



National
Association of
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Commissioners



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Annual Program Performance Report

Coop. Agreement #: REE-A-00-07-00050-00
Program: Energy Regulatory & Security Program in Europe & Eurasia
(<http://www.erranet.org> or www.naruc.org)
Countries: Central/Eastern Europe & Eurasia (regional)
Period: **FY08 (October 2007 – September 2008)**
Implementer: National Association of Regulatory Utility Commissioners
(NARUC)
Contact: Erin Skootsky (eskootsky@naruc.org; (202) 898-2210)

Task Description:

Develop the Central/Eastern European and Eurasian regions' energy regulatory authorities and their networking opportunities; strengthen the regulators and their efforts to establish a stable, efficient, and competitive energy industry.

Scope of Work:

Below please find a detailed description of the various activities implemented in accordance with the 2007-2008 workplan.

1.0 Regulatory Capacity & Association Institutional Development:

1.A Training/Capacity Development

NARUC provided support to ERRA in development of its comprehensive regulatory training program.

1.A.1. ERRA Summer School (Classroom)

The ERRA Summer School: *Introduction to Energy Regulation* was held in Budapest from July 14-18, 2008. The 5-day Training Course was designed for 2 tracks: one for regulators and another one for non-regulators and attracted 65 participants. Partial funding was provided by USAID, with limited funding from Central European University.

The 5-day Training Course was dedicated to the following main issues: Role and Functions of the Regulator (incl. basics on legal aspects of regulatory work, licensing energy sector activities; benchmarking of European regulatory authorities on structure and status); Tariff Setting and Price Regulation (incl. calculation of revenue requirement, economics of tariff design and incentive price regulation); Restructuring of the Electricity and Gas Industries (incl. basic elements and models in the electricity and natural gas industries; wholesale market and cross-border trading); Regulation and Security of Supply (incl. reliability of networks; investment into generation under a competitive

environment; environmental regulation and energy supply security); and Regulatory Issues in Emerging Economies (status of price and tariff reforms in ERRA countries; electricity market models in the ERRA countries; non-payment and social support schemes for low income customers).

For more details on the ERRA Training Course, please visit our website here:
http://www.erranet.org/Training/SummerSchool/2008/Course_Description

1.A.2. ERRA New Commissioner Training (Classroom/Roundtable)

On June 16-18, 2008 ERRA organized an *ERRA New Commissioner Training Course*. The New Commissioner Training provides a structured and relaxed discussion of 5 outstanding topics highly relevant for energy regulators of the ERRA countries:

- 1. Organizational Structure & Management of a Regulatory Body;**
- 2. Price Regulation;**
- 3. Electricity Market Models;**
- 4. European Energy Policy Initiatives;**
- 5. Regulatory Monitoring and Reporting**

The professional content of the Training Course was facilitated by the Regional Energy Policy Research Center (REKK) led by Dr. Péter Kaderják but the presentations were delivered by former regulator Dr. Vidmantas Jankauskas from Lithuania; Director General Malgorzata Kozak; from Energy Regulatory Office of Poland; Chairman Charles Box from the Illinois Commerce Commission, USA; Fellow Regulator Dr. Jacques de Jong, from the Clingendael Institute, the Netherlands; as well as a representative of a utility Mr. Adrian Borotea, Corporate Affairs Director from CEZ Romania.

For more details on the Training Course, please refer to the following website:
http://www.erranet.org/Training/New_Commissioner_Training/New_Com_Training_Budapest_2008

1.A.3. On-site/Classroom Course Development & Implementation

NARUC/ERRA began preliminary arrangements for a new Introduction to Gas Regulation & District Heating course, to be held in November 2008.

1.A.4. Pilot E-Learning Development

1.B. Association Development

ERRA Committee Meetings, Working Group Meetings, Conferences, Workshops

ERRA organized the **Licensing and Competition Committee** meeting in Kiev, Ukraine on September 11-12, 2008. The meeting was co-hosted by the National Electricity Regulatory Commission of Ukraine (NERC).

In conformity with the Committee's Workplan, the members discussed the following issues:

- Measuring Commercial Quality Between Distribution and Supply: How to Allocate Indicators

- Evaluation of Present Activities of Distribution Companies (DSOs) (Organizational structure, licensed activities, effective unbundling from supply)- Case studies
- Ancillary services (Obligation, Market)
- Potential Limitations of Wind Power Connections to Electricity Systems (benchmarking of the present regulatory and TSO practice on existing limits; technical, economic and social arguments)
- Demand Side Approach - ERRA Issue Paper
- Decision making and enforcement powers of Energy Regulatory Authority (Commission), regarding cross-border issues and in the field of investments in new generation and network capacity
- Promotion of cogeneration: an overview of its implementation in ERRA Member States
- 2009 workplan

http://www.erranet.org/Events/ERRA/2008/Licensing_Kiev_September

ERRA organized the **ERRA Tariff/Pricing Committee** meeting on September 15-16 in Skopje, Macedonia. The meeting was co-hosted by Energy Regulatory Commission of Macedonia (ERC). ERRA Members from 15 Member countries participated in the meeting namely from Albania; Armenia; Bosnia and Herzegovina; Croatia; Hungary; Latvia; Lithuania; Macedonia; Montenegro; Romania; Turkey; Ukraine; Kosovo; United Arab Emirates; USA.

In accordance with the Committee's workplan, members discussed the following issues:

- Economic Issues Related to Tariff Development;
- Updates to Benchmarking Analysis of Distribution System Operators' of the ERRA Member Countries;
- Privatization of Distribution Grids and Tariff Policy;
- Method of Price Setting and Regulation for Universal Service Provider;
- Tariff Regulation in Latvia and Anticipated Changes Related to Market Opening;
- Electricity Losses and Analysis of Work Aiming to Decrease the Losses;
- Updates to Benchmarking Analysis of Distribution System Operators' of the ERRA Member Countries
- 2009 workplan

http://www.erranet.org/Events/ERRA/2008/Tariff_Skopje_September

2.0 Regulatory Reporting, Monitoring & Transparency

2.1 Southeast Europe Regional Electricity Market Monitoring Pilot Project

www.naruc.org/see_monitoring.

NARUC and its subcontractors created a transition plan to have entities in the SEE region assume responsibility for the market monitoring project. Quarterly monitoring reports are posted on the project website.

3.0 Regional Regulatory Cooperation

Southeast Europe Uniform System of Accounts

This workshop, held on May 20-21 in Bucharest, Romania, was co-hosted by ANRE, the Romanian energy regulator and facilitated by Pierce Atwood. Regulators and/or utility representatives from Albania, Bosnia and Herzegovina, Croatia, Georgia, Hungary (as observer), Kosovo, Macedonia, Romania, Serbia, and Ukraine participated. Substantive issues that were covered in the workshop included: asset valuation, treatment of O&M costs, allocation of costs between regulated and non-regulated activities, disallowances, new construction, and supply costs. Also, the workshop focused a great deal on benchmarking, and openly discussed opportunities for comparing methods and data among jurisdictions.

Materials are available at: <http://www.narucpartnerships.org/partnership.cfm?PID=16>

4.0 Promotion of Energy Security

4.1 Regulatory Partnerships www.narucpartnerships.org

- ***Georgia National Electricity Regulatory Commission (GNERC)***

To build on the solid foundation that was laid in Tbilisi in late June and early July, NARUC, GNERC, and the Vermont Public Service Board agreed to hold the second partnership activity December 15-18. The Georgian delegation will visit Montpelier, Vermont, to further the dialogue and discussions on energy efficiency, tariff methodologies, and diversifying the electricity generation matrix. GNERC Commissioner Irma Kavtaradze and her staff are in the process of selecting the participants to travel to Vermont.

At the end of June/early July, NARUC implemented its first partnership activity between the Georgia National Electricity and Water Regulatory Commission and the Vermont Public Service Board. The activity inaugurated a partnership where American and Georgian participants will exchange experience and information with the goal of improving market-based regulatory practices and institutions in the near future. The Vermont team and their Georgian counterparts established a professional and collegial relationship and showed a substantial degree of openness in sharing their experiences and perspectives on the basic structure and challenges each group encounters. The week was filled with presentations and discussions on themes such as natural gas regulation, power purchase agreements, administrative procedures, rate design, consumer protection laws, licensing in the energy sector, and other topics. All presentations are available at: www.narucpartnerships.org. Additionally, a Memorandum of Understanding was signed between NARUC, VT PSB, GNERC and witnessed by U.S. Ambassador to Georgia John Tefft and Deputy Minister of Energy of Georgia Nino Enuqidze.

- ***Energy Regulatory Office (ERO) of Kosovo***

NARUC continued in its discussions with USAID Mission in Kosovo and USAID Washington on the bilateral regulatory partnership program and workshop involving the Kosovo Energy Regulatory Office and Illinois Commerce Commission. The partnership will take place between October 27 and October 29. A workshop with ERO and other sector stakeholders will take place on October 30. NARUC completed many of the logistical preparations in advance of the trip, while the partners (ICC and ERO) identified staff members to participate in the exchange.

The inaugural activity will include a formal MOU signing with participation from NARUC, ICC, ERO and US government. The one-day workshop will have an expanded audience from government policymakers and members of the Kosovo Assembly focusing on the role, function, and independence of regulatory agencies.

4.2 Bilateral Regulatory Capacity Building Program

Energy Regulatory Office (ERO) of Kosovo

On April 14-16, 2008, NARUC organized a three-day workshop on "**Public Utility Regulation in Market Economies**" in Pristina. This conference expanded on a similar training NARUC had implemented in Kosovo in November 2007. Three thematic workshop modules explored sector-specific regulatory approaches, case studies, methodologies and applications. Approximately 35 local participants from Kosovo's Energy Regulatory Office, political institutions, utilities, local media outlets, consultants, and academics examined specific regulatory and industry tools for addressing key priority issues in Kosovo's energy sector, including various price regimes, emerging restructuring issues, institutional oversight, and regional market benefits.

NARUC coordinated the training implementation with the Regional Center for Energy Policy Research (REKK) at the Budapest Corvinus University and the American University in Kosovo (AUK). Dr. Vidmantas Jankauskas from REKK served as the course director. The second REKK fellow, Dr. Peter Kaderjak and NARUC state regulator George Young, Policy Director at the Vermont Public Service Board, presented issues in incentive regulation, various price schemes, fiscal autonomy, budget oversight for regulatory agencies, and offered U.S. and European regulatory experience and perspectives. Several local stakeholders also presented on issues and challenges in Kosovo's energy sector and recommendations for sustainable development and sound energy restructuring.

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