



National  
Association of  
Regulatory  
Utility  
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](http://www.naruc.org))  
Countries: Central/Eastern Europe & Eurasia (regional)  
Period: **FY10 (October 2009 – September 2010)**  
Implementer: National Association of Regulatory Utility Commissioners  
(NARUC)  
Contact: Erin Skootsky ([eskootsky@naruc.org](mailto: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 2009-2010 workplan.

## **1.0 Regulatory Capacity & Association Institutional Development:**

### **1.A Training/Capacity Development**

In November 2009, NARUC/USAID co-funded an ERRA pilot class-room training course on Renewable Energy Regulation held in Budapest, Hungary. The objective of this 5 days training course was to provide the participants with an overview of those aspects of environmental regulation that affect the life of energy companies and of those regulating them in the most significant way. The emphasis of the training is put on the discussion of three specific areas: the promotion and regulation of renewable energies, the operation of emerging greenhouse gas markets and the regulatory tools of controlling local pollutions caused by energy companies. NARUC provided on State commission staff person who served as a course instructor.

During the summer of 2010, NARUC/USAID also provided co-funding for the pilot online version of the Renewables training course (given in late 2010).

### **1.B. Association Development**

#### **ERRA Committee Meetings, Working Group Meetings, Conferences, Workshops**

During September 23-24, 2010, two U.S. commission staff members participated in the joint ERRA Licensing/Competition Committee and Legal Regulation Working Group meetings held in Sarajevo, Bosnia & Herzegovina. NARUC representatives addressed the following topics: regulatory aspects of smart metering, energy efficiency and its regulatory implications, legal regulatory aspects of climate change, regulation of renewables (legislation, licensing, tariffs).

[http://www.erranet.org/Events/ERRA/2010/Licensing\\_Sarajevo\\_September](http://www.erranet.org/Events/ERRA/2010/Licensing_Sarajevo_September)

In April, 2010, NARUC speakers participated at ERRA's Investment Conference and Annual Meetings held in Budapest, Hungary via an internet-based platform due to the volcano eruption in Iceland that restricted air flights.

<http://www.erranet.org/InvestmentConferences/2010>

<http://www.erranet.org/Events/ERRA/2010/GeneralAssembly>

In March 2010, NARUC sent two representatives to participate in the ERRA Legal Regulation Working Group meeting held in Bucharest, Romania. The NARUC representatives addressed the following issues: the relationship between regulators and competition authorities to ensure competition in the energy sector; pros and cons of regulation vs. competition in energy markets; independence of regulatory body and its mutual relationship with state authorities.

[http://www.erranet.org/Events/ERRA/2010/Legal\\_Bucharest\\_March#Materials](http://www.erranet.org/Events/ERRA/2010/Legal_Bucharest_March#Materials)

In late January 2010, NARUC sent three representatives to participate in the ERRA Tariff/Pricing and Licensing/Competition Committee Meetings. The NARUC representatives addressed the following issues: incentives for the production of electricity using renewable energy resources, harmonization of licensing and reporting procedures, monitoring of wholesale and retail markets, evaluation of the efficiency of distribution companies, rate of return (WACC) calculation and benchmarking.

[http://www.erranet.org/Events/ERRA/2010/Licensing\\_Amman\\_January](http://www.erranet.org/Events/ERRA/2010/Licensing_Amman_January)

[http://www.erranet.org/Events/ERRA/2010/Tariff\\_January\\_Amman](http://www.erranet.org/Events/ERRA/2010/Tariff_January_Amman)

NARUC organized the participation of two U.S. commissioners/commission staff in each of the following ERRA activities that took place during September 23-November 22, 2009 to share U.S. regulatory practices.

- Tariff/Pricing Committee Meeting & Renewables Workshop (Sept. 23-25, 2009, Riga, Latvia) (THIS TOOK PLACE IN SEPT, SHOULD WE STILL INCLUDE IT?)  
[http://www.erranet.org/Events/ERRA/2009/Tariff\\_Workshop\\_Riga\\_September\\_23](http://www.erranet.org/Events/ERRA/2009/Tariff_Workshop_Riga_September_23)
- Legal Regulation Working Group (Oct. 1-2, 2009, Batumi, Georgia)  
[http://www.erranet.org/Events/ERRA/2009/Legal\\_Batumi\\_October](http://www.erranet.org/Events/ERRA/2009/Legal_Batumi_October)
- Licensing/Competition Committee (Oct. 5-6, 2009, Tallinn, Estonia)  
[http://www.erranet.org/Events/ERRA/2009/Licensing\\_Tallinn\\_October](http://www.erranet.org/Events/ERRA/2009/Licensing_Tallinn_October)
- ERRA Renewable Energy regulation Training Course (Nov. 23-27, 2009, Budapest, Hungary) – 1 NARUC representative as instructor  
[http://www.erranet.org/Training/Intermediate\\_Advanced\\_Training/Renewables\\_2009](http://www.erranet.org/Training/Intermediate_Advanced_Training/Renewables_2009)

## **2.0 Regulatory Reporting, Monitoring & Transparency**

Select issues related regulatory reporting, monitoring and transparency were addressed through bilateral partnerships (task 4).

## **3.0 Regional Regulatory Cooperation**

**The Black Sea – OMS Regional Regulatory Initiative** [www.narucpartnerships.org](http://www.narucpartnerships.org)

During May 5-6, 2010, NARUC implemented the first regional workshop, in Moldova, under the auspices of the Black Sea-OMS Regional Regulatory Initiative. National regulators from Armenia, Azerbaijan, Georgia, Moldova, Turkey, and Ukraine, and three representatives from the Organization of MISO States participated in the successful launching of the expanded regional initiative. The workshop provided an interactive

platform for discussion of current practices, and regulatory and market developments in the electricity transmission systems in the geographically relevant regions in support of increased regional trading across national borders. The workshop was co-hosted by the National Agency for Energy Regulation (ANRE) of Moldova. The focus of the initiative is to increase interaction among the five participating regulators and facilitate information exchange among relevant stakeholders on current practices and regulatory and market developments in the geographically relevant regions.

The first regional workshop was preceded by an event that took place during November 11-12, 2009, that led to the inception of the initiative. In particular, NARUC organized a side meeting with regulators who came to participate at the USEA/USAID Regional Transmission Network Development: Implications for Trade and Investment workshop held in Istanbul, Turkey. NARUC and USAID officials met with regulators from Armenia, Azerbaijan, Georgia, Moldova, Turkey, and Ukraine to discuss the initiative.

#### **4.0 Promotion of Energy Security**

##### **4.1 Regulatory Partnerships [www.narucpartnerships.org](http://www.narucpartnerships.org)**

Through USAID/Washington or Mission funding, NARUC supported the participation of select regulatory representatives from: Serbia-1, Bosnia-1, Ukraine-1, Armenia-1, and Kosovo-2 to attend the World Forum on Energy Regulation IV, Oct. 18-21, 2009 in Athens, Greece.

- **Georgia-Kentucky**

The Georgian National Energy and Water Supply Regulatory Commission (GNERC) and Kentucky Public Service Commission (KPSC) met in Kutaisi, Georgia, during September 27-October 1, 2010. The format of this second exchange allowed for greater periods of question and answer, focusing on tariffs, legal foundations of regulation, monitoring, and external relations. GNERC has been applying what they've learned since their first trip to Kentucky. For example, according to Gocha Shonia, the head of the GNERC's tariff and pricing department, the Georgian commission now accounts for real estate owned by a utility in the regulated asset base, after learning it was common practice in Kentucky.

The partners held their first activity in Frankfort, KY, during May 17-21, 2010. The GNERC delegation included one commissioner and four department heads. One GNERC participant stayed for an extra week to participate in an internship with his counterpart at the PSC. Based on the needs of GNERC at present, the discussions focused on market monitoring and compliance, incentive regulation, efficiency, water supply, service quality monitoring and hydropower. The KPSC organized two hydro site visits. The first visit took place at an 80 MW plant on the Ohio River, and the second took place at a smaller (1-2 MW) plant.

- **Kosovo-Illinois**

During August 9-13, 2010, the Energy Regulatory Office (ERO) of Kosovo, represented by two Commissioners and three staff, visited their regulatory counterparts at the Illinois Commerce Commission (ICC) for policy and technical discussions on a range of issues with particular emphasis on analyzing Illinois' experience with transition to retail markets, including changes to distribution and network tariffs; privatization and post-privatization issues that may affect ERO with impending restructuring; overall changes with ICC's functions post-restructuring, and regulatory framework for renewable energy sources including certification, authorization process and incentives. Additional interactions with the renewable energy suppliers and major Illinois utilities offered informative solutions to emerging issues. Since the adoption of regulations establishing feed-in tariffs in Kosovo,

the renewables have gained much importance from its policymakers and project developers. On completion of the event, during August 16-20, 2010, the Head of the ERO's Consumer Affairs Department stayed for an additional week of customized training (internship) at the ICC Springfield office, and focused his work with the ICC's consumer arm on learning more about consumer protections, balancing the consumer/utility interface and overall quality of service issues. The scope of training also focused on transferring the needed capacity to ERO to establish a formal complaints handling procedure.

During June 28-30, 2010, USAID Mission in Kosovo, NARUC, and the KEK Electricity Distribution and Supply (KEDS) Project Implementation Unit organized a high-level public forum and a set of technical workshops on "KEK Electricity Distribution and Supply Privatization: Enhancing Security of Supply in Kosovo for Economic Growth". The purpose of the policy and technical discussions was to provide the Government of Kosovo an opportunity to raise public awareness on the importance of KEK privatization and to increase the level of public understanding on why this transaction is critical to ensuring sustainable and secure electricity supply and long-term financial sustainability of the energy sector in Kosovo. The Forum addressed critical policy choices including protecting vulnerable customers, securing power supply through sector-wide investments, and tariff increases. The Public Forum was led by Prime Minister Hashim Thaçi, Minister of Economy and Finance Ahmet Shala, and U.S. Ambassador to Kosovo Christopher W. Dell. Several key Kosovo stakeholders participated in the discussions, including members of the Kosovo Assembly, the Energy Regulator, media, senior management from KEK and TSO KOSTT, NGOs, consumer groups, technical experts, donors and international organizations.

NARUC engaged a 3-member technical team including a senior regulator from Pennsylvania. The 2-day technical discussions, following the June 2010 public debate, focused on exploring operational and policy issues related to market design and oversight, and cost recovery in tariff methodology, featuring also status updates from stakeholder working groups, and reviews of international best practices in implementing energy sector reforms.

During November 2-6, 2009, NARUC implemented the third partnership activity in Pristina, Kosovo. Two Commissioners and three technical staff from the Illinois Commerce Commission traveled to Kosovo to hold meetings with the ERO counterparts in parallel technical groups to focus on peer-to-peer exchange of information and relevant experience. These tracks addressed electricity pricing and distribution service issues, consumer and service quality, renewable energy and licensing activities. ICC experts worked with a core group of ERO counterparts on addressing specific cases and exchanging practical solutions. The NARUC-ICC delegation also met with the USAID Mission representatives before and after the exchange to discuss issues relevant for the partnership dialogue.

- **Moldova-Missouri**

During September 20-24, 2010, NARUC successfully implemented the second partnership activity in Missouri. General Director Parlicov led the 5-member delegation from the National Energy Regulatory Agency (ANRE) of Moldova to the Missouri Public Service Commission (MPSC). The second exchange focused on organization of commission activities, tariff development and ratemaking process, auditing issues, energy sector regulation, renewables, and consumer affairs. The Missouri team and their Moldovan counterparts established a professional and collegial relationship during

the first activity and they expanded it during this exchange. They showed a substantial degree of openness in sharing their experiences and perspectives on the challenges each group encounters. The Moldovan delegation had a meeting with Missouri Attorney General Chris Koster, visited the AmerenUE utility company in St Louis, Hawthorn 5 Power Plant and Lost Creek Wind Farm in Kansas City.

During June 21-25, 2010, the partners held their first activity in Chisinau, Moldova. The Missouri PSC delegation included one commissioner and four staff members. Based on the needs of ANRE at present, the discussions focused on key state and regional regulatory issues, market monitoring, tariff development, monitoring quality of service, and consumer affairs. The program included the MoU signing ceremony and site visit to Union Fenosa Electricity Distribution Company.

- **Serbia-Pennsylvania**

During August 30-September 3, 2010, NARUC organized the fifth partnership exchange between AERS and PA PUC in Belgrade, where the partners discussed in detail the Energy Agency of the Republic of Serbia's (AERS) pricing regulations for the electric distribution sector and various improvements in AERS' internal procedures to conduct effective price reviews. This work involved analyzing a mock rate case and reviewing the overall pricing regulatory framework to achieve desirable economic goals, as proposed in the terms of reference submitted to the Pennsylvania Public Utility Commission (PA PUC). Mr. Kirk House, Lead Counsel led the 5-member Pennsylvania delegation. This exchange had the format of an organizational assessment; the partners engaged in detailed discussions rather than using formal PPT presentations.

In November 2009, NARUC also sponsored two staff members from the Energy Agency – Ms. Jasmina Trhulj, Senior expert for electricity, and Ms. Dijana Unkovic, Senior expert for economics and finance – in its Annual Western Utility Rate School. Participants worked in teams to learn the fundamentals of utility ratemaking through establishing revenue requirements and setting rates by working through a hypothetical “mock” water utility rate case.

As a follow-on to the fourth partnership activity held in Harrisburg, PA, and Washington, DC, on September 14-18, 2009, a working group within the Serbian agency, consisting of the partnership delegates, prepared a detailed report on the outputs for their initial terms of reference. The Serbian regulators were able to gather relevant information and experience to continue preparing for their third internal natural gas regulatory tariff review, and are currently engaged in revising their regulations and technical codes with the information acquired during the technical meetings.

- **Armenia-Iowa**

During June 14-17, 2010, the partners held their first activity in Yerevan. The two major themes that came out of the first activity were the Armenians' desire to learn much more about creating a full-time consumer advocate's office, and designing energy efficiency programs that have the full support of the utilities. PSRC staff followed up in August 2010 with a more comprehensive list of topics they'd like to touch on in future exchanges, including: RoE calculation, electricity market development, and data collection methodology on voltage quality and power interruptions.

- **Ukraine-New York**

NARUC supported the participation of NERC/Ukraine Chairman Titenko, Commissioner Dunailo and Mr. Antoniuk, head of department in the ERRA Investment Conference and Annual Meetings in April 2010 in Budapest, Hungary.

The partners held their first activity in Kiev, Ukraine, June 7-11, 2010. The New York State PSC delegation included the Chairman, one commissioner and three department heads. Based on the needs of NERC the discussions focused on key state and regional regulatory issues, market monitoring, regional electricity market initiatives, tariff development, monitoring quality of service, natural gas markets. The program included the MoU signing ceremony and site visit to Ukrenergo System Operator. All presentations are available at: [www.narucpartnerships.org](http://www.narucpartnerships.org).

NARUC supported the participation of several NERC (National Electricity Regulatory Commission of Ukraine) representatives to attend the ERRA Summer School in July 2010 in Budapest, Hungary.

- **Albania natural gas regulatory assistance**

NARUC implemented a US Study Tour on Natural Gas Regulatory Development, March 15-19, 2010, for four regulators from the Albanian Energy Regulatory Entity (ERE), laying the foundations for various procedural and capacity elements related to the establishment of the national natural gas regulatory system in Albania. The study tour took place at the Massachusetts Department of Public Utilities (DPU), the Public Utilities Commission of Ohio (PUCO), and the Federal Energy Regulatory Commission (FERC) to explore various issues related to the pipeline infrastructure investments, natural gas storage, system reliability, pipeline safety, model contracting, licensing procedures and other pertinent regulatory themes. The ERE regulators also visited a Distrigas LNG terminal in Everett, MA, to discuss the supply issues of LNG and its role in the security and reliability of Massachusetts' energy mix, as well as the Columbia Gas of Ohio to discuss the supply operations and the storage issues.

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