

REPORT
OF THE YEAR OF 2001 OPERATION OF THE ROA ENERGY REGULATORY
COMMISSION

Introduction

The Energy Regulatory Commission of the Republic of Armenia (hereafter referred to as the Commission) is a regulatory body in the Energy Sector, which operates within the authorities bestowed upon it by the RoA Energy Law.
The Chairman of the Commission, Deputy Chairman and three Commissioners have been appointed by the relevant Decrees of the President of the Republic of Armenia.

Vardan Movsesyan	Chairman
Nikolai Grigoryan	Deputy Chairman
Shiraz Kirakosyan	Commissioner
Robert Kharazyan	Commissioner
Samvel Arabajyan	Commissioner

The Commission performs its activities through the personnel (37 employees), and technical servicing staff (13 employees).

The personnel has the following structural divisions:

- Tariff Policy Department;
- Legal and Licensing Department;
- Department of Monitoring of Licensed Operations;
- Public Relation Department;
- Administrative-Economic Department.

The activities of the Commission's Departments are regulated by the staff manager of the Commission, in compliance with the Law on Civil Service.

Tariff Policy

On the basis of the principles endorsed by the RoA Energy Law, during the year of 2001 the Commission has performed the following activities:

Based on the RoA Law "On Privatization of "Yerevan Distribution Company" CJSC, "Northern Distribution Company" CJSC, "Southern Distribution Company" CJSC and "Central Distribution Company" CJSC, a License form has been corroborated to be issued to the RoA electric energy distribution companies after their privatization, and tariff margin calculation methodology has been established.

Taking into account the deviations from the designed assessments of water flow amounts, lying at the heart of 2000 forecasts, the quotas for transmission of the generated electricity of some small HPPs to the network have been increased for the year of 2000.

Activities have been carried out for setting 2001 and 2002 quotas for small HPPs for transmission of the generated electricity to the network.

Analysis of half year actual maintenance of quotas, established for transmission of the electric energy, generated by small HPPs have been performed for the purpose of making appropriate clarifications in the annual quotas, and discussing the necessity of tariff review.

Tariffs have been set for electric energy transmitted from 9 newly constructed small HPPs.

For the purpose of effective use of the alternative energy resources, as well as for energy safety protection and raise of energy independency, and for attraction of investments, sale tariffs for electric energy transmitted from the wind power plant to be constructed up to January 1, 2005, have been set 5 US cent/kWh, without VAT.

Tariffs for 2001-2002 have been set for centralized heat supply, implemented by heat supply companies during winter period.

Analysis of the reports and information introduced by the licensees have been performed, and on their basis the anticipated balances for electric and thermal energy, and natural gas for the year of 2002 have been developed.

Based on the requirements of the RoA Energy Law, activities have been carried out for establishment (review) of regulated tariffs in the RoA Energy Sector, re-design of its application procedure, and completion of the forms and the list of the required documents.

In the current year it is planned to accomplish the activities on completion of electric energy tariff calculation methodology supplied from small HPPs.

Calculation methodologies of thermal energy and heat carrier metering, proposed by the "Energy Research Institute" CJSC, and normative consumption of electric and thermal energy on the equipment in store and inter project technological substructures, proposed by "Hrazdan TPP" CJSC have been discussed and corroborated.

In the stage of development is the procedure of adoption of a resolution on investigation of investment project development, and on inclusion or rejection of investments (complete or partial) in the future tariffs.

Starting from May 1, 2001 two part tariff system is in force for five big generating and "High Voltage" CJSCs. Investment of two part tariff system has been implemented on the basis of separation of constant and variable costs for electric energy generation, which ensures receipt of stable revenues, as well as contributes to ensuring the availability of the equipment.

The objectives of two-part tariff implementation are as follows:

- a) to ensure compensation of fixed costs (payroll, renovations, etc), regardless of the amount and modes of the generated electric energy;
- b) to ensure compensation of variable costs (fuel, water, chemicals, etc), which directly depends on the amount of the generated energy;

- c) to mitigate the impact of inevitable difference between the actually generated energy amounts and those underlying on the basis of calculation of tariffs on the revenues (losses), received by the generating companies;
- d) to gradually refuse from the disputable practices of establishment of energy generation restrictions (quota);
- e) to raise orderly behavior of dispatch;

The Commission considers it non expedient to implement two-part tariffs for small HPPs.

Two-part tariff is also not applied to the distribution networks for the time being, and they continue to carry out wholesale purchases with one-part tariffs.

Financial-Economic Analysis of Operation of the Energy Sector Economic Entities

Introductory financial report analysis for the year of 2000, and for the first three quarters of 2001 have been carried out in the Commission, on the basis of which assessment and general conclusion of the results of the licensed activities, financial state and financial state changes of the licensed companies have been carried out, at the same time creating the necessary information base for dispatch implementation, which contributes to effective implementation of tariff policy, and effective policy implementation in the sector.

The Energy Sector Licensees' financial operation analysis of the year of 2000 has included the generation, import, export and consumption volumes in the energy sector, financial results of operations, financial flows, operation and fuel specific costs, as well as payroll, obligations with regard to State budget and social security foundation, etc.

In the result of the analyses effectiveness of the Licensed operations, financial state and indicators have been assessed, mechanisms for more justified tariff policy implementation and oversight of the proposed conditions to the Licensees with operation License have been promoted.

For clarification and improvement of the reports related to dispatch, as well as for oversight of the Licensees' operations activities are being carried out for development and implementation of sub-account system, as well as for development of inspection instructions for application of that system, development and implementation of new forms for reports and information, submitted by the Licensees.

Energy system financial rehabilitation concept have been developed connected with implementation of the Wholesale Electricity Market, and general assessment of financial deficit has been given. Implementation of the Wholesale Electricity Market imply a new model of financial flow regulation, which anticipates to make the Wholesale Market financial flows more transparent and eliminate possibilities of external interference. Assessment and classification of system obligations have been carried out, in the result of which the general profile of the system financial deficit has been obtained.

During 2001 the Commission participated in the activities of the Commission, created by the Decree of the RoA President, for the purpose of implementation of a

unified accounting system of payments by the consumers for electric energy, gas and water in the Republic of Armenia, in the first stage of which the implementation of the unified accounting system for payments has already started in the Republic of Armenia.

Licensing And Improvement of the Legal Field

During 2001 the Commission actively participated in the activities of development of the RoA new draft “Energy Law”. As for the Commission, on legal, technical and logical aspects the Law has become more justified, clear and accessible. It was adopted by the RoA National Assembly on March 7, 2001, in the result of which the interrelations between the Commission, State authoritative bodies and the consumers have been clarified, new provisions (particularly, on electricity market activity regulation and further development) have been included, due to necessity of improvement activities in the Energy Sector.

Making adjustments with the requirements of the RoA new Laws, “Energy Law” adopted by the National Assembly, and the “Law on Licensing”, adopted on May 30, 2001, the commission has developed and approved a number of procedures and sample contracts, particularly “Behavioral Rules of the RoA Energy Regulatory Commission”, “The Procedure of Application Receipt and Discussion on Disputable Issues Arising Between the RoA Energy Sector Licensees”, “The Procedure of Preparing and Conducting the RoA Energy Regulatory Commission’s Meetings”, “The Procedure of Registration of the Contracts Signed between the RoA Energy Sector Licensees, and the Electric Energy and Natural Gas Import and Export”, and sample forms of contracts for electric energy sale and purchase in the two-part tariff system, electric energy (wholesale buyer (seller)-distributor) contract and electric energy transmission service (wholesale buyer (seller)-transmitter) contract.

The Commission has also closely cooperated with other State bodies, particularly participated in the activities of development of the RoA draft “Water Code”, introduced by Water State Committee under the RoA Government, and jointly with the RoA Ministry of Environment discussed and solved the issues related to water use permit terms provided to the economic entities by the Ministry.

88 operation contracts have been registered, signed between the Licensees.

The new licensing procedure in the RoA Energy Sector, and procedure of introducing financial guarantees for issuing a license for construction and refurbishment of production capacities in the RoA Energy Sector have been developed, and soon will be approved. The latter will significantly simplify the licensing process of economic entities, performing activities in the Energy Sector.

During 2001 31 operation Licenses have been issued, of which:

- for construction of small HPPs – 9;
- for electric energy generation – 5
- for thermal energy generation – 4
- for thermal energy transmission – 4
- for thermal energy distribution – 6

➤ for electric energy export –3

Besides effective periods for 6 licenses have been extended.

The Licensees have transferred to the RoA State budget 750 thousand AMD state duty.

Monitoring of Licensed Activity

During 2001, on the assumption of the requirements of the RoA new Law, temporary rules of electric and thermal energy and natural gas supply and use have been complemented and approved, which raise the protectability of the consumers and the responsibility of the companies, supplying energy and natural gas.

In the sample contracts signed between the Energy Sector licensed entities, as well as suppliers and consumers, the payment procedures for the provided services and supplied energy and natural gas have been adjusted with the requirements of the RoA “Energy Law”, and with the Wholesale Electricity Market rules, to be implemented in the near future.

Monitoring of technical-economic feasibility and projects of 11 applications for thermal energy generation, distribution and transmission activity licensing have been conducted.

Investigation of heat supply system present situation and development prospects of the city of Yerevan have been performed, in the result of which practical recommendations have been made for raising the effectiveness of the system operation.

Applications have been investigated for electric energy generation of 5 small HPPs, constructed with the formerly issued licenses (with 2,5 megawatt total capacity and 16 mln. kWh electric energy annual production), and for issuing construction licenses for 6 new small HPPs (with 18,4 megawatt capacity and about 76 mln. kWh electric energy annual production), on elimination of the existing shortcomings of which the Applicants have been provided with corresponding recommendations.

Jointly with the RoA Lori regional municipality (marz) small hydro energy development project of the region have been developed. From the investors’ perspective, to make it more attractive, and based on the necessity to construct small HPPs on high water level rivers and water pipelines of the region, it has been proposed to compile a construction and operation complete package of documents for each of them (without address and personification), and recommendations for organizing and conducting a tender for project implementation.

“Gas Supply and Gasification Procedure” have been developed and approved, in which the functions of gas supply companies have been clarified. Taking into account the complicated financial state of the company, the consumers have been provided with the opportunity to display own initiative: for implementation of activities, their financial means shall be partially included,

which, later will be returned with the corresponding reduction of payments for the consumed natural gas.

In compliance with the RoA “Energy Law”, “Electric Energy Loss Calculation Methodology in 110 kV and High Voltage Networks” have been discussed and approved. In the current year it is anticipated to develop and approve calculation methodologies of inevitable technological losses, fuel specific costs, normative costs for electric energy and natural gas, used for own and economic needs, which rise during implementation of activities of the Energy Sector Licensees. Implementation of the mentioned activities will provide the opportunity to take as a basis more accurate and justified initial quantities in the calculation of tariffs.

Improvements of the Electric System Structure and Implementation of the Wholesale Electricity Market

Assuming as a basis the requirements of the RoA “Energy Law” and for the purpose of maintenance of the RoA Energy Sector, further development, raise of effectiveness of activities of the companies, privatization, attraction of investments, ensuring reliable and secure energy supply, and gradual development of competitive market in the energy production area, the commission has developed the concept of Wholesale Electricity Market and implementation timetable. In the result the Commission adopted Resolutions “On Improvement of the RoA Wholesale Electricity Market Structure” and “On Approving the Structure and Functions of the RoA Wholesale Electricity Market”.

The objectives of improvements of the functioning electricity market structure are as follows:

- Ensuring coordinated and joint activities of the economic entities, involved in the Energy Sector activities;
- Gradual development of competition in the area, which will stimulate electric energy generation structure, optimization of the consumption modes and reduction of costs, and will ensure formation of tariffs, reflecting electric energy generation economic cost;
- Along with the development of competitive market gradual restriction of regulatory frameworks;
- Creation of prerequisites for prospective integration with regional electricity market.

The Wholesale Electricity Market is anticipated to found since July of 2002. Its objectives are as follows:

- transparency of market members activities, particularly, commercial activities;
- raise of self-dependence of the companies in financial flow management in the electricity system;

- clarification of direct financial responsibilities between electric energy wholesale buyers and sellers;
- strengthening of discipline of payments for the purchased electric energy and provided services;
- financial stability of the Energy Sector companies, which will create prerequisites for their privatization and attraction of investments;
- ensuring of the established level of the energy system reliability and safety;
- effective oversight of license conditions and electricity market activities by the Commission, balancing of interests of the market members and the consumers.

The Wholesale Electricity Market will function by the following main principles.

- all market members (electric energy generators, transmitters and distributors) sign a united (common) mandatory contract, which define market members' rights and responsibilities;
- the united mandatory contract, signed between market members is the only contract of the electric energy and capacity sale and purchase for the RoA internal market needs;
- electric energy export, import and swap (parallel activity) contracts are signed by the organization, authorized by the market members and licensed by the RoA Energy Regulatory Commission, in compliance with the established procedure by the united contract and other market rules;
- electric energy generation, transmission, distribution, importing and exporting companies sign centralized service provision contracts to the market with the appropriate organizations, that have been issued a License by the Commission;
- Wholesale Electricity Market management and planning shall be implemented by market rules, developed with participation of market members and approved by the RoA Energy Regulatory Commission.
- financial flow management shall be implemented by algorithm and procedures, endorsed by market rules and contract, through special bank (market banker), without any external interference.

At present, documents necessary for implementation of the Wholesale Electricity Market are in the process of development.

Work with the General Public and the Consumers

The Commission ensures the principle of regulation transparency, endorsed by the RoA “Energy Law”. The Resolutions and normative acts of the Commission are published in the “Reference Book of the RoA Ministerial Acts”.

In April of 2001, report of the Commission’s activities for the year of 2000 was published in the newspaper “The Republic of Armenia”, and in October, in the RoA National Assembly - 2002 activity program.

The Chairman of the Commission, members, staff management specialists have continuously informed the general public on the issues of public interest in the area, and introduced the opinions of the specialists on them (8 notices, 17 other publications). In their speeches on the National Radio program “Tema Plus”, and on public and private television the Chairman of the Commission, commissioners and staff specialists have disseminated the peculiarities of the necessity distribution network privatization, spoken on restoration of the former volumes of natural gas supply, problems of heat supply for residential sector, tariff policy and other issues (about 10 radio programs), in the mass media and during meetings with non government organizations necessary clarifications have been provided both for the above mentioned issues, as well as on newly adopted electric, and thermal energy and natural gas supply and use rules (ESUR, TSUR, GSUR) and gas supply restoration. Commissioners and the staff, during the meetings acquainted the consumers with their rights, provisions of the RoA new “Energy Law” and the legal acts resulting from them. The regulatory signifies the activities performed in the direction of protection of the rights of the consumers, during implementation of which closely cooperates with the “Consumers’ Union” non governmental organization.

Appropriate clarifications have been provided to the consumers concerns, written complaints and inquiries, connected with supplier-consumer interrelationships. Disputable issues, with participation of the parties have been discussed in the Commission and received appropriate solution.

During 2001, 136 written and oral complaints (by telephone) have been received, of which 120 from the population, and the 16 from legal entities.

Greater part of the complaints have been connected with installation of additional electric energy consumption metering devices, their replacement, infringements of metering procedure, ensuring transparency of the metering devices, and other issues.

The complaints in the gas supply area mainly concern the infringements of gas supply restoration procedure.

Cooperation with International Organizations

The Commission, substantiating the necessity of investigation of the best international experience, cooperates with international organizations and with the regulatory commissions of a number of countries.

The Commission, starting from 1997 is a member of Association of regulatory bodies of Central/Eastern Europe and Eurasia member-countries, and since December, 2000, is a member of regional Association of regulatory bodies,

created by regulatory bodies of the above mentioned countries. Within the frameworks of that Association two permanent Committees are functioning- license and tariff Committees, and the Chairman of the latter is the representative from Armenia. Within the framework of activities of the regional regulatory Association, during 2001 3 sessions of the Tariff Committee have taken place, and two meetings of the presidium, in which, as the Chairman of the Committee and member of the presidium the representative from Armenia have participated.

Within the frameworks of activities of the Tariff Committee in 2001, subjects of great importance for the countries of the region have been discussed: differentiated tariffs in the electric energy wholesale and retail markets, separation of electric and thermal energy costs in the combined cycle generation utilities, energy sphere structure and monopolized service tariffs.

The above mentioned subjects and another 13, developed during the previous years found their application in the processes of the RoA Energy Sector development and regulation, as well as in the establishment of electricity market rules.

In December 2001, in Sofia, annual meeting of the regional Association of regulatory bodies took place, where the activities of 2001 have been summarized, and the program of 2002 activities have been introduced.

In the reporting year cooperation with the commission of public services of the State of Kentucky, USA, has continued. The specialists of the Commission, for the purpose of raising their qualification, in 2001 participated in the seminars organized by the above mentioned commission on management audit, market implementation, raising of the educational level of the consumers, protection of their rights and other issues.

In 2001, the Commission participated in the discussions of programs and development of new programs, implemented by the USAID, TACIS, UNDP projects. Taking into account the prospects of introduction of new energy technologies (wind, solar, and economic and residential waste burning), the Committee is working with the foreign partners to investigate and consider the peculiarities of price formation and legal field in those areas.

In the regulatory sphere, within the framework of technical assistance to Armenia, as part of investigation of experience of European countries, and with the purpose of inclusion of issues of the regulatory areas, a cooperation project with TACIS has been developed. As members of management council of the World Bank project “Development of Heat Supply Policy”, members of the Commission took part in the activities of the council, as well as of the working groups and tender commission.

Members of the Commission took part in “Wind Energy-2001” convention, and in two-week deductive trip, organized in the USA.