **BiH regulations currently do not require that customers purchase their electricity in market**
- **Could this change?**

Eligible Customer

- **There should be no penalty in service or price for Eligible Customers exercising right to buy electricity in market**
- **Eligible Customers' role shifts**
 - **New knowledge required (supply options, risks, cost benefit analysis)**
 - **Participate in regulatory proceedings and policy debates**

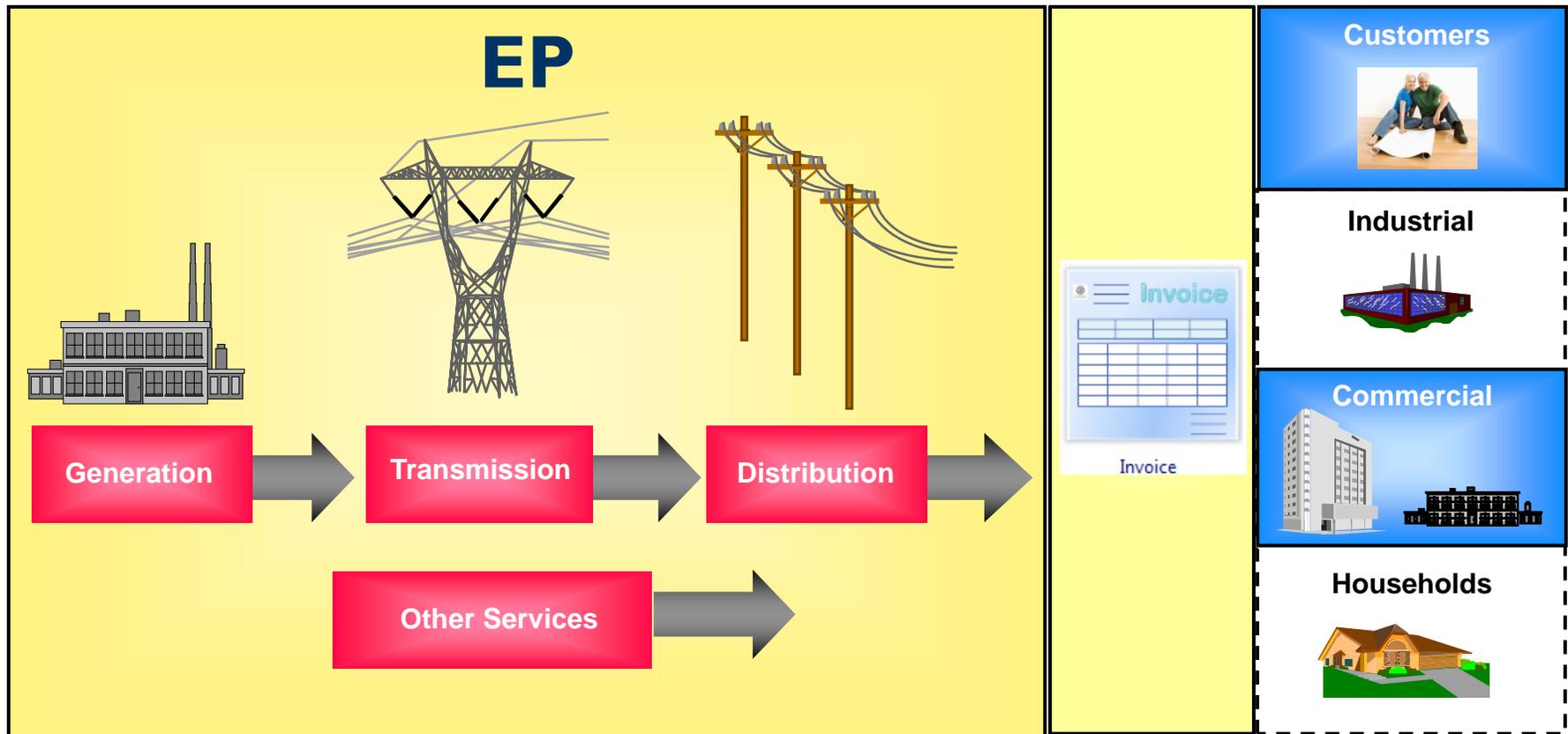
Power Market Models: Past and Present

Two different models: Traditional, vertically-integrated, regulated utilities vs. market approach

- **Traditional, Vertically Integrated**

- **Generation**
- **Distribution**
- **Supply**
- **Balancing**
- **Ancillary services**
- **All within one utility, one EP**
- **Customers see one bill and have only one counterparty – EP**

Traditional Model



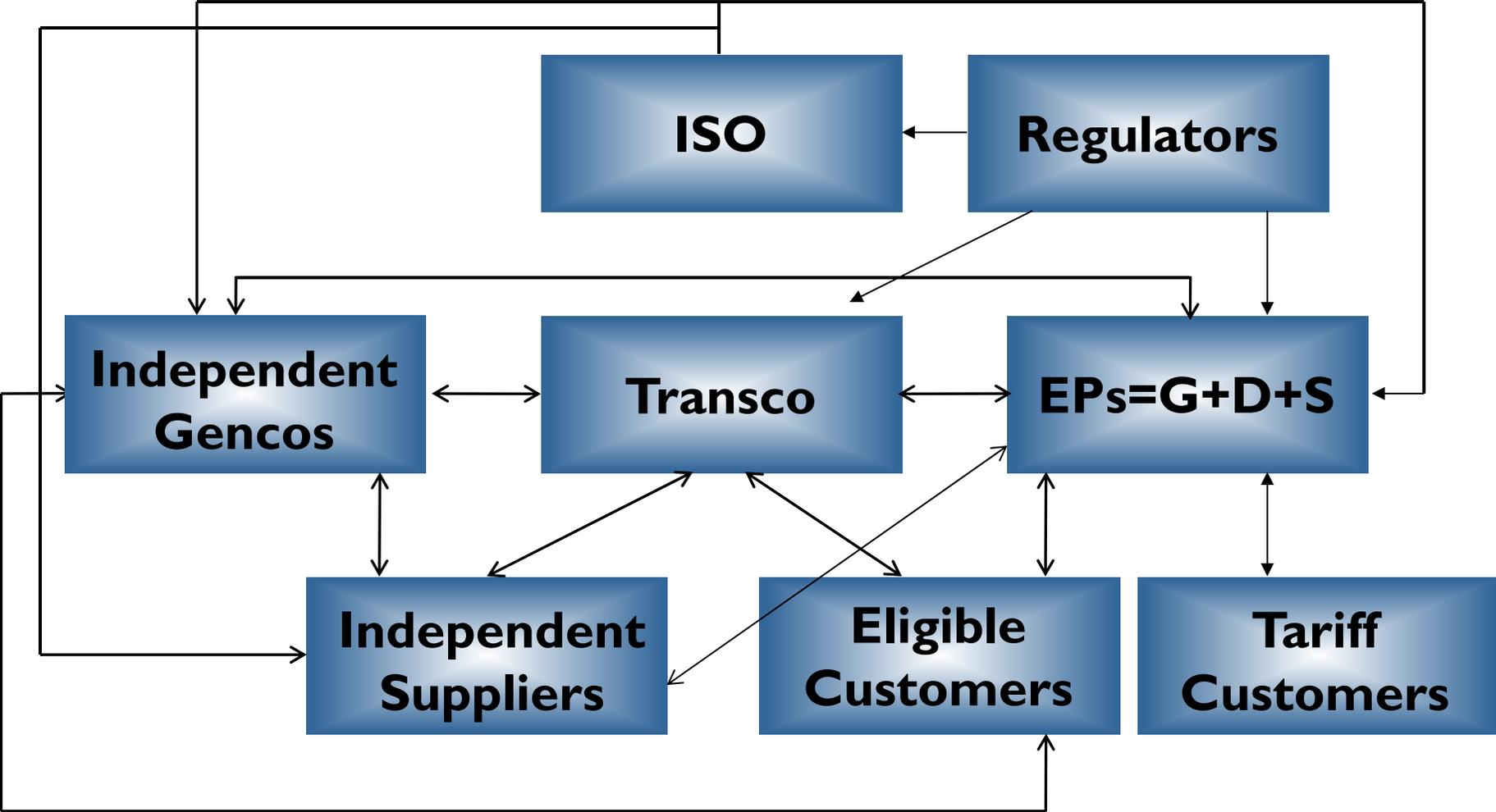
Current Market Model in BiH

- **Market is in process of being developed**
- **Multiple participants**
 - **Regulators**
 - **Independent System Operator**
 - **Transco**
 - **EPs (generation, distribution and supply)**
 - **Generators (independent of EPs)**
 - **Suppliers (independent of EPs)**
 - **Eligible and Tariff Customers**
 - **Providers of other services – ancillary, load balancing**

Current Market Model in BiH

- **Transmission and distribution**
 - Natural monopolies
 - Tightly regulated
- **Generation and supply**
 - Not natural monopolies
 - Commercial relationships, with regulatory oversight
- **More commercial relationships/bills**
- **Most importantly – Eligible Customers as new participants**
 - 2 large buyers currently in market
 - Can participate in regulatory process
 - Choice ... and responsibility

Current Market Model in BiH



Tariffs

- **How are tariffs calculated?**
- **What can customers do?**
- **What tariffs do Eligible Customers pay?**

Tariffs – How Are They Calculated?

- **Regulated companies submit cost information prescribed by regulator**
- **Regulator bases decision on:**
 - **Asset value (Regulatory Asset Base), allowed return (profit) on RAB, O&M costs, and financing costs**
- **Regulator only allows justified costs: costs that are reasonable and proven**
- **These costs comprise total revenue requirement for regulated company**

Tariffs – How Are They Calculated?

- **Total revenue requirement then allocated across customer classes**
 - **Industrial, commercial, households**
- **Tariffs within each class should reflect actual costs of service for that class**
- **Government no longer subsidizes regulated companies**
- **Regulated companies must be allowed to recover total justified costs - cost-based tariffs**

Tariffs – How Are They Calculated?

- **Goal is for each customer class to pay only costs it creates (to extent possible)**
- **Cost differences in voltage levels, demand**
- **In reality, cross subsidies exist to certain degree**
- **Keep it reasonable**
- **Traditionally, commercial classes cross-subsidize households in BiH**

Tariffs – What Can Customers Do?

- **Eligible and Tariff Customers have many rights under new rules**
- **Regulators conduct public tariff proceedings pursuant to established, written procedural rules**
- **Under these rules, parties “with an interest” can intervene**
- **Intervenors are parties that have direct interest in outcome of proceeding different than general public interest**

Tariffs – What Can Customers Do?

- **Customer associations have been allowed to intervene**
- **Tariff requests filed by EP can be reviewed by any customer**
- **Opinions, comments and data can be presented to regulators**
- **Regulators can take this into account**

Tariffs – What Can Customers Do?

- **Regulators not required to adopt comments**
- **Regulators have option to convene public hearings; Intervenors and any customer can speak**
- **Any party can file complaints in court if disagree with regulator's decision, (thinking legally incorrect)**
- **This includes Intervenors and regulated companies**

Tariffs – What Tariffs Do Eligible Customers Pay?

- **Eligible Customers who buy electricity in market will still pay tariffs for:**
 - **Distribution and other services provided by EPs**
 - **Transmission tariffs**
 - **ISO tariffs**
 - **Other regulated services such as ancillary services**

Market Opening Conditions

What conditions need to be in place so that Eligible Customers can safely leave as Tariff Customer and act in market?

Critical Conditions for Market Opening

- **Accurate and time differentiated metering**
- **Cost-based tariffs for all functions**
- **Unbundled functions**
- **Contracts**
- **Eligible Customer processes**

Critical Condition – Metering

- **A power market needs system-wide metering that**
 - **Measures quantity**
 - **Is time-differentiated**
 - **Has remote reading capability**
- **EPs working on installation**

Critical Conditions – Tariffs

- **Tariffs should be fully cost-based**
- **Current tariffs are not cost-based and have been below market**
 - **Deter investment**
- **New investments by EPs will be passed through to tariff customers at full cost**
- **Prices charged by independent electricity suppliers to Eligible Customers will reflect market conditions**

Critical Conditions – Unbundling

- **Unbundling means dividing EP activities into functionally and financially separate business units**
- **Unbundling is important to achieve cost-based tariffs**
- **Unbundling assures that Eligible Customers only pay for EP services they use**
- **Not all EPs functionally or financially unbundled**
 - **Process begun, but not complete**

Critical Conditions – Contracts

- **Not all contracts currently developed**
- **Required for transparent market and to ensure that no similarly situated customer gets an unfair advantage**
- **Must have definition of key terms and responsibilities**
- **Allocate risk and responsibilities, provide financial settlement**
- **Customers should play a role in their development**

Critical Conditions – Contracts

- **Connection agreements with Transmission and/or Distribution – already in process**
 - **One time connection to grid**
- **Power purchase agreements with supplier**
 - **Electricity sales to Eligible Customer**
- **Third party access contracts with Transmission and/or Distribution**
 - **Use of grid**
- **Financial settlement contracts with all market participants**
 - **Prompt and transparent payments for all services**
- **All impact Eligible Customers**

Critical Condition – System Services Contracts

- **Ancillary and balancing services**
- **Necessary system support services in all models**
- **Customers currently pay for these services as part of single bill received from EP**
- **Eligible Customers should only pay for services they require**
- **Eligible Customers must agree about these services with Balance Responsible Party (currently EP)**

Eligible Customer Processes – Customer Return

- **Customer return means ability to return to tariff service after having left**
- **Current regulations allow such return through transition period 1-1-12**
- **Tariff for returning Eligible Customers should reflect cost impact of return on system and other customers**

Eligible Customer Processes – Customer Return

- **To limit repeated returns:**
 - **Tariff could track market price**
 - **Regulators may impose restrictions, time requirements or other conditions on ability to return**
- **Regulators have not yet determined tariffs or other terms for returning Eligible Customers**
- **Ability to return after transition period not determined**

Eligible Customer Processes – Supplier Of Last Resort (SOLR)

SOLR replaces failed market electricity supplier

- **Extremely important for Eligible Customers, to cover risk of market choice**
- **Limited duration – 30 days in BiH**
- **SOLR usually is cost pass-through**
- **EPs generally are SOLR; in Federation Eligible Customers may choose independent SOLR**

Eligible Customer Processes – Default Supplier

- **Eligible Customers who are required to choose their own supplier but elect to remain with EP**
- **Regulators may develop Default Supplier regime: not yet in place in BiH**
- **Currently, Eligible Customers who choose to remain with EP are Tariff Customers**
- **Default Supplier means electricity supplier for customers without individual contracts**

Leaving the EP – The Questions

- **When should Eligible Customers choose to go to market and buy electricity from party other than EP?**
- **What if electricity offered at less than tariff price with EP?**
- **What additional factors should Eligible Customer consider?**

Leaving the EP – Some Input

- **Eligible Customers now have more power than ever before**
- **Ability to choose electricity suppliers and services**
- **Opportunity to negotiate appropriate and favorable terms, condition and price**
- **But this carries responsibility**
- **Eligible Customers responsible for choosing supplier**

Leaving the EP – Some Input

- **Eligible Customers must evaluate quality, risks, advantages and disadvantages of alternative suppliers**
- **Price should not be the only consideration**
- **Reputation, financial strength, supply portfolio and delivery options of potential supplier are key considerations**

Leaving the EP – Some Input

- **Eligible Customers are not protected from their own mistakes, negligence or shortcomings**
- **Eligible Customers benefit from their own rational business choices**
- **Eligible Customers should treat electric supply the same way they do other important commercial relationships**



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