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MAKING AND TERMINATING CONTRACTS

**Bosnia and Herzegovina (BiH) Regulatory and Energy Assistance Project (REAP)
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**Jane Wilson
Ognjen Markovic**

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To be covered:

- **Making and Terminating Supply Contracts**
- **Single and Dual Point Contracts**
- **Third Party Access Contracts**



Making and Terminating Supply Contracts

- **NordREG reviewed the processes involved in making and terminating contracts to determine which issues needed to be harmonized across the Nordic region (Denmark, Finland, Norway and Sweden).**

**NordREG Market Design: Common Nordic end-user market,
Report 3/2009**



Processes That Should Be Harmonized

- 1. Is the information given to a customer before making a supply contract regulated?**
- 2. Is the information included in the supply contract regulated?**
- 3. Is the publishing of contractual terms regulated?**
- 4. Is amending the terms of a supply contract regulated?**
- 5. Is terminating a contract regulated?**
- 6. When a supply contract expires, is the information sent to the consumer regulated?**



Issue	Document	Articles/Item	Responsible Party	Note
1. Information given to a customer before making a supply contract regulated.	Yes, but not very specific. Rule on Eligible Customers	Art. 12(2)(d)	Supplier	Not very specific: "inform the eligible customer on the types of services that need to be paid as well as other conditions under which the supply of electricity is performed."
2. Is the information included in the supply contract regulated?	Yes. General Conditions of Supply	Art. 52(1)(a)-(v)	Supplier	



Issue	Document	Articles/Item	Responsible Party	Note
3. Is the publishing of contractual terms regulated?	No.			<u>Gap</u> . No regulation of publication of contractual terms.
4. Is amending the terms of a supply contract regulated?	Yes. Rule on Eligible Customers General Conditions of Supply	Art. 13 Art. 52(1)(r)	Supplier	Only regulates supplier obligation for change of price.



Issue	Document	Articles/Item	Responsible Party	Note
5. Is terminating a contract regulated?	Yes. General Conditions of Supply	Article 53		<u>Gap</u> . Only conditions under which contract can be terminated specified. Process is only for moving.
6. When a supply contract expires, is the information sent to the consumer regulated?	No.			<u>Gap</u> . This matter is not regulated in the RS.



Issue	Document	Articles/Item	Responsible Party	Note
1. Information given to a customer before making a supply contract regulated.	Yes, but not very specific. Rule on Eligible Customers	Art. 15(d)	Supplier	Not very specific: "Prior to the execution of the Supply Contract, in an appropriate way, notify the eligible customer on the types of services paid and all other conditions under which supply is performed."
2. Is the information included in the supply contract regulated?	Yes. General Conditions of Supply	Art. 33(2)		



Issue	Document	Articles/Item	Responsible Party	Note
3. Is the publishing of contractual terms regulated?	No. Rule on Eligible Customers	Art. 22	Suppliers publish their prices on their websites	<u>Gap</u> . No publication of contractual terms regulated.
4. Is amending the terms of a supply contract regulated?	Yes. Rule on Eligible Customers	Art. 16	Supplier	Only regulates supplier obligation regarding change of price.



Issue	Document	Articles/Item	Responsible Party	Note
5. Is terminating a contract regulated?	Yes. General Conditions of Supply.	Art. 37		Only provides grounds for termination by supplier.
6. When a supply contract expires, is the information sent to the consumer regulated?	No.			<u>Gap</u> . This matter is not regulated by the Federation.



Issue	Document	Articles/Item	Responsible Party	Note
1. Information given to a customer before making a supply contract regulated.				<u>Gap</u> . No provisions for provision of information to customers before making a supply contract
2. Is the information included in the supply contract regulated?	Yes. General Conditions of Supply	Art. 52(1) (a-r)	Supplier	



Issue	Document	Articles/Item	Responsible Party	Note
3. Is the publishing of contractual terms regulated?	No.	Art. 58(2)&(3)	Supplier	<u>Gap</u> . No regulation of publication of contractual terms.
4. Is amending the terms of a supply contract regulated?	Yes. General Conditions of Supply	Art. 52(1) (lj) & (o); (2)	Supplier & Customer	



Issue	Document	Articles/Item	Responsible Party	Note
5. Is terminating a contract regulated?	Yes. General Conditions of Supply	Article 53		<u>Gap</u> . Only conditions under which contract can be terminated specified. Process is only for moving.
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Single and Dual Contact Models



Definitions

- **Single contact point model: customer is in contact with only one market actor (usually the supplier), regardless of the issue.**
- **Dual contact point model: customer is in contact with either the supplier or the DSO, depending on the issue or for some issues, both.**
- **For switching and billing, single contact point.**



ADVANTAGES AND DISADVANTAGES: SINGLE CONTACT POINT

Pros	Cons
Less complex for the customers: need only contact one party	May be an obstacle for new entrants and existing suppliers
Very supplier oriented. Creates value for suppliers' customer service because of customer contact	Suppliers assume financial risk of collection of network fees. More favorable for incumbent suppliers
One contact point for complaints	Supplier needs more information from the DSOs (or access DSO's customer information system)
Could provide new business possibilities for suppliers	More regulation on information exchange between the suppliers and DSOs needed. Favors DSO sister supplier

NordReg Market Design : Common Nordic End-user Market, Report 3/2009



ADVANTAGES AND DISADVANTAGES: DUAL CONTACT POINT

Pros	Cons
Less information exchange required between the supplier and DSO	More complicated for customers to deal with market actors
Supplier has less financial risk in collection of network fees	May decrease customers' willingness to switch suppliers, if they received only one bill before

NordReg Market Design : Common Nordic End-user Market, Report 3/2009



Conclusions

Whereas, most countries may not be 100% one model or the other,

when it comes to switching and billing,

- **Nordic Energy Regulators (NordREG),**
- **European Regulators Group for Electricity & Gas (ENREG), and**
- **Council of European Energy Regulators (CEER)**

ALL PREFER THE SINGLE CONTACT POINT, and majority of countries have chosen that model.



Billing – Three formatting choices

- **Mandatory single**. Supplier required to provide the customer with one bill, containing both the cost for electricity and the network, i.e., the DSO invoices the customer via the supplier.
- **Voluntary single**. The supplier may choose to provide the customer with one bill
- **Mandatory dual**. The supplier must always invoice the electricity cost directly to the customer, and the DSO must always invoice the network cost directly to the customer.



NORDREG – BILLING:

- **Extensive research conducted across Europe, the USA and Australia: 35 experts, 21 organizations, technical support from four world leading international billing vendors.**
- **Conclusion: Mandatory combined billing most cost effective with many additional non-quantitative costs and benefits.**
 - **Billing. Cost-benefit analysis for three billing formats results:**



NordREG Cost Benefit Study cont'd

- **Mandatory combined billing** provides a net benefit for the overall Nordic Market of approximately €339 MM over 5 years. Without costs and benefits for customers and tax authorities, €74 MM. But after initial 5-year period, once investment costs have been recovered, there would be a far more substantial net benefit.
- **Voluntary Combined Billing** requires operation of dual customer management processes. Negative net cost of €131 MM over 5 years.
- **Mandatory Separate Billing** has few benefits and a net 5-year cost of €527 MM.

**“Consideration of alternative billing regimes for the Common Nordic End-User market – Cost-Benefit Analysis,”
Dr. Phili E. Lewis, VaasaETT Oy (VaasaETT Global Energy Think Tank), 10 November 2011.**



NordREG Non-quantitative Costs and Benefits

- **Most active, liberalised markets (especially Australia New Zealand, UK and Ireland) are the ones investing the most in smart grid and smart demand developments.**
- **All these markets have combined billing.**
- **The customer-focused, single point of contact from suppliers is considered prerequisite of successful marketing of smart grid/smart demand.**



NordREG Non-quantitative Costs and Benefits

- **Other non-quantitative Benefits**
 - **Customer inconvenience and confusion from two bills**
 - **Impact on market attractiveness to new market entrants**
 - **Suppliers have central (although not exclusive) relationship with the customer, which:**
 - **Diminishes incumbent privilege**
 - **Diminishes customer win-back**
 - **Absolutely clear that combined billing preferred by customers.**
 - **Database (especially a data hub) can be used by regulators as licensing control.**
 - **Fewer banking transactions, reducing customer's banking costs and payment receipt transaction costs of DSOs.**



NORDREG – SWITCHING:

- **Provides for a single contact model for switching for residential or small business customers**
- **Notes that the fact that the person making the supply contract also has a contract with the DSO is not a critical point for harmonisation**

**NordREG's "Harmonized Supplier Switching Model,"
Report 2/200.8**



ERGEG – BILLING

- **In some countries, customers receive two bills when they switch from the incumbent to an alternative supplier.**
- **This could be a source of market distortion by hindering customers from switching suppliers.**

Implementation of EC Good Practice, Guidance for Billing, ERGEG Status Review, Citizens' Energy Forum, 21-22 October 2010.



ERGEG -SWITCHING

- **The customer should need to contact as few parties as possible.**
 - **The customer should not be exposed to any complicated data exchange processes between suppliers and the DSO.**
 - **Customer should experience a switch as quick and easy.**
- **New Supplier Only: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Norway, Portugal, Slovenia Spain, Sweden, United Kingdom.**



ERGEG Switching cont'd

- **Former and new supplier: Czech Republic, Estonia, Romania, Slovak Republic**
- **New Supplier and DSO: Ireland**
- **Former supplier, new supplier and DSO: Lithuania and Poland**

“Obstacles to supplier switching in the electricity retail market: Guidelines of Good Practice and Status Review, Ref: E08-RMF-06-03, 10 April 2008.



CEER – BILLING

- **Combined billing provided by the supplier should be the standard.**
- **Facilitates customer activity in the retail market.**
- **Since the supplier acts in the competitive market and has incentives to be proactive in customer relations, the natural point of contact should be the supplier.**
- **NB: It is important that the regulatory framework provides for an even spread of financial risk between DSOs and suppliers when facing a non-paying customer.**



CEER -- SWITCHING

- **CEER's Recommendation for the Customer Interface Mode: A supplier-centric model [single point contact] is preferable, since it is crucial that participating in the energy market is as easy as possible for customers.**
- **11 countries of 22 one point of contact; 9 dual; and 2 other.**
- **In 15 of these countries, the customer is in contact with the DSO on issues such as new connection and technical issues.**

CEER "Retail market design, with a focus on supplier switching and billing: Draft Guidelines of Good Practice," CII-RMF-31-05, July 2011.



IMPLICATIONS

- **A design decision must be made with regard to single or dual point contact in order to fully develop switching and billing processes.**
- **Customer ease in market opening is paramount. Who wants two bills?**
- **Assess our communication methodology. Manual entries work in the beginning but can get out of hand, e.g., Slovenia.**
- **Financial risk: regulators must attend to the distribution of this risk.**



SWITCHING – RS

SINGLE/DUAL CONTACT POINT Issue	Document	Articles/ Item	Responsible Party	Note
SWITCHING RS	General Conditions of Supply	Art. 10(b)	Supplier	Supplier “regulates network [of contract on supply with end user] use with distributor.” (Note: no provision for supplier’s access to the network in its own name).
		Art. 11(2)(a)	End User	End User to conclude the contract on access unless provision for such regulated by contract for supply.
	Rulebook on Eligible Customers	Art. 10(4)	Distributor Eligible Customer	Contracts on connection and use of the network cannot limit choice of supplier or impose fees.
		Art. 11(1) and (2)	Supplier	The contract on access can be concluded by the supplier on behalf of the customer if the customer so requires. Question: is this single or dual contact point (or a mix)?



SWITCHING -- FBIH

SINGLE/DUAL CONTACT POINT Issue	Document	Articles/Item	Responsible Party	Note
SWITCHING FBIH	General Conditions of Supply	Art. 6(2)(a) Art/ 32(1)	Supplier/Distributor	Supplier has a right to access the network. A contract for usage of the network is signed by: — A supplier with a distributor — An end customer with a distributor — A generator with a distributor
	Rule on Obtaining Eligible Customer Status	Art. 10(6)	Eligible Customer	Implicitly provides that Eligible Customer signs contract for use of the network, supply and connection contract. Question: Is this single or dual contact point?



SWITCHING – BRČKO DISTRICT

SINGLE/DUAL CONTACT POINT Issue	Document	Articles/Item	Responsible Party	Note
SWITCHING BRČKO DISTRICT	General Conditions of Supply	Art. 10(b)	Supplier	Supplier “regulates network use with distributor according the General Conditions of Supply”
		Art. 11(2)(a)	End User	End User to conclude the contract on access unless provision for such regulated by contract for supply.
		Art. 45 (6), (7), (8) & (9)	Distribution	Distribution is obliged to sign contract on access with network user Distribution signs a Contract on access with end customer and generator
			Supplier	Supplier signs a Contract on access on behalf of tariff household customers
			Supplier/Trader	Supplier/Trader may sign a Contract on access on behalf of 0,4 kV commercial customers, tariff customers connected to MV network, eligible customers and generator
Art. 46 (5) & (6)	Supplier	Supplier signs a Contract on access if it transits electricity to another distribution network.		



BILLING – RS AND FBIH

SINGLE/DUAL CONTACT POINT Issue	Document	Articles/Item	Responsible Party	Note
BILLING RS	General Conditions of Supply	Art. 83	Supplier	Supplier calculates, invoices and collects amount for electricity consumed.
		Art. 84(3)	Supplier	The bill for eligible customers contains separately expressed elements of the bill for electricity consumed and usage of the network. Question: Is this single contact point invoicing for eligible customers?
BILLING FBIH				<u>Gap</u> : No provisions in General Conditions on billing eligible customers.



BILLING – BRČKO DISTRICT

SINGLE/DUAL CONTACT POINT Issue	Document	Articles/Item	Responsible Party	Note
SWITCHING BRČKO DISTRICT	General Conditions of Supply	Art. 83	Supplier	Supplier calculates, invoices and collects amount for electricity consumed.
		Art. 84(3)	Supplier	The bill for eligible customers contains separately expressed elements of the bill for electricity consumed and usage of the network.
		Art. 85(1)	Supplier End User	Eligible customer and supplier may contract the term for submissions of bills. Question: Is this single contact point invoicing for eligible customers? Is it consistent with the switching process?



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THIRD PARTY ACCESS CONTRACTS



Issue	Document	Articles/Item	Responsible Party	Note
Access to the Network – Who obtains access to the distribution network?	General Conditions of Supply	Art. 10(b). Art. 11(2)(a)	Supplier End User	<u>Gap</u> : No instructions or process for supplier use of end user contract in its own name. Note issue of aggregation of supplier customers and needing its own TPA contract . <u>Gap</u> : Inconsistent contract policy: -10(b) Supplier regulates network use. DSO needs privity of contract with supplier. If numerous customers, supplier must operate under numerous contracts for access to the network.
Access to the transmission network?	ISO Market Rules			<u>Gap</u> : There are no Market rules provisions applicable to this issue.
	Grid Code	Art. 26.1	User for every network junction point	Sign Use of the Transmission System Contract with Transco



Issue	Document	Articles/Item	Responsible Party	Note
		Art. 26.2	User for every network junction point	The Use of the Transmission System Contract defines the provisions and terms according to which the user or a licensed party may utilize the transmission system for the transport of electric power and energy.
		Art. 26.1	User for every network junction point	<u>Gap</u> : Connection contract is a precondition for Use of the Transmission System Contract.
Access to the Network – the Contract	General Conditions of Supply	Arts. 45(2), (6) and (8) 46 (3)(j) Art. 46(5)		<u>Gap</u> Appears tariff customers only considered. Must have contract on supply before contract on access 46(2) and contract must include category of consumption and tariff group (3)(j). -Supplier contracts for access only if transit supply.



Issue	Document	Articles/Item	Responsible Party	Note
Access to the Network – Who obtains access to the distribution network?	General Conditions of Supply	6(2)(a) Art. 32(1) and (2)	Supplier/Distributor	Supplier has right to access the network <u>Gap</u> : No instructions, process for supplier use of end user contract in its own name. Note issue of aggregation of supplier customers.
	Rule on Obtaining Eligible Customer Status	Art. 10	Customer signs contract for utilization of the network	
Access to the transmission network?	ISO Market Rules			<u>Gap</u> : There are no Market rules provisions applicable to this issue.
	Grid Code	Art. 26.1	User for every network junction point	Sign Use of the Transmission System Contract with Transco
		Art. 26.2	User for every network junction point	The Use of the Transmission System Contract defines the provisions and terms according to which the user or a licensed party may utilize the transmission system for the transport of electric power and energy.



Issue	Document	Articles/Item	Responsible Party	Note
		Art. 26. I	User for every network junction point	Connection contract is a precondition for Use of the Transmission System Contract.
Access to the Network – the Contract	General Conditions of Supply	Art. 32(1)	End customer/Distributor	<u>Gap</u> : Appears only end customer signs the contract for access, but there is no mention of eligible customer. <u>Possible Gap</u> : Art. 32(3) indicates non-eligible customers may regulate a network usage contract, in which case the supplier regulates the contract with the distributor.



Issue	Document	Articles/Item	Responsible Party	Note
Access to the Network – Who obtains access to the distribution network?	General Conditions of Supply	Art. 10(b)	Supplier	Supplier “regulates network use with distributor according the General Conditions of Supply” End User to conclude the contract on access unless provision for such is regulated by contract for supply Distribution is obliged to sign contract on access with network user Distribution signs a Contract on access with end customer and generator Supplier/Trader may sign a Contract on access on behalf of 0,4 kV commercial customers, tariff customers connected to MV network, eligible customers and generator <u>Note</u> : Both contract options are possible. No instructions on processes.
		Art. 11(2)(a)	End User	
		Art. 45 (6), (7), (8) & (9)	Distribution Supplier/Trader	
Access to the transmission network?	Market Rules Grid Code			SEE RS AND FBIH.
Access to the Network – the Contract	General Conditions of Supply	Arts. 45(2), (6) and (8) 46 (3)(j) Art. 46(5)		<u>Gap</u> Appears tariff customers only considered. Must have contract on supply before contract on access 46(2) and contract must include category of consumption and tariff group (3)(j). -Supplier contracts for access only if transit supply



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