Distribution network tariffs and fees

ECS Recommendations

ECS Policy guidelines

POLICY GUIDELINES
by the Energy Community Secretariat

on the distribution network tariffs

PG 02/2018 / 3 April 2018
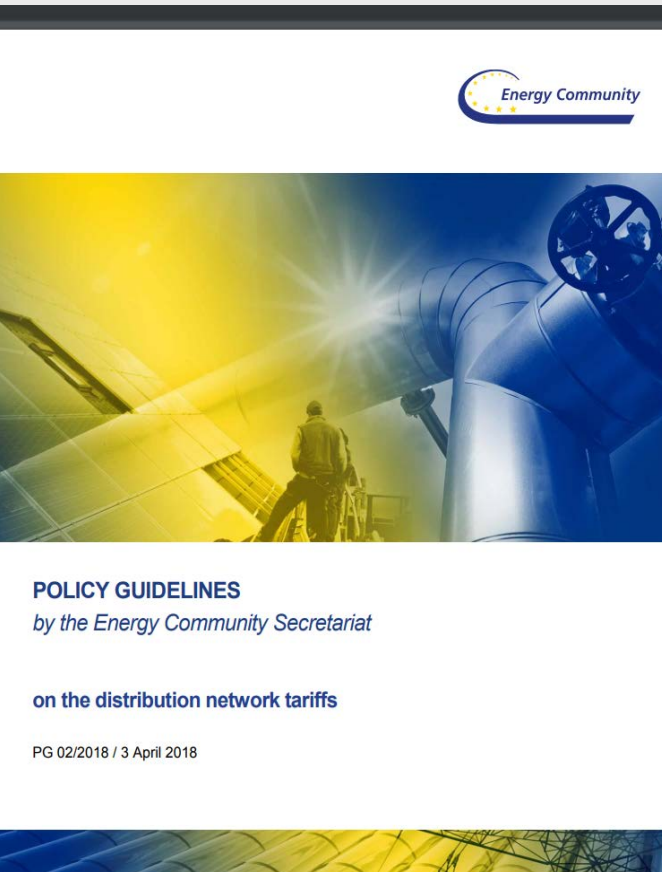
- **Initiated by ECDSO-E network tariff task force**

- **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.

Fees and charges

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

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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

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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*

Recognition and valuation of fixed assets

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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