



CREG

Experiences on tariff regulation

1. From cost plus regulation to incentive regulation
2. Achievements and key issues
3. Allocation of Congestion revenues
4. Regional initiatives, budget, tariffs

2

1. From cost plus regulation to incentive regulation

2002

- Cost plus regulation from 10/~~1992~~ until 1/1/2008
- Cost plus year tariffs were to cover exactly yearly costs (ex ante & ex post)
- Late publication (end of december) - Yearly fluctuating tariffs – difficult for market actors
- Unsufficient incentives for TSO to improve efficiency cut costs and improve efficiency

3

1. From cost plus to incentive regulation (2)

- Incentive regulation from 1/1/2008 (TSO) and 1/1/2009 (DSO)
- Distinction between controlable and non controlable elements of the income of TSO
- Factor for improving productivity and efficiency
- Higher yield for investment projects denominated as important for the country as a whole or for Europe (regional investment plan)

4

2. Achievements and key issues

TSO grid tariffs (end of use period)	Standard customer 1 Take up in grids 380/220/150 kV		Standard customer 2 Take up in transformation to 70/38/30 kV		Standard customer 3 Take up in grids 70/38/30 kV		Standard customer 4 Take up in transformation to medium voltage (DSO)	
	Value (EUR/MWh)	% In proportion to previous period	Value (EUR/MWh)	% In proportion to previous period	Value (EUR/MWh)	% In proportion to previous period	Value (EUR/MWh)	% In proportion to previous period
2002 January-september	6,4014		9,0838		13,0100		15,7773	
2002 October - december								
2003 January- march	5,1503	-19,54%	6,7534	-25,65%	9,2888	-28,60%	11,532	-26,91%
2003 April-december	4,8239	-6,34%	6,3065	-6,62%	8,6259	-7,14%	10,9897	-4,70%
2004	4,4098	-8,58%	5,8902	-6,86%	8,2113	-4,81%	10,0885	-8,38%
2005	3,8417	-12,88%	5,1782	-12,03%	7,4714	-9,01%	8,7815	-12,76%
2006	3,4357	-10,57%	4,5834	-11,49%	7,0442	-5,72%	8,2754	-5,76%
2007	3,0232	-12,01%	4,1466	-9,53%	6,1883	-12,15%	7,3582	-11,11%
Overall tariff reduction since period (1)		-52,77%		-54,35%		-52,43%		-53,37%

2. Achievements and key issues (2)

- Intense focus on reasonable character of costs
- Norms and criteria for judging the reasonable nature
- Communication of these norms and criteria before the introduction of the tariff proposal by the TSO
- Depreciation period – respect for at arm’s length – purchase of ancillary services cost based
- Embedded financial costs = guaranteed coverage of this cost = no financial risk for the shareholders
- Ratio equity capital/ total capital = 33% (sufficient for A-rating)

3. Allocation of Congestion revenues

- Easy access to capital markets (equity and loans) for all investment projects
- No need to set aside congestion revenues for financing, so entirely allocated to tariffs

4. Regional initiatives, budget, tariffs

- Need for synchronising impact on budget and tariffs (tariff= 4 year in advance and fixed versus new emerging regional initiatives)
- Attention for the allocation of congestion revenues when collected jointly in a region
- Incentive regulation – balance for the TSO – commitment on effort? On result? -Watching progress, feasibility for incentives? (penalties when not realising targets or bonus when reaching them?)

