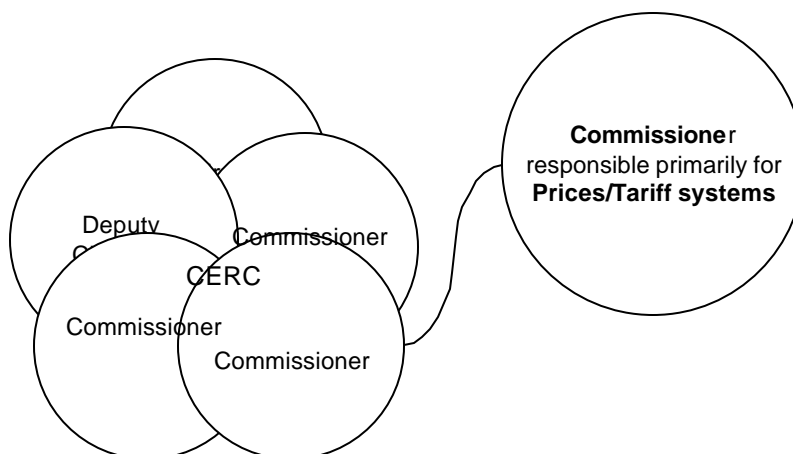


PRICES/ TARIFF SYSTEMS

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Croatian Energy Regulatory Council

CERC and PSC Partnership
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COMMISSIONERS' RESPONSIBILITIES



LEGAL FRAMEWORK

Law on regulation of energy activities

Article 1

CERC has been established as an independent legal entity for carry out, among others, activities related to regulation of energy prices to be set on the basis of tariff systems

Energy Law (Article 28)

- Tariff systems shall be passed by the Croatian Government upon the proposal by energy undertakings on whose services the tariffs will be applied, based upon the opinion obtained from the Ministry and CERC.
- CERC shall monitor application of tariff systems.

Law on electricity market (Article 12)

CERC shall set electricity transmission fees and distribution fees upon the proposal of the energy undertaking carrying out transmission or distribution of electricity respectively.

Law on oil and oil derivatives market (Article 4)

Tariffs for transportation of oil via oil pipelines and transportation of oil derivatives via product lines shall be passed by CERC on the proposal of the energy undertaking.

REGULATED PRICES

➔ Law on energy (Art 26) defines 10 energy activities (out of 22) for which prices are set by TS:

- generation of electricity, apart from electricity generation for eligible customers;
- transmission of electricity;
- distribution of electricity;
- retail supply of electricity, apart from retail supply of electricity for eligible customers;
- operation and control of electricity system,
- organisation of electricity market;
- supply of gas, apart from supply for eligible customers;
- gas distribution;
- gas transportation;
- heat generation, apart from heat generation for eligible customers.

COMMON ELEMENTS OF REGULATED PRICES

➡ Prices contain:

- Compensation for services provided by energy undertakings under public service obligation;
- Compensation for carrying out the regulation of energy activities;
- Compensation for stranded costs.

➡ Prices are based on:

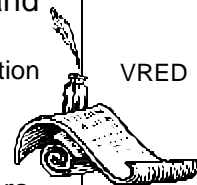
- Justified costs of
 - operation
 - maintenance
 - replacement
 - construction or reconstruction of facilities;
- Environmental protection costs;
- Reasonable rate of return on investments.

CHARACTERISTICS OF TSs (stated by Law)

- ➡ Transparent and non-discriminatory;
- ➡ Should provide incentives for the promotion of energy efficiency and management of demand side, including promotion of RES;
- ➡ Shall specify the elements for the calculation of the energy prices and services provided by energy undertakings under PSO to various energy undertakings and customers, dependant on type, volume, quality and other characteristics of delivered energy;
- ➡ Elements shall be expressed as tariff items that will enable the calculation of energy prices for a calculation period;
- ➡ Can specify different tariff amounts depending on type of customer, delivery period and seasonal or daily delivery volume fluctuation;
- ➡ Shall also determine the elements for setting the prices of the connection to the energy system or an increase of connected capacity/load.

TSs PASSED IN YEAR 2002

- ➡ **Tariff system for electro-energy activities which are carried out as PSO**
 - proposed by HEP (state owned electricity utility),
 - all inclusive,
 - in force since September 2002, with two further changes
- ➡ **Tariff system for transport of gas for suppliers and eligible customers**
 - proposed by PLINACRO (state owned gas transportation company),
 - in force since September 2002,
- ➡ **Tariff system for supply of gas for tariff customers**
 - proposed by INA, Naftaplin (oil and gas company, 25%+1 share MOL),
 - in force since September 2002.



TARIFF SYSTEM FOR ELECTRO-ENERGY ACTIVITIES WHICH ARE CARRIED OUT AS PSO

- ➡ Previous TS for the sale of electric power since 1991



? WHY NEW TARIFF SYSTEM

- ➡ Harmonization with the EU practice and requirements of Consumer protection associations:
 - Transparent calculation of prices,
 - Possibility of choosing and changing tariff model,
 - Abolition of capacity as a tariff item for the customer class – residential;
- ➡ Customer classes' prices according to the costs each class causes in EES;
- ➡ Standardization of prices in the same customer class (MV);
- ➡ More effective disposition of tariff items according to the time of day:
 - Stimulation of night consumption as a precondition of cost decrease in EES,
 - Stimulation of effective use of electricity.

CERC's OPINION ON PROPOSED TS

Some elements and suggestions from the CERC's opinion:

- TS was not in line with Law on energy (Article 26)
 - separate TSs for each energy activity (unbundling)
 - CERC suggested Government to set a date for the fulfillment of the obligation
- Development plan should be a precondition for defining tariff structure
- There was not enough evidence/data from which CERC was able to assess whether proposed tariff structure was justified
- It is not justified to abolish capacity as a tariff element for the LV customers
- New disposition of time of day and seasonal tariffs will cause significant increase in customers' costs
 - Three-rate meters, whose erection utility previously stimulated, will lose a meaning with coming into force two part time of day tariff
 - Proposed time of day rate will cause greater costs to the customers with two-rate meters compared to the customers with one-rate meters
- HEP should make a plan/strategy for reduction of costs and losses
- CERC is in charge of monitoring the application of TS ➡ has a right to check and control the fulfillment of the obligations stated in the opinion

MAIN ELEMENTS OF TS

Consumers' categories:

High voltage consumers (110 kV included and up)
tariff model - white

Medium voltage consumers (from 1kV to 110 kV)
tariff model - white

Low voltage consumers – residential
tariff models – blue, white, orange, black

Low voltage consumers – non residential
tariff models – blue, white, orange, black

Low voltage consumers – public lightning
tariff model - white

Tariff model – white

seasonal:

- HS: Jan, Feb, Mar, Oct, Nov, Dec,
- LS (other months)

daily:

- HT (winter 7am to 9pm, summer 8am to 10pm)
- LT (the rest of a day)

calculation elements:

- demand charge (kn/kW)
- energy charge (kn/kWh)
- reactive en. charge (kn/kVArh)
- fixed monthly charge

Tariff model (residential) – white

daily:

- HT (winter 7am to 9pm, summer 8am to 10pm)
- LT (the rest of a day)

calculation elements:

- energy charge (kn/kWh)
- fixed monthly charge

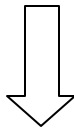
TS FOR SUPPLY OF GAS

Main points:

- For tariff buyers: distributors & direct buyers;
- Price is based on:
 - Pondered value (in US\$) of imported gas & domestic gas and
 - Supplier's profit;
- Price can be changed quarterly;
- Price can be changed if the difference in value of old price and newly calculated price is bigger than stated in TS (0,02 kn/m³);
- Role of CERC:
 - Price cannot be applied if CERC establishes that it is not calculated according to the provisions of TS,
 - Checks calculation/defines price each quarter.

TS FOR TRANSPORT OF GAS

"Plan for development, construction and modernisation of gas transportation system in Croatia until 2011" (approved by Ministry of Economy in 2002)



CERC monitors dynamics of Plan realisation through model of tariff setting



Tariff system – main characteristics/points:

- Categories:
 - Suppliers (contract transportation capacity for distributors & direct buyers)
 - Eligible buyers
- Elements (costs) of TS:
 - Fixed (based on maximal required daily capacity for each (3) period)
 - Variable (based on transported quantity, paid in gas)
- Tariffs are set yearly, and published in CERC's Bulletin
 - at the moment CERC is in the process of setting tariffs for 2004

TRANSMISSION & DISTRIBUTION FEE

- CERC sets the fees and monitors their application
 - shows the role of CERC as independent regulator
 - gives the real meaning of price regulation
 - emphasis that the role of CERC is the most significant in regulation of electricity market
- CERC according to its Charter passed “Rulebook on methods and criteria for defining transmission and distribution fees”
- T & D fees are set upon the proposal of energy undertakings for transmission and distribution of electricity
 - Methodology for calculating transmission fee (finished in Nov 2002) (USAID/PierceAtwood/Nexant)
 - Methodology for calculating distribution fee (finished in Oct 2003) (USAID/PierceAtwood/Nexant)
- Precondition for setting fees: 3-year period plans for development and construction of T & D networks prepared by energy undertakings, and approved by CERC
- Official proposal for T & D fee CERC is expecting in October 2003

RULEBOOK ON METHODS AND CRITERIA FOR DEFINING TRANSMISSION AND DISTRIBUTION FEE – SOME ELEMENTS

Possible fees' structure

- Customer charge
- Capacity charge
- Energy charge

It is envisaged by the Rulebook:

Proposal of fees

- for 2003 by mid Aug 2003
- for 2004 by 1st Oct 2003

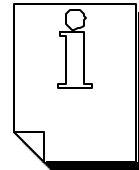
Using of network fee components

- Transmission fee
- Distribution fee
- Fees for ancilliary services
- Part for covering technical losses
- Additional fees:
 - CERC charge
 - ISMO charge
 - Stranded costs' charge
 - Incentive for eligible producers charge, etc.

MONITORING

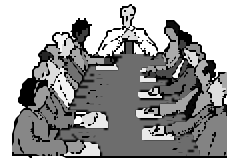
- Data/documents gathering
 - Rulebook on data which energy undertakings are obliged to submit to CERC (CERC Charter) ⇒ IMPLEMENTATION
- Definition of specific data/documents which energy undertakings should provide to CERC and which are necessary for the fulfillment of the task – monitoring of TSs' application
- Definition of procedures and information flow (dynamics)
- Introduction of CERC data base

- ✓ Defines data and documents in principle
- ✓ Does not specifies data/documents for each energy activity

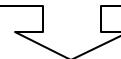


ESTABLISHMENT OF COUNCILS

- Rulebook on establishment and work of CERC's councils
 - Council in charge of price/tariff issues
 - Subcommittee for customer class – residential
 - Subcommittee for other customer classes
 - Council in charge of technical issues
 - CERC
 - Chooses members of the councils
 - Defines topics for councils' sessions



**Recommendations
&
Opinions**



CERC

PRIORITIES IN 2003/2004

- Adoption of rest of TSs (according to Law on Energy);
 - TS for distribution of gas was proposed, but not adopted
- Setting transmission and distribution fee
 - Realization of eligible customer status;
- Solving problems/obstacles defined in the process of monitoring TSs;
- Fully operational councils;
- Introduction of CERC's data-base.

