Tariff Setting Methods
Best Practice

Roundtable Discussion input by N.Macedonia
Energy regulatory commission

ERRA EMER & GF COM Joint Meeting
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Topic description
as per 2024-2026 workplan

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.

Basic Information on TSO

TSO Operators:

- *There is one TSO in the country;*
- *The TSO is owned by the Ministry of energy;*
- *The tariff setting method is incentive based - revenue cap;*

Basic Information on DSO

DSO Operators:

- *There are three small DSO operators;*
- *DSOs ownership:*
  - *two are municipalities owned*
  - *one is state owned*
- *Tariff Setting Methods is incentive based - revenue cap;*

Determining the Costs Covered by the Tariff

Capex Determination:

- *Rate of Return;*
- *RAB Determination:*
  - *On a yearly basis, average from RABstart and RABend*
  - *New, planned and justified investments are approved, and included in the RAB;*
  - *If the investment is a multi year process usually it is approved at the final year;*
  - *when the new assets is put in use and enters into the company's assets base and bookkeeping records*

Determining the Costs Covered by the Tariff

Opex Determination:

Justified operating costs for company operations and maintenance of regulated assets. A comparison is made with the historical costs, other similar regulated companies, and the need of the cost.

Scope:

- *Materials, energy, spare parts, and small inventory*
- *Maintenance costs*
- *Asset insurance costs*
- *Salaries*
- *Management salaries and bonuses*
- *Costs for other services*
- *Remaining costs*

The base year is the year that falls two years before the first year of the regulated period (t-2).

Incentives

Quality / Output Regulation;

- *No quality indicators are included in the methodology;*
- *Losses are capped for the gas TSO at 0,5% and for the DSOs at 0,7%;*

Efficiency Calculated:

- *No specific method for efficiency calculation but the OPEX and CAPEX are set based on historical trends*

Tariff Setting Priciple

- *The Length of the Regulatory period is one year for the TSO and three years for the DSOs;*
- *The one year period is set due to the transitional period for the newly formed TSO and two companies merger. Prior it was five year;*
- *Network Tariffs for the TSO are Variable and Capacity-based, but the use of the capacity has been prolonged a few times due to TSOs not yet being ready;*
- *For the DSOs, each has its own tariff that is variable/volume only;*

THANK YOU
FOR YOUR ATTENTION!

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