



Electricity tariff setting

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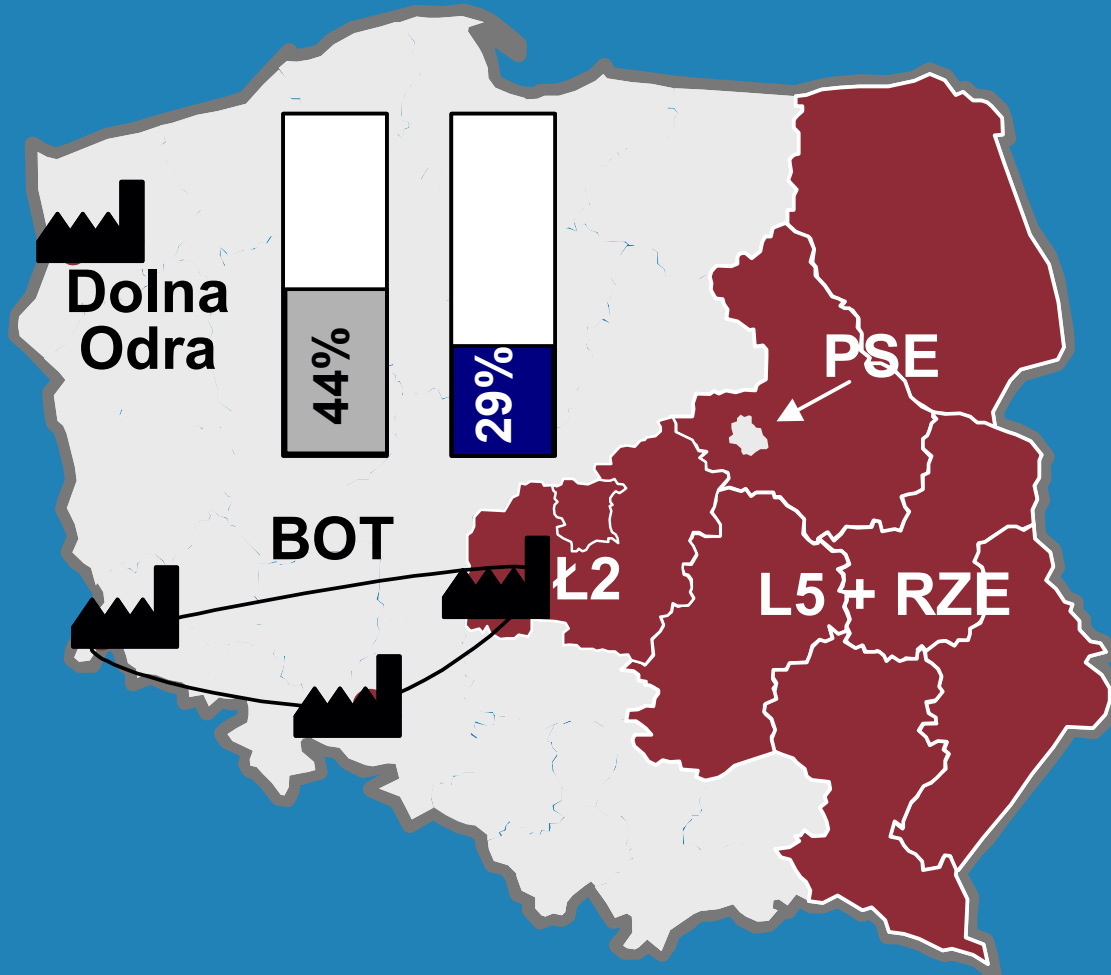
The current state - Poland

- **Fast growing economy -> increase of electricity demand ~3% per year (35% in 10 years)**
- **Aging generating capacity – more than 40% older than 30 year – 70% older than 20 years**
- **Continuing increase of electricity prices and network charges limited by 3% price cap**
- **Little economic signals for investment**

Program for the electricity supply industry

- **Consolidation in four main vertically integrated group**
- **Polish Energy Group – the leader and state security assets**
- **TSO was separated from the PSE and became 100% state owned company from 1 January 2007**
- **Unbundling of DSOs with distribution assets**
- **New Energy Law**

Polish Energy Group



Energy Law

- **Energy Law was introduced in 1997**
- **Since this time it has been changed 30 times**
- **Currently Energy Law is vague and difficult to implement**
- **New proposal before 2008**
- **New system of tariff and charges setting**

The current tariff approval system

- **An energy entity has to submit tariffs for approval to Regulator**
- **Tariffs should be analysed and approved in a short period of time**
- **When a tariff is approved an energy entity is not responsible for „inadequate” tariff calculation**
- **Asymmetry of information**
- **Large chances to win the appeal to the court**

A new proposal

- **If the current system does not work – find a new one**
- **The main idea is to base the tariff calculation and audit system on the tax system**
- **Tax system are crucial of the operation of the modern states**
- **If the tax system works – the similar method of electricity tariffs should also operate**

Main principles (1)

- **Each company calculates its tariffs and charges**
- **Before the tariff introduction the company informs Regulator**
 - **One month before when tariffs decrease**
 - **Three months before when tariffs increase**
- **After receiving the information the Regulator can take the action or leave the information as it is**

Main principles (2)

- **If Regulator does not take any action tariffs are implemented but it can decide on the audit in 5 years after the tariff introduction**
- **Regulator can also stop tariffs introduction for six months starting the audit immediately**
- **The adequate penalties for inadequate tariff calculation are a part of the tariff system**
- **Precise cost accounting should be associated with the tariff system**