



Energy Community Regulatory Board

Customers Working Group

**CUSTOMERS RELATED ISSUES
IN THE CONTEXT OF THE ENERGY COMMUNITY**

Edin Zametica, Chairman

1st GAS FORUM

Maribor, 9 November 2007

Energy Community



Energy Community = 27 members of the EU and Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Montenegro, Serbia and UNMIK.

Participants from EU: Austria, Bulgaria, Czech Republic, Cyprus, Germany, Greece, Hungary, Italy, the Netherlands, Romania, Slovakia, Slovenia and the United Kingdom

Observers: Moldova, Norway, Turkey and Ukraine

Energy Community Institutions



MINISTERIAL COUNCIL

**PERMANENT HIGH LEVEL
GROUP (PHLG)**

REGULATORY BOARD (ECRB)

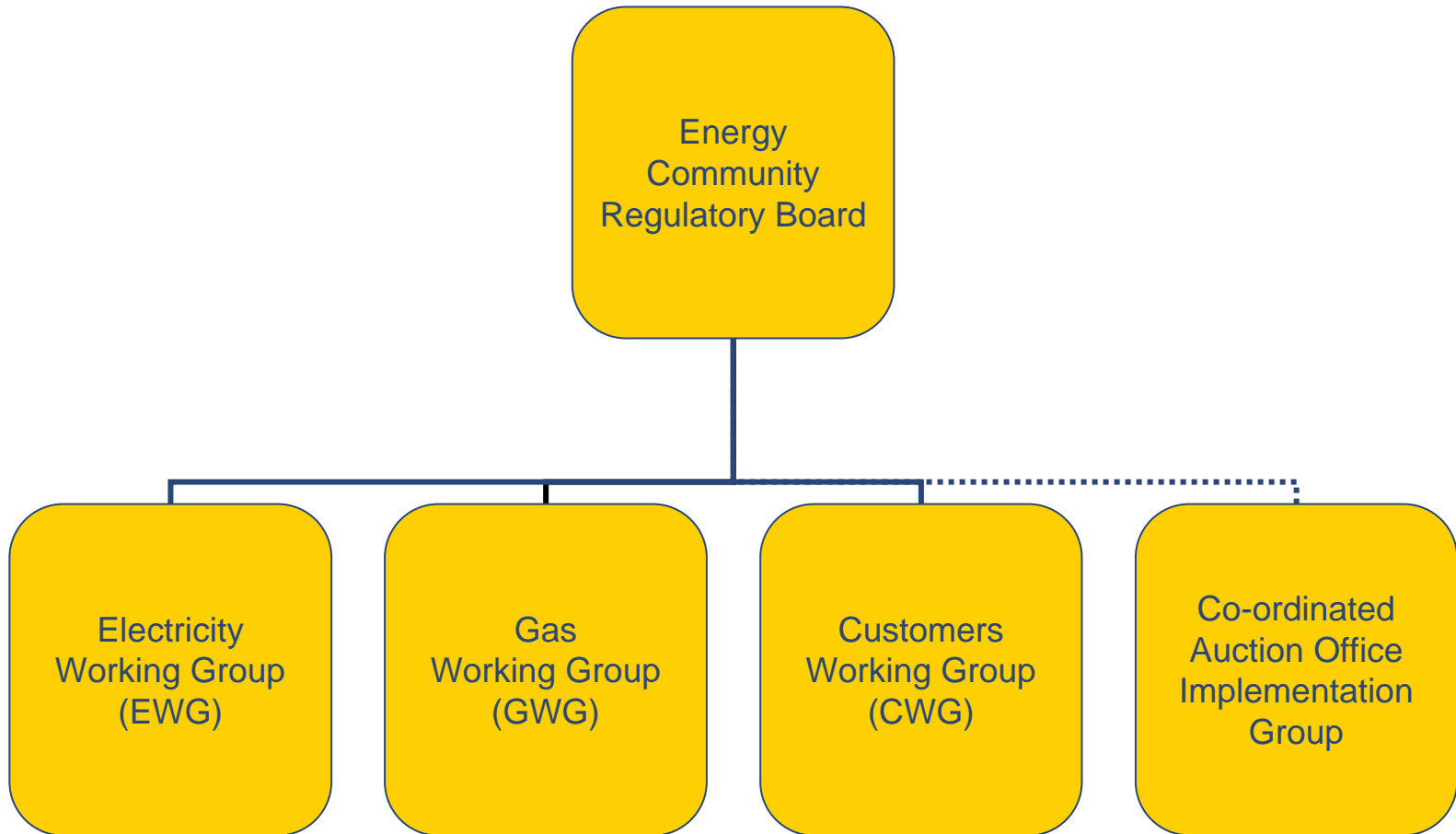
**ELECTRICITY FORUM
(ATHENS FORUM)**

**GAS FORUM
(MARIBOR FORUM)**

**SECRETARIAT
(VIENNA)**

- shall discharge the tasks entrusted to it by Article 58 of the Treaty establishing the Energy Community.
- shall undertake the function of advising on statutory, technical and regulatory rules in the region to the Energy Community Treaty Institutions.
- shall provide advice to the Ministerial Council and the PHLG with regard to monitoring and assessing the operation of the energy networks and network energy market and issue recommendations to the Parties when so entrusted by the Treaty or the Ministerial Council.
- shall facilitate consultation, co-operation and co-ordination amongst regulatory authorities to a consistent application of the *acquis communautaire*.
- may determine the existence of a serious and persistent breach and bring it to the attention of the Ministerial Council.

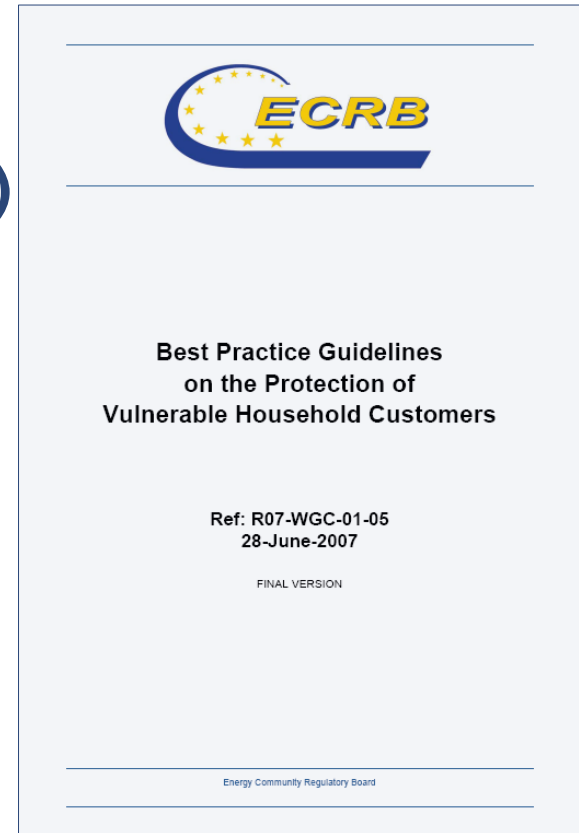
ECRB Structure



- ECRB WP 2007 – Customer Focus
 - Guidelines on Protection of Vulnerable Customers (basis: ERGEG CFG's work) → adaptation / adoption of Guidelines
 - Discussion and evaluation of concrete support measures in cooperation with donors, including energy efficiency measures

Best Practice Guidelines on the Protection of Vulnerable Household Customers (BPG)

- Approved during the 3rd ECRB meeting (Athens, July 5, 2007)
- The ECRB considers making the BPG a **non binding recommendation** pursuant to the provisions of Article 33 of the Energy Community Treaty.



Vulnerability Definition

In principle, **no (common) definition**

Examples:

- **elderly,**
- **sick,**
- **disabled,**
- **low income customers,**
- **customers in remote areas,**
- **...**

- Low average income may prevent timely introduction of cost-based market prices
- Institutional and historical issues (in varying degree):
 - Tariffs do not reflect costs;
 - Cross-subsidisation between large and small consumers;
 - Low collection rates, both non-payment and non-invoicing as a result of poor customer data bases;
 - Lack of transparency in data and harmonisation of accounts;
 - Insufficient production and transmission/distribution capacity for electricity on a regional level and a major dependence on one gas supplier;
 - Lack of competition in wholesale and retail market;
 - TSO bundled with dominant (wholesale) supplier/dominant or sole importer;
 - DSO bundled with retail;
 - Unclear situation on cross-border issues (capacity allocation procedures and balancing regimes);

- Two countries have a social electricity tariff scheme (EU members)
- Countries with significant number of vulnerable customers do not have any support system (Bosnia and Herzegovina, Montenegro, FYR of Macedonia)
- UNMIK support only some of the absolute poorest families to exclude them from paying their electricity bills; however, pensioners with a monthly income of about €40 are not beneficiaries of the system.
- Serbia provides for discounts only for special categories of customers, which are not necessarily the poorest ones and which are defined by the welfare centre.

Source: ERGEG (TF on SEE Customers): Protection of Vulnerable Household Customers in SEE – Report, January 2007

Vulnerable Customers Support Systems in the Region



| T-social tariff, A-social allowance, O-Other | Electricity | Gas | Heating |
|--|----------------------|-------------------|-------------------|
| Albania | A | | |
| Austria | | | A (targeted) |
| Bosnia and Herzegovina | | A (Sarajevo only) | A (Sarajevo only) |
| Bulgaria | A (used for heating) | | A |
| Croatia | A | A | |
| FYR of Macedonia | | | |
| Greece | A | A | |
| Hungary | T (permanent) | A | |
| Italy | | | |
| UNMIK | A | | |
| Montenegro | | | |
| Romania | T (targeted) | A (not targeted) | A (targeted) |
| Serbia | O | | O |
| Slovenia | | | |
| Turkey | A (transitional) | | |

Source: ERGEG (TF on SEE Customers): Protection of Vulnerable Household Customers in SEE – Report, January 2007

- Provide guidance on how to best protect (vulnerable) household customers in markets in transition (promote secure energy supply Art. 31-37 EnCT, preamble)
 - South East European countries are to introduce energy markets based on competition in generation and supply
 - Real competition is best way of ensuring high quality and affordable price to end consumers. However, efficient regulation is needed for the protection of customers and the organisation of competitive energy markets.
 - The ability of customers to effectively choose supplier is in the function of customer protection

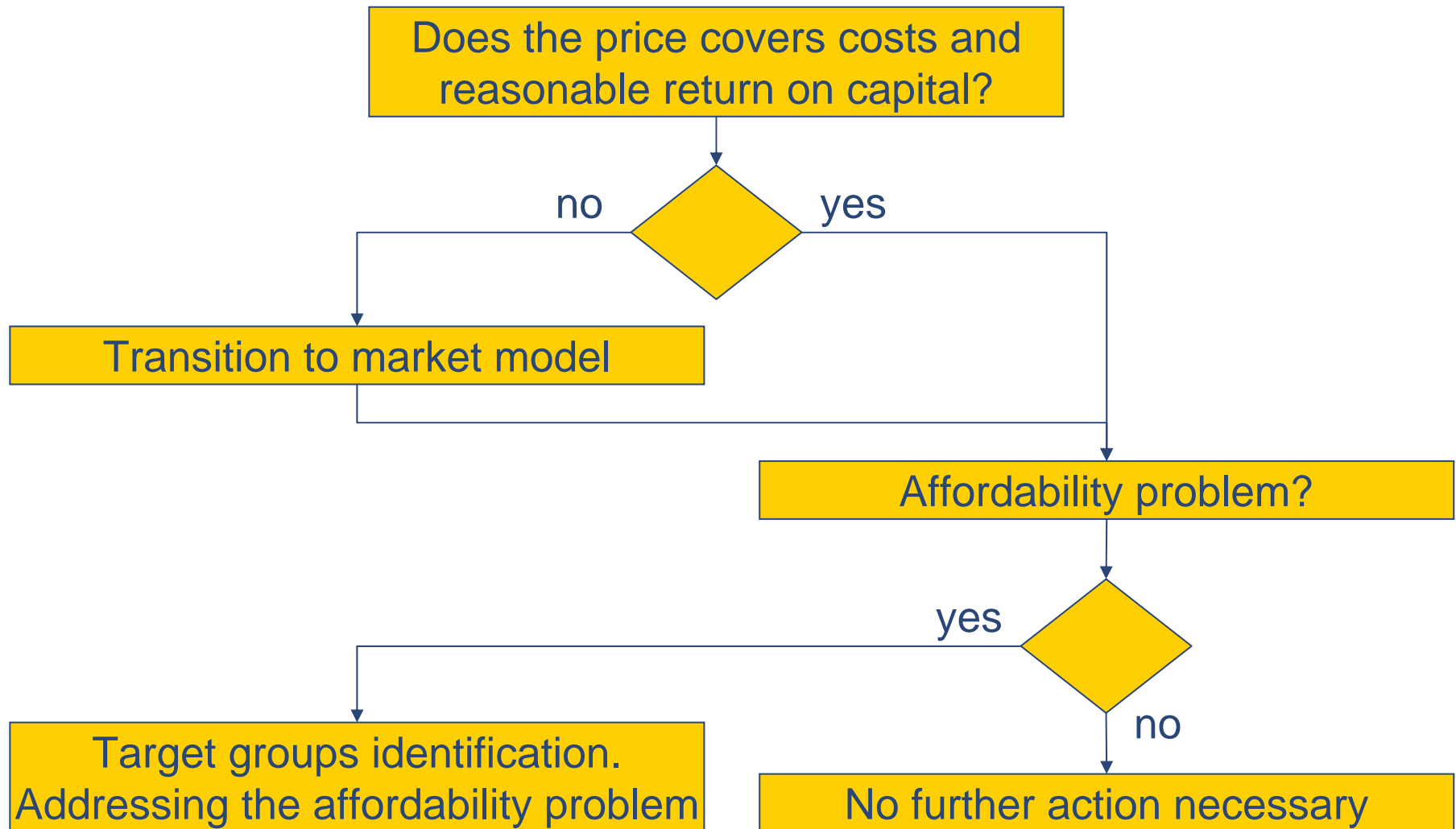
Possibility to Choose

- Energy Community promotes freedom of energy supplies.
- From July 2007, and at the latest from January 2015, all consumers in EU and SEE respectively, will be free to shop around for gas and electricity supplies. The current (default) supplier will no longer be the only choice.
- Switching Supplier – process to be “user-friendly” with easy, cost efficient and standardised procedures for leaving one supplier and signing up with another.
- This process will be monitored by regulators, so that customers can be confident that the market is working in their interests.

Right to Cover the Costs

- The concept of energy being a public good resulted in price below the market value
- Market-model implies that both for production/supply and for network companies
 - costs will be covered
 - in addition a reasonable return on capital must be allowed for
- The transition to market model will imply rise in end-user energy prices, which might be not affordable to certain consumer groups

Sequence of Questions



- Tariff based solutions – regulated tariffs for certain well defined consumer groups
- Non-tariff based solutions – typically introducing a social security system
- **Non-tariff based solutions should be preferred as they do not obstruct market forces**

Choice in Problem Addressing 2/2



- Tariff based solutions:
 - option for transition period
 - any below cost (including a reasonable return on capital) solution requires compensation to the energy companies
 - the financing of this (PSO) compensation must be addressed
 - social tariffs
 - normally funded through a levy or tax on the grid charge, that is used to contribute to the costs of vulnerable customers
 - should not cover payments in full – vulnerable customers are expected to contribute some proportion of the costs themselves

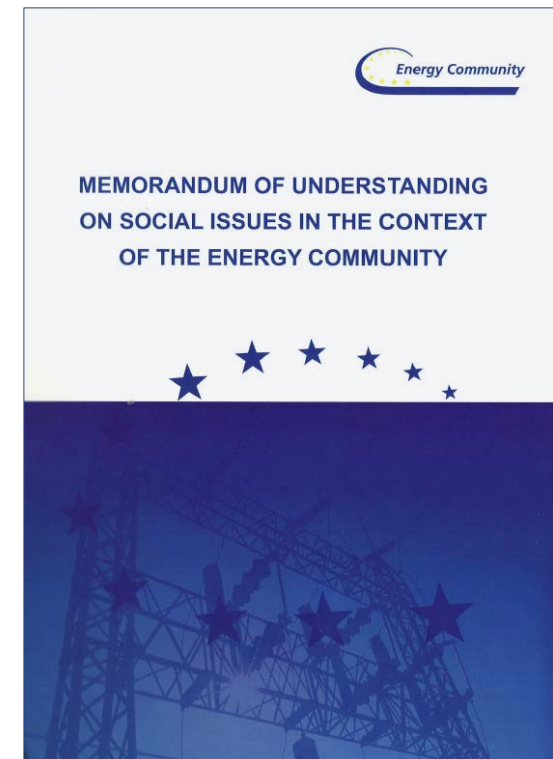
- Non-tariff based solutions:
 - strict criteria (income based; correlated with general economic growth)
 - avoiding rewards for excessive use of energy
 - examples: sound social system in general, tax reduction, cash in hand...
 - social allowances
 - are provided from the (state or local government) budget
 - go directly or indirectly to the beneficiaries without affecting the cost-reflective energy tariff or supply price structure.
 - usually cover parts of the expenses incurred
 - avoid discrimination of fuel types

10th Athens Forum Conclusions:

- “7. Energy efficiency was another high priority. USAID and EAR agreed to work together to inventory and assess ongoing activity and identify ways to advance programs and application of EU Directives.*
- 8. The development of an action programme to **address social concerns and affordability issues** remains a priority. Donors welcomed the opportunity to collaborate with the consumer protection working group of the ECRB in developing a concrete programme to advance efforts, including energy efficiency, to help vulnerable customers.”*

Conference on Social Issues

- Conference on Social Issues in the Context of the Energy Community – Vienna, 18 October 2007
- Participants: high level energy and social policy officials, trade unions' representatives, power and gas companies and other stakeholders
- MoU pays a particular tribute to:
 - necessity for **co-operation** between countries;
 - **protection of final customers** “with due regard to safeguarding primarily the interests of the most **vulnerable** customers”
 - the **fundamental social rights** that are set out in the European Convention for the Protection of Human Rights and Fundamental Liberties and in the EU Charter of Fundamental Rights;
 - the **core labour standards**, as defined by the ILO.
- Need of regular platform for dialogue on social issues recognised
- Proposal to organise Conference on an annual basis
- Establishment of the Social Forum to be considered



CWG – Indicative Work Plan 2008-2009

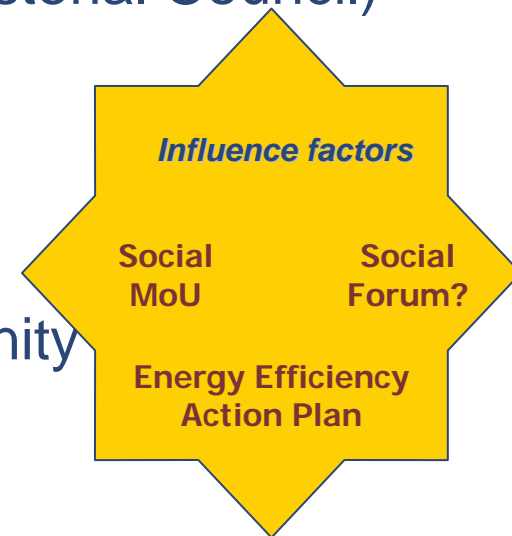
- Protection of Vulnerable Households Customers (Developing Action Plans considering the national specificities. Supporting and monitoring the implementation)
- Quality of Supply and Commercial Service; Standards and incentives in quality regulation
- Tariffication methodologies, transparency of prices
- Energy Efficiency (Benchmark Report about powers of regulators in end use energy efficiency, Guidelines)

Next Steps 2/3

- Implementation of BPG
 - followed by compliance monitoring
 - political backing needed (by Fora / Ministerial Council)

in parallel

- Discussion and evaluation of concrete support & cooperation with donors community
 - energy efficiency measures...
 - retail tariffs state of play...
 - ...



- **Procedure on how to implement the BPG and initiate the development of action plans**
 - many regulators of the SEE Region do not have explicit competencies concerning customer protection
 - through PHLG the Regulatory Board will request the Ministerial Council to initialise drafting National Action Plans with the appropriate involvement of Regulators.
 - Correlation between PSO (reservation of cross border capacities...) and actual market opening?
- Further event(s) specifically dedicated to consumer issues are necessary
- Further Donors assistance welcomed

Edin ZAMETICA
ECRB CWG Chairman

www.ecrb.eu

State Electricity Regulatory Commission - Chief of Staff
Bosnia and Herzegovina

ezametica@derk.ba

Phone: +387 35 302062