



Energy Regulators Regional Association (ERRA)

Public Service Regulatory Commission (PSRC)

Critical analysis and recommendations for optimizing the process of connecting new consumers to the power distribution networks in the Republic of Armenia

**prepared by Igor Zakharov
in the frame of ERRA Ad-hoc consultancy project**

Executive Summary

The current report analyses findings and provides recommendations with respect to the improvement of the procedure for connection of new customers (as well as, the modification of connection conditions of existing customers) to the electric power distribution networks in the Republic of Armenia.

The report is prepared for the Public Services Regulatory Commission of the Republic of Armenia (PSRC RA) and the Energy Regulators Regional Association (ERRA) in June 2016 in the framework of the ERRA Ad Hoc Consultancy Project.

The main text of the report is drafted in the Russian language.

Study Objectives

The report studies the possibilities for optimisation of the procedure for connecting new customers (or modifying connection conditions of the existing customers) to the electricity distribution network in the Republic of Armenia

Within the context of the study, the optimisation is understood as reduction of time delay for connecting new consumers to the distribution grid using various measures leading to the shortening of the overall process duration and improvement of its quality indicators, such as decrease in the number of complaints and improvement of the rating of the Getting Electricity indicator in the World Bank's annual publication Doing Business that compares performance of 189 countries (2016).

To achieve the objectives of the study, legal, regulatory and operational aspects of the new customer connection process in Armenia were analysed and compared to international best practices.

Analysis of Legal Aspects

Analysis of legal aspects revealed insufficiencies in assuring the legal right of access of the operator to areas in private and public property for conduct of works related to extension of electricity supply or ensuring its correct and safe functioning.

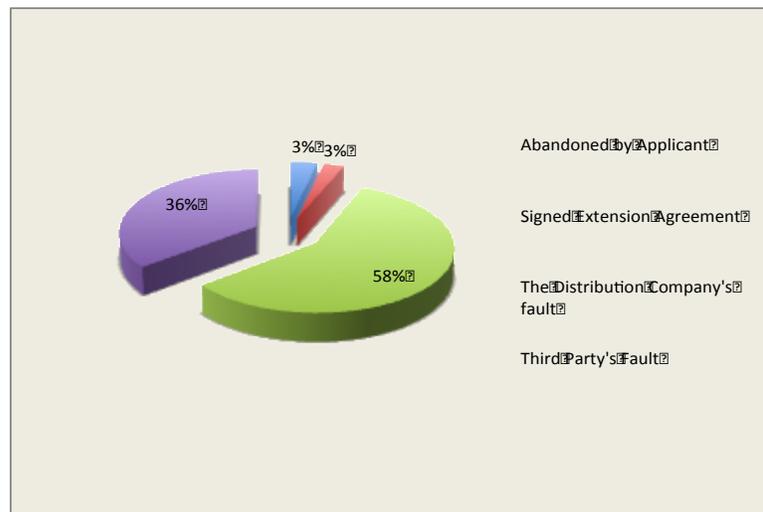
In international practice such issues are related to the notion of “right of way”, “easement” or “servitude”. Their treatment was developing historically over a long period of time, whereas Armenia did not have sufficient time for their elaboration and incorporation in the national legal framework.

Nevertheless, lack of clarity in the treatment of the issue of access to such areas to provide public service adversely impacts the existing practice of connecting new customers to electricity distribution network in Armenia. No doubt, this also affects other types of public service provided through network infrastructure.

Analysis of Operational Aspects

Quantitative analysis of historical connection data in Armenia indicates that problems exist mostly at the level of the operating company and in situations requiring authorisation of municipal authorities.

Analysis of problem cases with new connection to distribution grid in 2014, 2015, and the first quarter of 2016.



From the viewpoint of the Armenian distributor, issues that most often hinder connection of new customers to the distribution network are related to the following:

- Securing a plot of land for construction of transformer stations, in particular for connection of new multi-apartment or multiple purpose buildings in the City of Yerevan.
- Agreeing the routing or tracing of electrical network extensions with municipal authorities.
- Unbalanced level of responsibility between the network operator and the developers leading to situations when the latter does not incur any penalties for delaying construction and commissioning, or abandoning the project, while the former has an obligation to perform design and commence construction of extensions upon receiving any developer's application.
- High costs of new connections that are not recovered through connection fees, which are out of date.

At the same time, analysis of the connection procedure within the operating company Electrical Networks of Armenia (ENA) reveals problem areas due to insufficient development of the procedure, established by Order N° 322-L dated 13 December 2012.

However, recently, the Electrical Networks of Armenia submitted to the PSRC its proposals for improving the process of connection of new customers. The proposed modifications include reduction of internal steps within the company, as well, as, the introduction of parallel processes for functions that so far have been performed sequentially.

Another innovation concerns introduction of a two-steps process with a single contract for design/construction and connection phases with an open date for moving from the first to the second phase and introduction of an advance payment by the applicant between the two phases. With a two-steps approach the applicant would not sign the construction contract but rather an acceptance act for connection conditions and pay an advance amount, as this is most often done in other countries.

The suggested approach will have a positive impact in the sense that it will force the applicants to think twice about their respective applications for connection and avoid placing one if the development project is not ready or might be abandoned, because it eliminates the possibility for transferring the risk of such adverse development to the network operator.

Guiding Principles for the Connection Procedure

In the international practice the procedures for connection of new customer are elaborated so that they would not:

- Discriminate,
- Lead to abuse,
- Contain unjustified restrictions,
- Compromise the network safety, reliability and quality of supply service.

In order to put in place an optimal procedure, several process participants must cooperate and coordinate their efforts. In particular, the following stakeholders must aim to meet the following goals:

Electrical Networks of Armenia:

- 1) To shorten to the maximum its internal processes, and,
- 2) To improve to the maximum its customer care.

The PSRC:

- 1) To facilitate creation of enabling conditions for accelerated issuance of authorisations, non-objections, agreements and provision of compliance conditions required for new connections.

- 2) While using the principle of relationship of trust with the operator, to establish a system of rigorous oversight for the process of new connections using a more detailed statistical analysis of deviation from the norm.

Recommendations of the current report with respect to optimisation of the procedure for new customers connection take into consideration the above principles.

Recommendations for Optimisation of the Connection Procedure in Armenia

In the same way as the analysis, the recommendations cover two areas: (1) legal area that includes the issues that need to be resolved at the level of the national legislation, and, (2) regulatory and operational area, for which the issues can be resolved between the network operator and the regulatory authority.

The issue of the legal area have a more long-term impact both for the electricity distribution sector and other public services that are provided via network infrastructures.

Recommendations and proposals for their implementation are elaborated in Chapter 5 of the main report, and summarised below:

1. Assure legal right of access of the operator to areas in private and public property for conduct of works related to provision of electricity supply.
2. Introduce in the national legislation the rules for agreeing the tracing of distribution network extensions between the operator and territorial authorities.
3. Find a solution for the issue of mandatory provision of a land plot for construction of transformer stations, in particular for connection of new multi-apartment or multiple purpose buildings in the City of Yerevan.
4. Improve the operators' procedure for processing applications for new connections conformant to the proposals put forward by the "Electrical Networks of Armenia" based on introduction of a two-steps process with a single contract for design/construction and connection phases with an open date for moving from the first phase to the second one and introduction of an advance payment by the applicant between the two phases.
5. Ensure adequate reimbursement of the operator's costs related to the provision of new connections by updating the existing standard cost estimates and the recalculating the connection fees accordingly.
6. Introduce a responsibility for the developers for delaying construction and commissioning of their development projects, or abandoning the project and introduction of advance payment for ordering a connection.
7. Deepen analysis of reasons for applicants' complaints about violation of the connection procedure with introduction of classification by reasons for complaint.