Distribution network tariffs and fees

ECS Recommendations
ECS Policy guidelines

- Initiated by ECDSO-E network tariff task force
- Based on the Report of Dalibor Muratovic, November 2017

https://www.energy-community.org/documents/studies.html#k3d5f0-accordion

- Policy Guidelines released in April 2018
  - Principles
  - Methodology to determine justified costs/ approved revenues from regulated activity
  - Incentive regulation
  - Allocation of costs and tariff design
General principles

- **Predictability**
- **Transparency**
- **Respecting the economic environment**

An optimal price regulation model is a coherent mix of the most appropriate regulation tools under the existing circumstances with the view to achieve the desired development.

*Incentive-based regulation is the best tool to achieve cost efficiency and to maintain the required level of quality, under the condition that the required or guaranteed level of quality of service has been established.*
Connection charges vs use of network charges

- Deep connection vs Shallow connection

The higher connection charges, the less fixed costs remains to be recovered from use of network charges.

The guiding principle in recognition and allocation of costs between upfront payment for connection (connection fee) and use of network tariff: the underlying methodologies must be consistent and compatible.
Cost recognition and cost allocation

Cost recognition

*Principle of cost recovery:*

_Determination of revenues required to cover all reasonable and prudently incurred costs, taking into account network development needs._

Cost allocation

*Principle of cost reflectivity:*

_Recognized costs shall be attributed to cost drivers and to customer groups reflecting their pattern of use of network with the view to give signal for more efficient use of network._
Specific issues in Ukraine and Moldova

Depreciation of national currency / inflation

Poor or inaccurate records, in particular of fixed assets

Legislative changes

Lack of trust between network operators and NRAs

Low tariffs insufficient to cover the costs

Poor maintenance

ECS invited to assess regulatory framework and provide recommendations:

1. Regulatory reform to empower NRA

2. Ensure consistency of regulatory approach and predictability of regulated tariffs

3. Look for solution to fairly observe the legitimate interest of operators and network users
If the asset records are reliable and there is no indication of impairment, the Historic Cost Method is most appropriate to determine the fair value of assets.

When evidence of the fair value of assets is missing as a result of poor records, currency exchange rate volatility and inflation, assets have to be revalued.

In that case, the Replacement Cost Method is an optimal solution to determine the fair value of RAB. Such value should be checked against the market price, whenever possible, for individual assets or a group of assets.
Thank you for your attention!

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