



STATE ENERGY REGULATORY COMMISSION

ENERGY PRICE REGULATION

Method, practice, policy

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Sofia, 23-27 September 2002

ENERGY PRICE REGULATION.

What are the common elements?

A lack of competition – broad scope for price regulation

- ✓ Regulated prices – generation, wholesale, end users, transmission, connection
- ✓ Unregulated items – only the prices of the ancillary services in electricity sector

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ENERGY PRICE REGULATION.

What are the common elements?

- ✓ The standard regulatory method “Rate of return” is applied
- ✓ The regulatory period is one year
- ✓ We envisage its extension with the collection of more experience

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Where do we start from?

Price distortions

- ✓ Direct subsidies from the state budget to the producers and the household users
- ✓ Cross subsidies from industrial to household users
- ✓ Enforced delaying of investment costs

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Where do we start from?

- ✓ A relatively big share in prices of the losses in the distribution networks because of theft and incorrect measurement
- ✓ Low asset balance cost
- ✓ Low prices of the natural gas for households

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Consequences

The low electricity prices for household users

- Send wrong signals to the users
- Place the utilities in a difficult financial position
- Lead to a de-capitalization on this branch of industry
- Lead to a waste of energy

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Consequences

The low energy prices for the household users

- Exert pressure over the industry
- Are a prerequisite for the unsuccessful privatization from the point of view of budget revenue
- Lead to a shift in the investment intensity to neighboring countries
- Lead to a delaying of the opening of the market

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Consequences

- The low natural gas prices are an obstacle to the development of the household gas supply
- The low prices of the heat energy lead to a strong de-capitalization of these utilities

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Price Policy Priorities

- Prices covering the costs
- Tariff re-balancing
- Application of multi-component prices
- Transition from administering to regulation through transparent regulatory rules for the market actors

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Activities undertaken by the Commission for implementing the price policy priorities

Electricity

- The Electricity price setting regulation provides a transition period during which the prices for the household users will be increased but the rest of the prices will remain fixed

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Activities undertaken by the Commission for implementing the price policy priorities

- A three-year schedule has been adopted for the increase of the prices containing the dates and the amount of increase
- The first stage of this schedule has been implemented
- A block tariff has been introduced for household users

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Activities undertaken by the Commission for implementing the price policy priorities

Heat

- Regional prices for non-household users have been established as well as such for a part of the household users who receive heat from unsubsidized utilities.
- Two-component prices have been introduced

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Activities undertaken by the Commission for implementing the price policy priorities

Natural Gas

- Regional prices of natural gas have been established for distribution companies along types of consumer groups – household, administrative and commercial, industrial

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Sector issues

Electricity sector

- The Single Buyer model is applied
- There is no competition in the sector
- The transmission company purchases the whole available capacity of the generators
- Tariffs are “historical”
- The sector needs considerable investment

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Sector issues

- A low rate of return on equity is applied
- In the near future privatization of the electricity distribution companies is planned
- The entitlement provided in legislation of the eligible consumers to sign bilateral contracts with producers is not being applied

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Sector issues

Natural Gas

- A relatively high price of the natural gas due to
 - a lack of competition in the natural gas supply
 - insignificant quantities of local yield
- Household gasification is making its first steps.
- There is a lack of differentiated prices depending on the volume and time of consumption

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Sector issues

Heat

- A high percentage of the users who do not pay their bills for heat consumed.
- Production subsidies in the sector
- Growing de-capitalization of the utilities due to a backlog of commitments
- Growing dissatisfaction of users with the prices

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The Commission is already in the open. What lies in the future?

- A comprehensive price reform in the electricity power sector
- Joint activities of the Commission with all the market actors
- Intensive work with the media and the broad public

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