

Tariff Setting Methods Best Practice

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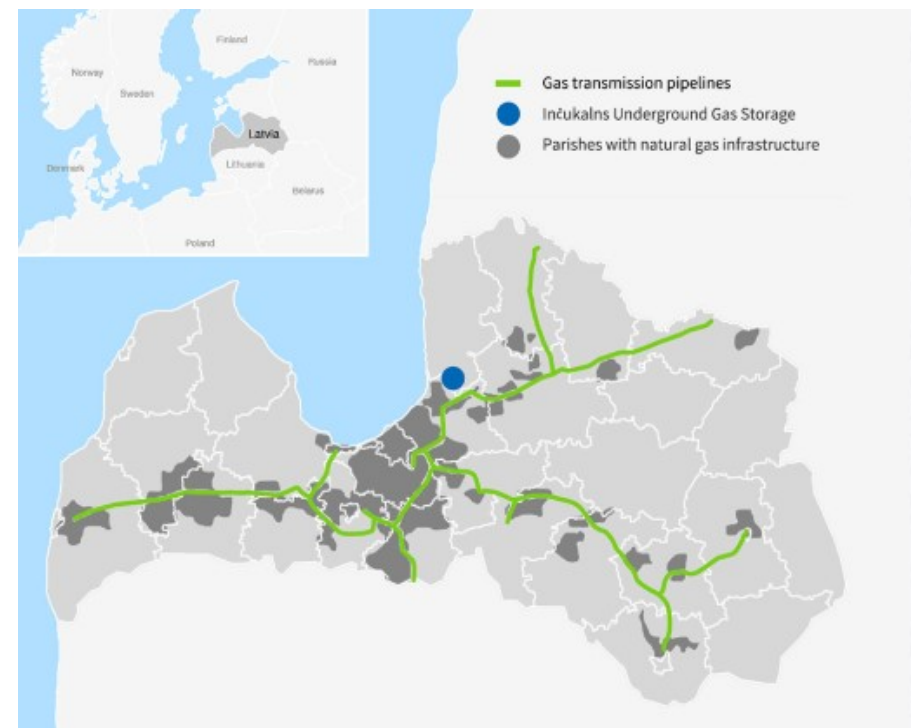
Basic Information - electricity TSO

- One electricity TSO operator JSC «Augstsprieguma tīkls»
- State owned company:
 - Annual turnover – 94,5 milj.Eur;
 - Electricity consumption – 6 TWh.
- Tariff approval process - Revenue Cap.



Basic Information - NG TSO

- One NG TSO JSC «Conexus Baltic Grid»
- State own majority part (31% private investors):
 - Annual turnover – 38 milj.Eur;
 - LV NG consumption – 8,8 TWh.
- Tariff approval process – Revenue Cap (NC TAR).



Basic Information - electricity DSO



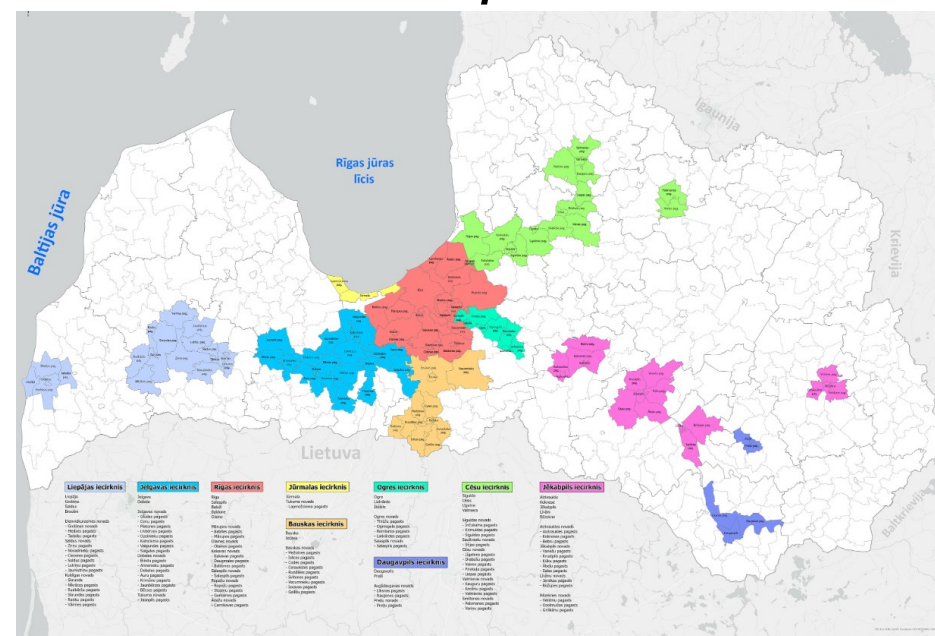
DSO Operators:

- *10 DSO operators – only one have more than 100 000 users. Second larger DSO have 5000 users;*
- *Largest DSO is state owned:*
 - *Annual turnover – 361 milj.Eur;*
- *Tariff Setting Methods- Revenue cap.*

Basic Information - NG DSO

DSO Operator - JSC Gasos:

- *One DSO operator – private owned (EE investors):*
 - *Annual turnover – 54 milj.Eur;*
- *Tariff Setting Methods- Revenue cap.*



Determining the CAPEX

Capex Determination:

- *Rate of Return – Each year set wacc – for 2026 planned real wacc 5,9%;*
- *RAB Determination;*
 - *Investments included post factum;*
 - *“work in progress” – not included in the tariff, exceptions related to a project of common interest, if such support is requested.*

Determining the CAPEX

- *After RP are capex correction in connection to actual RAB size, no changes in the applicable wacc;*
- *No more RAB revaluation after 31.december 2021;*
- *The straight-line depreciation method is used to calculate depreciation.*

Determining the CAPEX

In the RAB value does not include:

- *financial investments and accounts receivable;*
- *securities and equity participations;*
- *cash and inventories;*
- *the costs of creating fixed assets;*
- *the costs of creating intangible investments, as well as the portion of asset value financed by financial assistance or financial support from the state, municipality, foreign countries, the European Union, other international organizations and institutions,*
- *fixed assets or the portion of their value acquired for a fee (connection fee)*
- *RAB does not include changes in the value resulting from the revaluation of assets or the portion of their value created with the funds of other parties.*
- *RAB corresponds to the value of capital attracted for the provision of long-term services (equity and long-term loans).*

Determining the Opex

- *Deep Opex evaluation;*
- *not set directly in methodology which expenses are controllable and which are not controllable;*
- *In Regulatory account are counted:*
 - *Revenue deviation;*
 - *System loss expenses – electricity and natural gas price difference;*
 - *Inflation and salary index deviation;*
 - *other SO operator expense change – Electricity side;*
 - *Electricity TSO – ancillary expense deviation.*

Determining of the OPEX

- *For next regulatory period Opex is set based on the next year budget and for other regulatory years are used inflation and salary index;*
- *according to methodology all expenses are included in tariff which are related to efficiency system use.*

Quality / Output Regulation;

- *this Regulatory framework not use now.*

Efficiency Calculated:

- *SO calculate the efficiency target for next Regulator period. Efficiency is set on the Totex (not on tax).*
- *new approach is in the process – Efficiency target is set as 50% of next year inflation rate. Min 0 and max value 1,5%.*

Tariff Setting Principle- overall information

- *Regulatory period is set from 1 till 5 years. SO choice:*
 - *ELE - TSO – 2 years and 6 months and DSO – 4 years and 6 months;*
 - *NG – TSO 2 year and 10 months and DSO – 3 years planed.*
- *Network tariffs ELE:*
 - *TSO – 80% fix tariff part and 20% variable tariff part;*
 - *DSO – 51% fix tariff part and 49% variable tariff part.*
- *Network tariffs NG:*
 - *TSO – only variable part to end users;*
 - *DSO – 51% fix tariff part and 49% variable tariff part.*

Tariff Setting Principle- overall information



- *Tariff differentiation in electricity:*
 - *no time of use tariff.*
 - *Tariff for producer according to EU minimum regulation.*
 - *Different tariffs for DSO. All tariffs are based on individual DSO costs;*
- *Tariff differentiation in NG:*
 - *plann to set tariff for biomethane users- cost based;*
 - *Tariff for sezonal users.*



**THANK YOU
FOR YOUR ATTENTION!**

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Topic description

as per 2024-2026 workplan

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This roundtable discussion centers on various tariff setting methods, including the Revenue approach, Totex approach, and Incentive Price Regulation, with a focus on identifying best practices from member countries. Participants will explore fundamental topics related to tariff setting approaches, such as methodologies, principles, and regulatory frameworks. Key considerations will include efficiency, fairness, transparency, and alignment with regulatory objectives. Discussions will center on practical challenges, innovative solutions, and emerging trends in tariff regulation, ultimately contributing to more effective and sustainable tariff setting practices across member countries.