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Retail Tariffs for Electricity in South East Europe

Donald Hertzmark
International Resources Group
South East Europe Regional Energy Market Support Project
(SEE REMS)

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Retail Tariff Benchmarking

- Formulated questionnaire in July 2005 to assess transmission tariffs in SE Europe
- Most responses completed by October 2005
- Revised responses received in April 2006
- Findings:
 - Wide variations in status of retail tariffs, as well as in type of tariff
 - Differential effects on efficiency
 - Most do not yet cover costs (but should within 3-5 years)
 - Small market size not as great an obstacle to efficiency as with transmission tariffs



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EU Pricing Guidelines

- Prices should not vary “too much” among neighboring countries
- Small (“vulnerable”) consumers should be protected in terms of both prices and service continuity
- Countries should proceed as quickly as possible to full retail market opening
- There are two key criteria to market competitiveness
 - Number of consumers changing suppliers
 - Market share of top three suppliers



Selected Results

- Prices vary significantly from one country to another
 - 2:1 ratio of highest to lowest price within a given category is common - is the cost differential this great?
 - Differentials between customer classes vary widely from one country to another
- Generation costs not recovered in some tariffs
- Retail tariffs subsidized in many countries - both generation & transmission/distribution
- Retail market opening starting for industry, not yet common for commercial and residential

Industrial and Commercial Tariffs

County	Tariff Type & Description	Time of Day Differential	Average Values (€/MWh)	
			Industrial	Commercial
Albania	Cost + rate of return (price discrimination by ownership status)		69.9	65-79
Bosnia-Herzegovina	Cost + rate of return	Time of Day & Season	36-60	100
Bulgaria	Cost + rate of return	Industrial Only	40	
UNMK	Cost + rate of return	Seasonal and Time of Day	48-54	57-84
FYROM	Cost + rate of return	Seasonal and Time of Day	32	77
Romania	Cost + rate of return	Time of Day	66	66
Serbia	Cost + rate of return	Seasonal	27	46
Turkey	Prepared by retail licensees	No	51	65

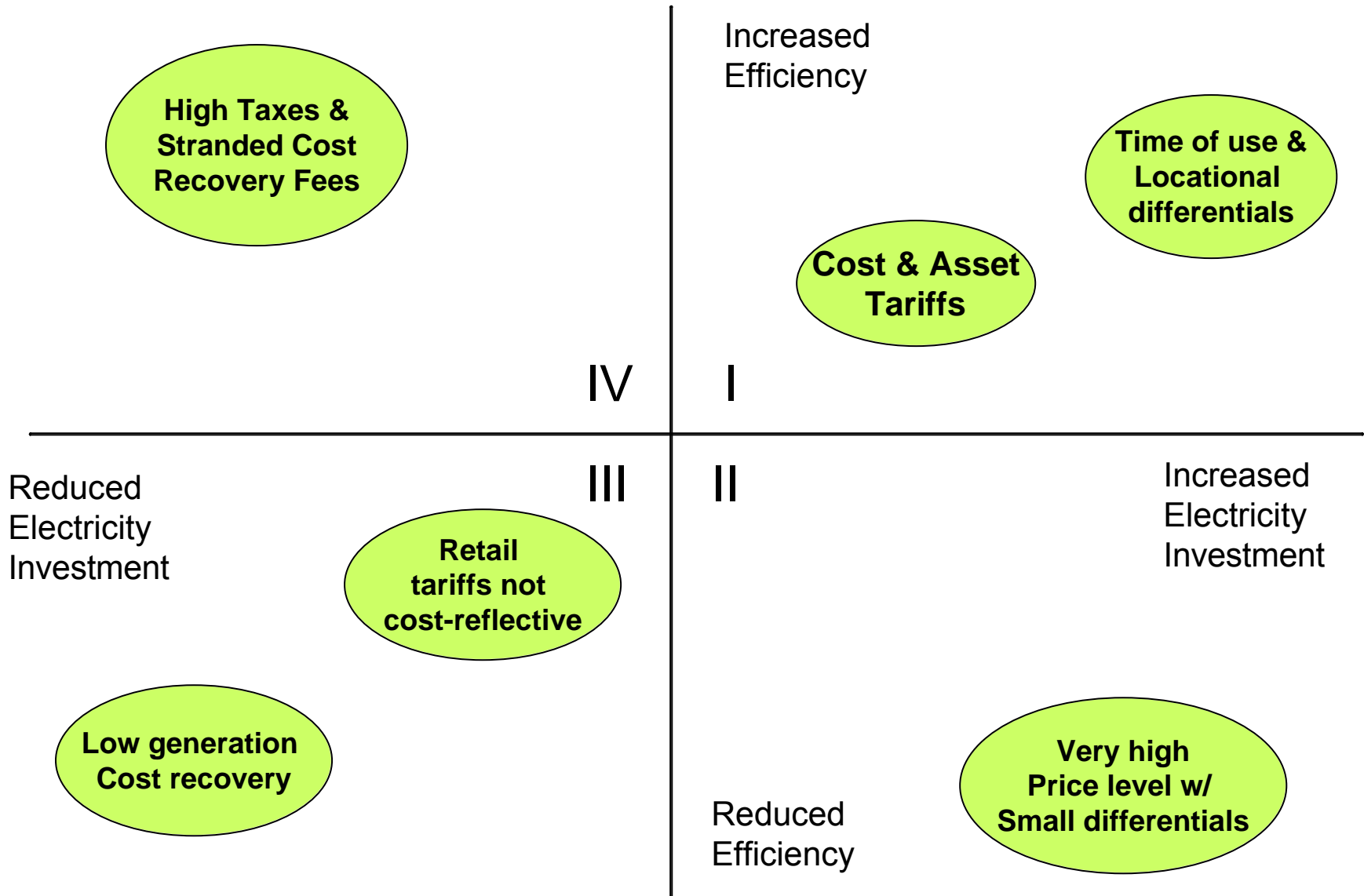


Residential Tariffs

Country	Time of Day Differential	Average Values (̄MWh)
		Retail
Albania		77
Bosnia-Herzegovina	Time of Day & Season	57
Bulgaria	Industrial Only	51
UNMIK	Seasonal and Time of Day	70
FYROM	Seasonal and Time of Day	37
Romania	Time of Day	69
Serbia	Seasonal	36
Turkey	No	53



Impacts of Tariff Structure on Efficiency & Investment

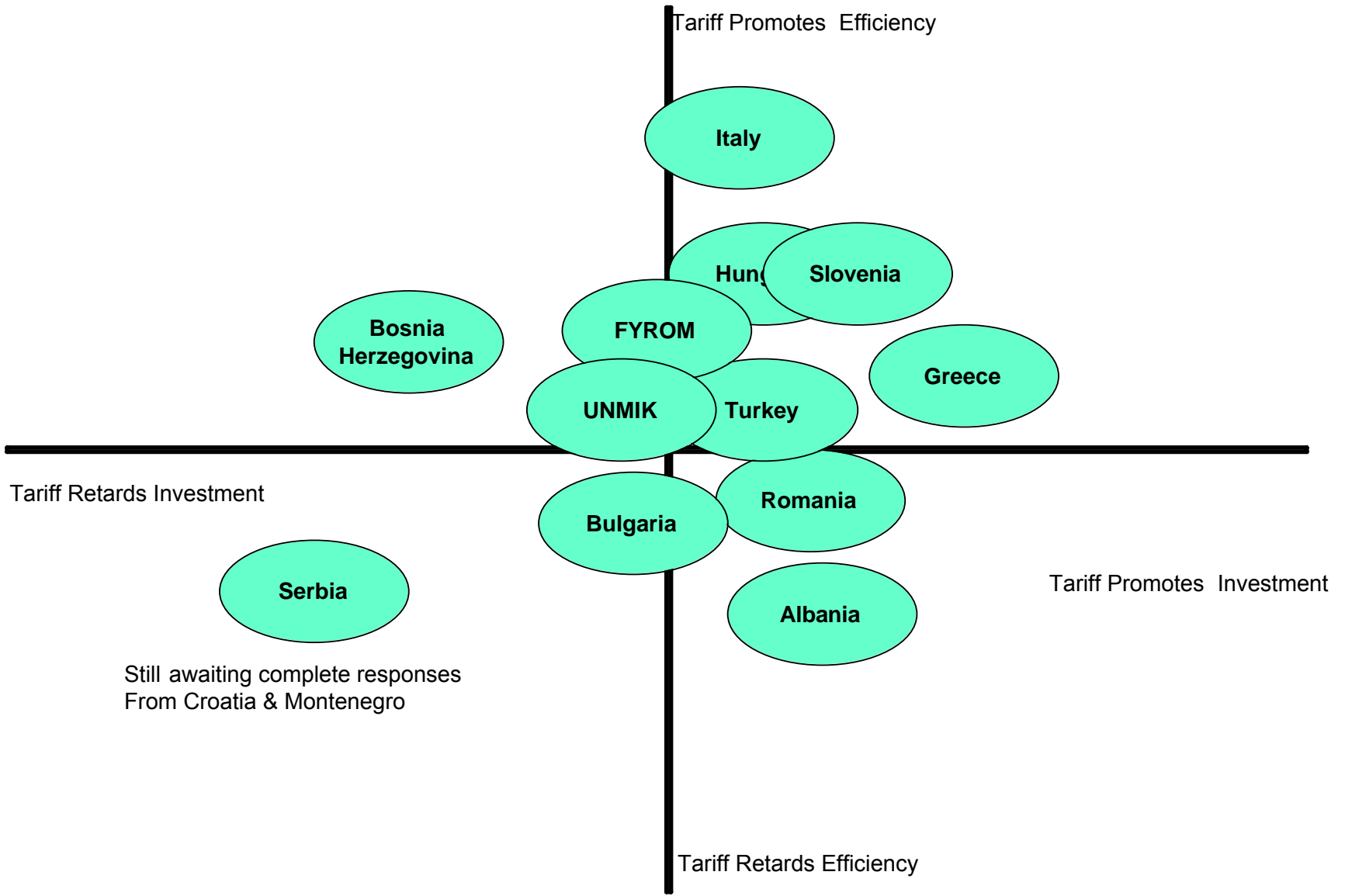




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Current Status of Retail Tariffs for Efficiency and Investment Promotion in TWG Members





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Tariff Structure Influences Investment and Efficiency

- Dribbling and passing (cost recovery with reasonable differentials) goes far to promote both efficiency and investment - fancy tariff structures are secondary to basic cost recovery with reasonable fairness
- High fees will encourage efficiency (low use) but discourage investment in new capacity
- Effort made to unbundle systems must be matched with efforts
 - to improve information flow through metering and operations analysis, and
 - to implement tariffs based on this information.



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Retail Tariff Benchmarking - EU Members

- Neighboring EU members (except Italy) have household tariffs in €80-100/MWh range
 - Italy charges €160/MWh
- Industrial tariffs for large users cluster in €40-55/MWh range
 - Smaller industrial users show far more variation - €55-95/MWh
- Wide range of variation for commercial users - €60-140/MWh



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Retail Tariff Benchmarking - Collections

- Results vary significantly among countries and within customer categories
 - Household collections range from 73% (Albania) to 94-96% Bosnia-Herzegovina & Serbia
 - Industrial collections vary widely as well, ranging from 73% (FYROM) to 98% (Albania)
- EU respondents to questionnaire generally showed collections >95% for all categories



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Retail Tariff Benchmarking - Special Tariffs

- Government entities pay lower rates in Bosnia-Herzegovina, higher in FYROM, and the same everywhere else
- Some protection for low income households - Romania, Turkey only
 - If this is accurate, then some low income consumers face hardship from electricity bills



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Retail Tariff Benchmarking - Taxes and Levies

- VAT is levied universally
- Some countries levy fees for
 - Stranded costs
 - Public broadcasting
 - Municipalities
 - Market operation
 - Renewables



Retail Tariff Benchmarking - Generation Cost Basis

- Generation costs were surveyed for SEE countries
- Hydro generally least costly
 - Low of €7.4/MWh in Albania, up to €40/MWh in Bulgaria
- Coal varies less
 - Ranges from €30/MWh in UNMIK to €61/MWh in Turkey
- Generation prices still administered in most countries



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Retail Tariff Benchmarking - Impacts on Trade & Investment

- Many tariffs kept below full cost recovery
- Difficult to generate investment in sector with low tariffs
 - Investors are wary of situations requiring subsidies
 - Problem of competition with legacy plants
 - Legacy plants become ZPPs (zombie power projects)
 - Stranded cost issues often involve associated mining operations as well
 - ZPPs will often deter investment in IPPs by keeping tariffs low



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Retail Tariff Benchmarking - Impacts on Trade & Investment

- Insufficient distinction between & among customer categories
- Increased trade helps to force retail tariff rationalization - c.f. Hungary & Slovenia



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Retail Tariff Benchmarking - Impacts on Low Income Consumers

- Specific subsidies to low income consumers uncommon
 - Not needed due to overall subsidization of retail customers in many countries
- Lower income levels in SEE countries make full cost tariffs more burdensome than in EU
- Electricity use per household varies far less than does income per household within region and between SEE countries and EU members



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Retail Tariff Benchmarking - Next Steps

- Write up report on findings
- Institutionalize process in TWG
- Improve quality of reporting