



*Cooperation on Sharing Experience and Information between  
the PSRC of Armenia and the IUB of Iowa, USA*

# **TARIFF REGULATION**

## **ARMENIAN PERSPECTIVES**

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**Public Services Regulatory Commission of the Republic of Armenia**

*14-17 of June, 2010,  
Yerevan, Armenia*



## **Cooperation on Sharing Experience and Information between the PSRC of Armenia and the IUB of Iowa, USA**

### **REGULATION OF PUBLIC SERVICES**

***THE REGULATION OF THE SECTOR OF PUBLIC SERVICES IS A PART OF THE PUBLIC POLICY, WHICH IS IMPLEMENTED BY THE BODY RESPONSIBLE FOR REGULATION, ACTING WITHIN THE FRAMEWORK OF AUTHORITIES DEFINED BY THE LEGISLATION, AND FOR THE FOLLOWING PURPOSES:***

- ENFORCING THE BALANCE OF INTERESTS BETWEEN THE CONSUMERS AND THE REGULATORS IN THE SECTOR OF PUBLIC SERVICES,***
- ESTABLISHMENT OF EQUAL CONDITIONS FOR THE ACTIVITY OF THE REGULATED COMPANIES,***
- SUPPORT TO THE FORMATION AND DEVELOPMENT OF A COMPETITIVE MARKET,***
- ENFORCEMENT OF EFFECTIVE USE OF RESOURCES.***

**14-17 of June, 2010,  
Yerevan, Armenia**



## **Cooperation on Sharing Experience and Information between the PSRC of Armenia and the IUB of Iowa, USA**

### ***THE PUBLIC SERVICES REGULATORY COMMISSION IS A BODY THE FRAMEWORK OF REGULATION OF WHICH INCLUDES:***

- ☐ ***THE POWER SECTOR, WHICH CONSISTS OF THE SUB-SYSTEMS OF ELECTRIC ENERGY, HEATING AND GAS SUPPLY,***
- ☐ ***WATER SECTOR, THE MAIN CONSTITUENTS OF WHICH ARE: PROVISION OF DRINKING AND TECHNICAL (COOLING) WATERS, IRRIGATION, WATERSUPPLY COLLECTION (SEWAGE) AND WASTEWATER TREATMENT.***
- ☐ ***TELECOMMUNICATION SECTOR (ELECTRONIC COMMUNICATION MEANS),***
- ☐ ***GROUND MAIL (IN THE SUB-SECTOR OF UNIVERSAL SERVICES),***
- ☐ ***RAILWAY TRANSPORTATION SECTOR (REGULATED BY TARIFFS FOR THE USE OF THE INFRASTRUCTURE),***
- ☐ ***SECTOR OF TECHNICAL TESTING AND MAINTENANCE OF MEANS OF TRANSPORTATION (REGULATED ON PART OF TARIFFS).***

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### **THE COMMISSION DEFINES THE FOLLOWING REGULATED TARIFFS (OR PAYMENTS FOR SERVICES):**

- FOR TRANSFER OF ELECTRIC ENERGY AND HEATING, AS WELL AS FOR THE SUPPLY OF NATURAL GAS, IN THE POWER SECTOR FOR THE SERVICES PROVIDED BY A PRIVATE OPERATOR, FOR SERVICES PROVIDED TO THE MARKET OF ELECTRIC POWER, AS WELL AS THE MAXIMAL TARIFFS FOR THE IMPORTED ELECTRIC POWER AND NATURAL GAS,**
  - FOR THE SUPPLY OF DRINKING, IRRIGATION AND INDUSTRIAL (TECHNICAL) WATERS, FOR THE WASTEWATER COLLECTION AND WASTEWATER TREATMENT,**
  - FOR PROVISION OF SERVICES FOR THE DOMINATING COMPANIES IN THE SPHERE OF ELECTRONIC TELECOMMUNICATION, INCLUDING THE GROUND CONNECTION, AS WELL AS THE TARIFFS FOR THE SERVICES OF INTERNATIONAL IP TRAFFIC TRANSIT (BULK INTERNET),**
  - FOR PROVISION OF UNIVERSAL SERVICES IN THE SECTOR OF GROUND MAIL, INCLUDING THE WRITTEN MEDIA, PARCELS WITH A WEIGHT BELOW 20KG AND THE SPECIAL MAIL,**
- THE COMMISSION ALSO CALCULATES THE PAYMENTS FOR THE USE OF INFRASTRUCTURE IN THE SECTOR OF RAILWAY TRANSPORT OPERATION,**
- FOR THE PROVISION OF SERVICES IN THE SECTOR OF TECHNICAL TESTING OF TRANSPORTATION MEANS BY SPECIAL DIAGNOSTIC EQUIPMENT.**

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### ***TARIFF POLICY***

***THE TARIFF POLICY APPLIED IN THE SECTOR OF REGULATION ASSUMES DEVELOPMENT OF ECONOMICALLY JUSTIFIED TARIFFS, AIMED AT ENFORCEMENT OF THE PROPER OPERATION OF THE COMPANIES, AND AT ENFORCEMENT OF OPPORTUNITIES RELATED TO THE IMPLEMENTATION OF MODERNIZATION AND PERSPECTIVE DEVELOPMENT PROGRAMS.***

***THE TARIFFS (PAYMENTS) MUST HAVE A RELATIVELY SIMPLE AND CLEAR STRUCTURE, WHICH IS ACCEPTABLE IN PRACTICAL TERMS.***



## **Cooperation on Sharing Experience and Information between the PSRC of Armenia and the IUB of Iowa, USA**

### **THE COMMISSION DEVELOPS METHODOLOGIES (METHODS) FOR THE CALCULATION OF TARIFFS, TAKING INTO ACCOUNT THE FOLLOWING PRINCIPLES OF FORMATION OF REGULATED TARIFFS:**

- ❖ **REIMBURSEMENT OF JUSTIFIED COSTS FOR OPERATION AND MAINTENANCE, DEPRECIATION OF FIXED ASSETS AND AMMORTIZATION OF NON-MATERIAL ASSETS;**
- ❖ **PROVISION OF A POSSIBILITY FOR REASONABLE INCOME;**
- ❖ **CALCULATION OF COSTS FOR DEBT SERVICE;**
- ❖ **DIFFERENTIATION OF TARIFFS BY THE VOLUMES OF CONSUMPTION, CLAIMED CAPACITY, SEASONS OF THE YEAR, HOURS OF THE DAY, TERMS OF CONNECTING TO THE NETWORK AND TYPES OF SERVICES;**
- ❖ **CALCULATION OF THE NECESSARY AND JUSTIFIED COSTS FOR SOCIAL SECURITY;**
- ❖ **CALCULATION OF JUSTIFIED COSTS, NECESSARY FOR NATURE PROTECTION;**
- ❖ **CALCULATION OF COSTS ON CONSERVATION AND MAINTENANCE OF POWER FACILITIES, ENVISAGED BY THE POWER DEVELOPMENT PROGRAM, SO APPROVED BY THE GOVERNMENT OF THE REPUBLIC OF ARMENIA;**
- ❖ **COVERING OF COSTS RELATED TO THE DISPOSAL OF PROCESSED NUCLEAR FUEL AND CALCULATION OF TRANSFERS TO THE FUND FOR DECOMMISSIONING OF THE NUCLEAR POWER PLANT;**
- ❖ **CALCULATION OF TECHNICAL AND COMMERCIAL LOSSES (UAW);**
- ❖ **CALCULATION OF THE JUSTIFIED AND NECESSARY MISCELLANEOUS COSTS, ENVISAGED BY THE CORRESPONDING LEGISLATION.**

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### ***THE PROCESS OF TARIFF CALCULATION IS IMPLEMENTED IN 2 PHASES:***

***1. CALCULATION OF THE ANNUAL INCOME  
REQUIREMENT OF THE GIVEN COMPANY.***

***2. COST ANALYSIS:***

- CLASSIFICATION OF EXPENDITURES,***
- SELECTION OF THE TARIFF STRUCTURE,***
- CALCULATION OF THE TARIFF RATES.***



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**THE BASIS FOR THE CALCULATION OF REGULATED TARIFFS IS  
THE PRINCIPLE OF PROVISION OF THE REQUIRED INCOME (RI),  
ACCORDING TO WHICH THE INCOME GAINED BY THE COMPANY  
MUST INCLUDE:**

- **IMPLEMENTATION OF AUTHORIZED COSTS (AC) FOR THE ENFORCEMENT OF SAFE PRODUCTION BY THE COMPANY;**
- **REIMBURSEMENT FOR THE DEPRECIATION (D) OF FIXED AND CONSUMABLE ASSETS OF THE COMPANY;**
- **GAINING OF REASONABLE INCOME (I) FOR THE ENFORCEMENT OF SUFFICIENT PROFITABILITY OF THE INVESTMENTS.**

$$RI = AC + D + I$$





## Cooperation on Sharing Experience and Information between the PSRC of Armenia and the IUB of Iowa, USA

# TARIFF CALCULATION METHODOLOGIES

**THE PSRC OF THE RA HAS DEVELOPED AND APPROVED THE  
FOLLOWING METHODOLOGIES OF TARIFF CALCULATION:**

### **IN THE POWER SECTOR**

- ❖ **THE METHODOLOGY OF CALCULATION OF TARIFFS FOR ELECTRICITY PROVIDED BY POWER GENERATION COMPANIES,**
- ❖ **THE METHODOLOGY FOR CALCULATION OF TARIFF MARGIN,**
- ❖ **THE METHODOLOGY FOR CALCULATION OF TARIFFS FOR SERVICES OF TRANSFER OF ELECTRIC POWER TO THE ELECTRIC ENERGY SYSTEMS, PERFORMED BY LICENSED COMPANIES TO THE POWER MARKET,**
- ❖ **THE METHODOLOGY OF CALCULATION OF TARIFFS FOR ELECTRIC POWER AND HEATING, FOR COMBINED CYCLE PRODUCTION, BASED ON THE USEFUL COEFFICIENT OF THE HEAT,**
- ❖ **THE METHODOLOGY FOR CALCULATION OF TARIFFS FOR ELECTRICITY SUPPLIED IN THE TERRITORY OF ARMENIA, BY RENEWABLE POWER GENERATION COMPANIES,**
- ❖ **THE METHODOLOGY FOR CALCULATION OF REGULATED TARIFFS IN THE SYSTEM OF GAS SUPPLY,**
- ❖ **THE METHODOLOGY FOR CALCULATION OF TARIFFS FOR TECHNICAL MAINTENANCE OF GAS CONSUMPTION SYSTEMS.**

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### **IN THE WATER SECTOR**

- **THE METHODOLOGY FOR CALCULATION OF TARIFFS FOR PROVISION OF SERVICES OF DRINKING WATER SUPPLY, WASTEWATER COLLECTION AND WASTEWATER TREATMENT,**
- **THE METHODOLOGY FOR CALCULATION OF TARIFFS FOR SUPPLY OF IRRIGATION WATER.**

### **IN THE SECTOR OF TELECOMMUNICATION**

- **THE METHODOLOGY FOR DISTRIBUTION OF EXPENDITURES FOR “ARMENTEL” CJSC,**
- **THE METHODOLOGY FOR CALCULATION OF TARIFFS ON PROVISION OF SERVICES TO “ARMENTEL” CJSC.**

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# **TARIFF DEVELOPMENT**

***FOLLOWING THE RESOLUTION OF THE COMMISSION, DATED 1<sup>ST</sup> OF MAY 2001, A  
SYSTEM OF TWO-TIER TARIFFS WAS APPLIED FOR ALL THE POWER GENERATING  
COMPANIES***

***(AS PREVIOUSLY A SINGLE TIER SYSTEM OF TARIFFS WAS APPLIED)  
WITH THE DIVISION OF RATES FOR THE CAPACITY AND FOR ENERGY.***

***THE MAIN PURPOSE OF INSTALLATION OF THE SYSTEM OF TWO-TIER TARIFFS IS  
THE REIMBURSEMENT OF PERMANENT COSTS, INDEPENDENTLY FROM THE VOLUME  
OF PRODUCED ENERGY AND ITS REGIMES, AS WELL AS THE ALTERNATE  
EXPENDITURES, RELATED TO THE VOLUME OF ELECTRICAL ENERGY PRODUCED,  
MITIGATION OF IMPACT FROM THE DIFFERENCE BETWEEN THE ACTUAL AND THE  
CALCULATED QUANTITY OF PRODUCED POWER ON THE INCOME (LOSS) OF THE  
POWER GENERATION COMPANIES.***

***APPLICATION OF TWO-TIER TARIFFS FOR SMALLER PRODUCERS OF  
ENERGY, BELOW THE CAPACITY OF 10MW<sub>t</sub>, IS CONSIDERED INEXPEDIENT.***

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## **Cooperation on Sharing Experience and Information between the PSRC of Armenia and the IUB of Iowa, USA**

**ONE OF THE PRIORITIES OF THE GOVERNMENT OF THE REPUBLIC OF ARMENIA IN THE SECTOR OF ENERGY IS THE ENFORCEMENT OF ENERGY INDEPENDENCE OF THE COUNTRY, AS FOLLOWS: EFFECTIVE USE OF LOCAL ENERGY RESOURCES AND THE ALTERNATIVE SOURCES OF ENERGY, AS WELL AS APPLICATION OF CORRESPONDING LEGAL AND ECONOMIC MECHANISMS, AIMED AT ATTRACTION OF INVESTMENTS IN THE SECTOR OF RENEWABLE ENERGY.**

**THE COMMISSION HAS PLAYED A SIGNIFICANT ROLE AND INSTALLED ENORMOUS EFFORT IN STIMULATING OF CONSTRUCTION OF SMALL HPPs.**

**REGULAR REFORMS IN THE IN THE SECTOR OF SMALL CAPACITY POWER GENERATION BRING POSITIVE RESULTS.**

**IN 1997 THERE WERE ONLY 11 SMALL HPPs IN THE COUNTRY, PART OF WHICH WAS NON-OPERATIONAL.**

**THE COMMISSION DEVELOPED A METHODOLOGY FOR CALCULATION OF TARIFFS FOR ELECTRIC POWER, SUPPLIED BY SMALL HYDRO-POWER PLANTS, THE PURPOSE OF WHICH WAS TO REDUCE THE RISKS OF REGULATION AND ESTABLISHMENT OF FAVORABLE CONDITIONS FOR INVESTMENTS.**





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**AFTER ADOPTION OF THE MENTIONED METHODOLOGY THE QUANTITY OF SMALL HPPs INCREASED TWICE. THE VOLUME OF ENERGY PROVIDED WAS 2% FROM THE GENERAL VOLUME OF ENERGY PRODUCED IN THE REPUBLIC.**

**IN 2004 A RESOLUTION WAS MADE TO TRANSIT FROM THE CALCULATED TO MARGINAL TARIFFS. THIS RESOLUTION OF THE COMMISSION ATTRACTED A NUMBER OF INVESTORS, AND ALREADY IN THE END OF 2007 THE NUMBER OF HYDROPOWER STATIONS INCREASED TO 52.**

**HOWEVER THE INSTALLATION OF MARGINAL TARIFFS HAD CERTAIN WEAKNESSES:**

- **THE ABILITY TO HAVE HIGHER TARIFFS, IF COMPARED TO THE CALCULATED ONES,**
- **IMPOSSIBILITY OF INFLUENCE OF ECONOMIC METHODS ON OPTIMAL USE OF POTENTIAL POWER (CAPACITY),**
- **REDUCTION OF THE REAL VOLUMES OF INVESTMENT, FOR THE SAKE OF AVOIDING TAXING.**



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***TAKING INTO ACCOUNT THE AFOREMENTIONED WEAKNESSES,  
IN 2007 THE COMMISSION DEVELOPED AND ADOPTED A NEW  
METHODOLOGY OF CALCULATION OF ELECTRIC POWER,  
GENERATED FROM RENEWABLE SOURECES OF ENERGY,  
ACCORDING TO WHICH THE TARIFFS ARE CALCULATED BY A  
FORMULA, WHICH TAKES INTO ACCOUNT:***

***INFLATION RATES,  
INDEX OF CONSUMABLE PRICES,  
EXCHANGE RATES (USD), etc.***

***THE MENTIONED METHODOLOGY IS APPLIED PRESENTLY.***

***THE TARIFFS ARE REVIEWED ANNUALLY, BEFORE THE 1<sup>ST</sup> OF  
DECEMBER OF THE CURRENT YEAR,  
THE NEWLY APPROVED TARIFFS COME INTO FORCE FROM THE  
1<sup>ST</sup> OF JANUARY OF THE FOLLOWING YEAR.***



## **Cooperation on Sharing Experience and Information between the PSRC of Armenia and the IUB of Iowa, USA**

**THERE ARE 5 COMPANIES OPERATING IN THE SECTOR OF WATER SUPPLY,  
WHICH ARE UNDER TRUSTED MANAGEMENT BY INTERNATIONAL OPERATORS.**

***STARTING FROM 2006 THE COMPANIES SUPPLYING DRINKING WATER TO THE  
URBAN CUSTOMERS WERE DEALT THROUGH A NEW APPROACH.  
THE GOVERNMENT OF THE RA ANNOUNCED AN INTERNATIONAL TENDER ON  
LEASING OF THE COMPANY.***

***ONE OF THE MAIN REQUIREMENTS (TERMS) OF THE TENDER WAS THE  
PROVISION OF LOWER BASE TARIFFS FOR THE PERIOD OF LEASE. THE  
COMMISSION GAVE THE PRIVILEGE TO THE FINANCIAL PROPOSAL OF A  
FRENCH COMPANY "VEOLIA".***

***FOR THE NEXT 10 YEARS OF LEASE THE BASE TARIFFS SHALL BE ANNUALLY  
ADJUSTED BY THE COMMISSION, TAKING INTO ACCOUNT THE INDICATORS, DEFINED BY  
THE CORRESPONDING TARIFF METHODOLOGY, MAINLY RELATED TO THE VOLUMES OF  
RETAIL WATER SUPPLY, INFLATION RATES, THE RATE OF ARMENIAN DRAMS IN  
RELATION TO EUROS, AS WELL AS BASED ON CHANGES IN TARIFFS FOR ENERGY FOR  
THE PREVIOUS YEAR.***

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*THANK YOU FOR ATTENTION !*

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