

## **State Energy Regulatory Commission (SERC)**

Partnership between SERC and BPU, New Jersey

September 8-12, 2003

Sofia, Bulgaria

1

# **SERC's Procedure for Submitting Tariff Increase Requests and the Necessary Supporting Information**

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The rules of procedure for consideration by SERC of requests for price increase filed by energy companies and for approval of such requests are the general rules of procedure contained in the following:

- Energy and Energy Efficiency Act,
- Ordinances for Prices Formation and Application
- The SERC Statutes of Organization.

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September 8-12, 2003

Sofia, Bulgaria

3

The EEEA stipulates the general procedure for the proceedings for prices approval (**Art. 23 and 24 of the EEEA**):

- The energy companies file with the SERC for approval the prices and tariffs formed in compliance with the EEEA provisions and regulations one month prior to their promulgation, together with the pricing related documents.
- In case the proposed prices and tariffs do not meet the principles and mandatory rules of the EEEA and regulations, the SERC obliges the energy companies to rework them so as to comply with the above mentioned provisions and regulations.
- After their approval the prices are promulgated in one central and one local daily newspaper.
- SERC may oblige the energy companies to prepare and present price proposals.

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September 8-12, 2003

Sofia, Bulgaria

4

- The procedure for the different sectors has been set out in detail in the relevant Regulations.
- The procedure consists of two stages as follows:
  - Initial coordination
  - Prices approval.
- In the first stage, initial coordination, there exist differences in the various sectors, and these will be discussed further down.
- In the second stage, prices approval by SERC, the procedure is uniform for all sectors.

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September 8-12, 2003

Sofia, Bulgaria

5

## ***Electric Power Sector***

### ***Regulation for Formation and Application of Electric Power Prices and Tariffs – stage 1 :***

**The procedure has been devised taking into account the following general considerations:**

- Transitional pricing is in place in the system until the average electric power retail price for households becomes equal to the costs for low voltage power supply.
- In 2002 SERC adopted a proforma schedule for annual increase of the average electric power retail price for households starting from July 1 (given the assumption that the average retail price for non-household purposes remains unchanged over the above mentioned period).
- Beyond the above periods proposals for changes in the approved prices may be placed by the energy companies only in case amendments to the legislation are made, which affect their costs.

# **State Energy Regulatory Commission (SERC)**

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September 8-12, 2003

Sofia, Bulgaria

6

## **Stage One – Steps (Electric Power Sector)**

- I. In the period preceding the regulatory period, on the basis of the equity rate of return as specified by SERC, the energy companies should file with SERC the following initial proposals:
  1. Independent producers that sell power and energy to transfer companies – proposals for power prices and energy prices;
  2. Transfer companies – proposals for transfer price;
  3. Distribution companies should announce:

## **State Energy Regulatory Commission (SERC)**

Partnership between SERC and BPU, New Jersey

September 8-12, 2003

Sofia, Bulgaria

7

- the required and estimated operational revenue from energy sales to end users,
- technological costs for electric power distribution,
- the estimated costs for purchase of energy and power from independent producers and for energy bought from the transfer company.

II. SERC makes an assessment and coordinates the proposals placed by energy companies under item I above.

- Through making the assessment at SERC the average sale price of electric power for distribution companies is obtained.

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September 8-12, 2003

Sofia, Bulgaria

8

### ***Heat Energy Supply Sector***

### ***Regulation for Formation and Application of Heat Energy Prices and Tariffs - stage 1:***

**The procedure has been devised taking into account the following general considerations:**

- Regulatory periods are annual.
- Heat energy prices are set on July 1 every year.
- Beyond the above mentioned term producers may file proposals for change in the prices of energy when a change in the prices of fuel, electric power, water and/or other components causes a change by more than 5 percent in the estimated variable costs required per unit of energy.



## **State Energy Regulatory Commission (SERC)**

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September 8-12, 2003

Sofia, Bulgaria

9

### **First stage – steps (Heat Energy Supply Sector)**

- I. In the period preceding the regulatory period for a price, on the basis of the rate of return as specified by SERC, the energy companies should file with SERC the following:
  - Reporting information about the main economic and technical-economic indicators for the preceding year, and
  - Estimates about the forthcoming one-year period in a format approved by SERC.

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September 8-12, 2003

Sofia, Bulgaria

10

- II. Beside the information under item I above, the energy companies should submit the SERC with the following:
- Initial proposals for prices for heat energy generation – by types of energy carriers; the energy companies generating electric power and heat energy by combined method should report in their proposals the preferential price of electric power specified by SERC;
  - Initial proposals regarding the required revenue for heat energy transfer by types of energy carriers;
  - Initial proposal regarding total end prices of heat energy by types of energy carriers form vertically integrated energy companies operating in one and the same settlement.
- III. SERC makes and assessment and coordinates the proposals placed by energy companies as per item II above.

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September 8-12, 2003

Sofia, Bulgaria

11

## ***Natural Gas Supply Sector***

### ***Regulation on the Formation and Application of Natural Gas Prices and Tariffs – stage 1:***

**The procedure has been devised taking into account the following general considerations :**

- The prices for natural gas end users are determined on a three-months' basis depending on the change in the price of imported natural gas free at the entrance of the gas transfer system.
- Updating of the final selling price of gas distribution companies is allowed once a year in case of differences between the estimated and actual annual volumes of the transferred and/or stored natural gas and in case of differences between the estimated and the actually implemented annual investments program.

## **State Energy Regulatory Commission (SERC)**

Partnership between SERC and BPU, New Jersey

September 8-12, 2003

Sofia, Bulgaria

12

### **Stage One – Steps (Natural Gas Supply Sector)**

- I. On the basis of the rate of return as specified by SERC the energy companies conducting activities in transfer, storage and distribution of natural gas submit the SERC with their price proposals accompanied by the required documents regarding the reported and estimated data in compliance with the instructions from SERC.
- II. SERC coordinates the proposals placed by the energy companies.

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Partnership between SERC and BPU, New Jersey

September 8-12, 2003

Sofia, Bulgaria

13

### ***Stage Two- Approval of Prices – Steps***

- I. One month prior to the promulgation the energy companies place requests with the coordinated price and tariff proposals, accompanied by:
    1. List of all submitted documents;
    2. Detailed calculations, evidences and justification of the formation of each price and tariff element, having prepared those in compliance with the instructions from SERC.
- Independent electric power producers that implement long-term investment projects, should submit the following in addition:
- Financial model of the project duration;
  - Description of the substantial parameters of the financial model;
  - Main contracts concluded under the project.

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Partnership between SERC and BPU, New Jersey

September 8-12, 2003

Sofia, Bulgaria

14

- When an energy company fails to fulfill its obligations for submitting such information and documents, or in the cases when the SERC establishes a lack of sufficient documentation and evidences and/or non-compliance of the proposed price and tariffs formation with the pricing principles and rules, SERC may:
  - Either require the missing documents, information and evidences to be submitted additionally within 10-days' term; or
  - Issue mandatory instructions for relevant re-designing of the proposal within 10-days' term.

II. SERC approves of the prices by passing a resolution.

- The resolution is an individual administrative act and may be appealed against at the Supreme Administrative Court.

## **State Energy Regulatory Commission (SERC)**

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September 8-12, 2003

Sofia, Bulgaria

15

**The Statutes of the Organization of SERC**, which specify the work organization and the order for the activities of SERC and its administration contain also provisions regarding the procedure for prices approval:

- Resolutions for prices approval are discussed at open meetings attended also by the applicants, however the SERC may make a decision some meetings to be closed
- Price regulatory functions are an explicit responsibility of the Economic Division only, while the other units are not in charge of any functions relating to such regulation;
- The Legal Division will only be involved in the preparation of justifications for resolutions on prices;
- In the process of considering the files, at the reporter's discretion working group may be set up and its members are nominated by virtue of an order issued by the SERC Chairman.