

M e m o

To: Federation Members

Subject: Possible Move by Azeri Energy to Raise Prices

It has come to our attention that Azeri Energy (AE) plans to ask the Tariff Council for a rate increase. They proposed to do this through stealth, raising the charges for transmission. Since most of this transmission system was paid for under the old régime, we consider any attempt to recover more money for the use of these assets to be unconscionable.

We do not know exactly what AE will propose, but we have some idea of how they will do it. They will ask that the electricity price be separated (unbundled) into its parts, generation transmission, distribution. We think that they will attempt to charge fixed rates for the use of the transmission system, but we do not understand what information they will use to make their case.

Fortunately, we have acquired a copy of an economic model that our daughter was given by one of her professors. We think that we can use it to figure out what AE will propose and how we can argue against it.

The information that may help is that we know that the TC has allowed AE to earn a profit of 12.5% on its invested capital (what they call the rate base). From their annual report, we know that the rate base for AE is AZM 8.5 billion, and that approximately 12-13% of this is in the transmission system. Further, they are trying to recover for energy losses – making consumers pay for their own incompetence – and they claim that 6% of the total energy generated is lost between the power plants and the distribution company. They want to receive the full cost of this generation, now AZM 0.055 per kWh, for these losses.

We need to understand what they will do and we must have a strategy that will rebut their efforts to shift more of the costs of electricity to the low voltage, poor consumers.