

# Terms of Reference *for* Distribution Use of System Charges

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## I. Purpose

The purpose of the group is to facilitate further discussion on changes in the legislative and regulatory aspects, as well as technical and commercial aspect used for and not limited to determination of Distribution Use of System Charges, application of connection charges, compliance programs

## II. Background

Changes in the legislation and regulatory rules, unbundling processes, market opening, the ongoing development of competition, rapid increase of renewable generator connecting into distribution network have all resulted in evaluation of the operations in the distribution services. In view of these changes, the discussion and preparation of ToR should reflect comparison of different practices, including best practices, impacts of changes in the DUOS charges considering also future possible legislative changes and trends.

## III. Topics for ToR

### 1. **Defining differences in MAR determination** – Samples and best practices

- a) Are these costs determined based on market based costs, or as continuity from previous regulatory period;
- b) Determination of OPEX costs per regulatory period– including but not limited to allowed costs and categories, application of efficiency factors;
- c) Regulatory Asset Base (RAB) - The treatment of required vs allowed investments, as well as allowed and actual investments;
- d) Weighted Average Cost of Capital (WACC);
- e) Losses – determination of allowed level of losses – incentives and punishments. Treatment of losses in relation to CAPEX and OPEX allowed;
- f) Use of experts and international recognized methods for setting up WACC and losses target
- g) Non-tariff revenues – their treatment and inclusion in the MAR;
- h) The processes, practices and policies according to which the requests, strategy, budget and risk profiles are developed and approved;
- i) Increasing number of prosumers – their treatment in MAR determination process;

### 2. **DUOS setting Approach**

- a) DUOS as cost recovery – which services and cost should be included – Several cost allocation approaches and best practices;
- b) Treatment of efficiency operation of the system – in determination of DUOS charges;
- c) How DUOS are charged – on demand and energy or only energy. Understandability, and complexity of DUOS charges – especially in an open market;

**3. Cost allowance and quality services**

- a) Should Regulator allow more cost for better services, or push distribution operator to offer services based on allowed costs. Impact to customers in both versions (short and long term impacts);
- b) Cost allowance in relation to Investments and Loss targets;
- c) Penalties for not being able to provide quality of services;
- d) Comparison of practices between developed and under-developed network;

**4. Impact of legislation changes in DSO's operation. Samples and best practices**

- a) Analyze if laws are in contradiction with other laws, or with applicability in practice. If yes, show practices how this interference is treated;
- b) The group of consultants shall map and analysis legislative and regulatory framework and benchmark it with best regulatory practices;
- c) The role of Regulator – analyze if legislation and rule provide efficiency and fairness for both parties;
- d) The ability of current legislation to promote emerging technologies. The potential of emerging technologies on services, tariffs, employees and end-customers;

**5. Unbundling Processes**

- a) Practical Functionalization, including but not limited to division of roles, costs, especially if owned by the same owner;
- b) Treatment of additional costs during the unbundling process;

**6. New Connection and Connection Charges**

- a) Conditions and required investments in distribution network to allow the increasing demand for connection of new generators (especially RES Generators);
- b) Treatment of deep and shallow connections;
- c) Relation of Connection Charges to DUOS charges, including but not limited to relation; between connection charges and excluded revenues in terms of MAR determination;
- d) Defining boundaries between DUOS charged and Connection Charges;

**7. New Service Requirements with respect of opening of the Market and DG integration**

- a) Consideration of additional costs
- b) Consideration of additional systems and IT requirements
- c) Consideration of compliance with opening of the market

