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DSO – tariffs

Current issues in Finland

NordREG seminar on DSO tariffs in the Nordic countries

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Reilua energiaa





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Presentation outline

- Electricity DSO tariffs in Finland – overview
- Proposed cap on network tariff raises

Electricity distribution regulation in Finland



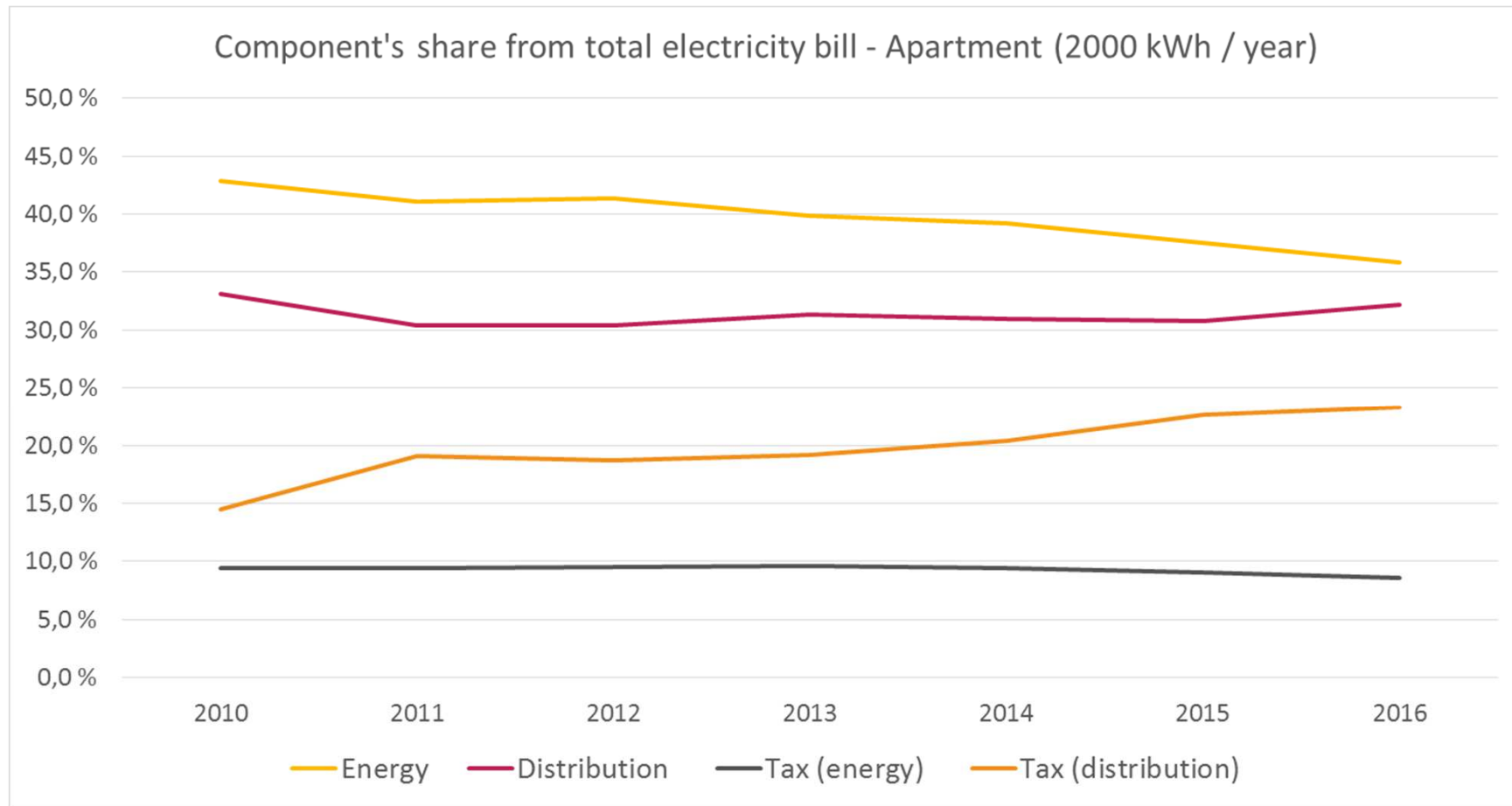
- Energy Authority (EA) regulates reasonableness of pricing (turnover) in 4 year regulatory periods
 - Revenue cap model
 - EA has confirmed regulation methods for years 2016 – 2019 and 2020 - 2023
 - After the ongoing regulatory period (2016 – 2019) EA will make calculations and give decision on reasonableness of DSOs pricing
- Reasonable (WACC) return calculated for network capital by EA
- Regulation methods include incentives for DSOs:
 - Efficiency incentive
 - Innovation incentive
 - Investment incentive
 - Quality incentive
 - Security of Supply incentive



DSO tariff setting - legislation

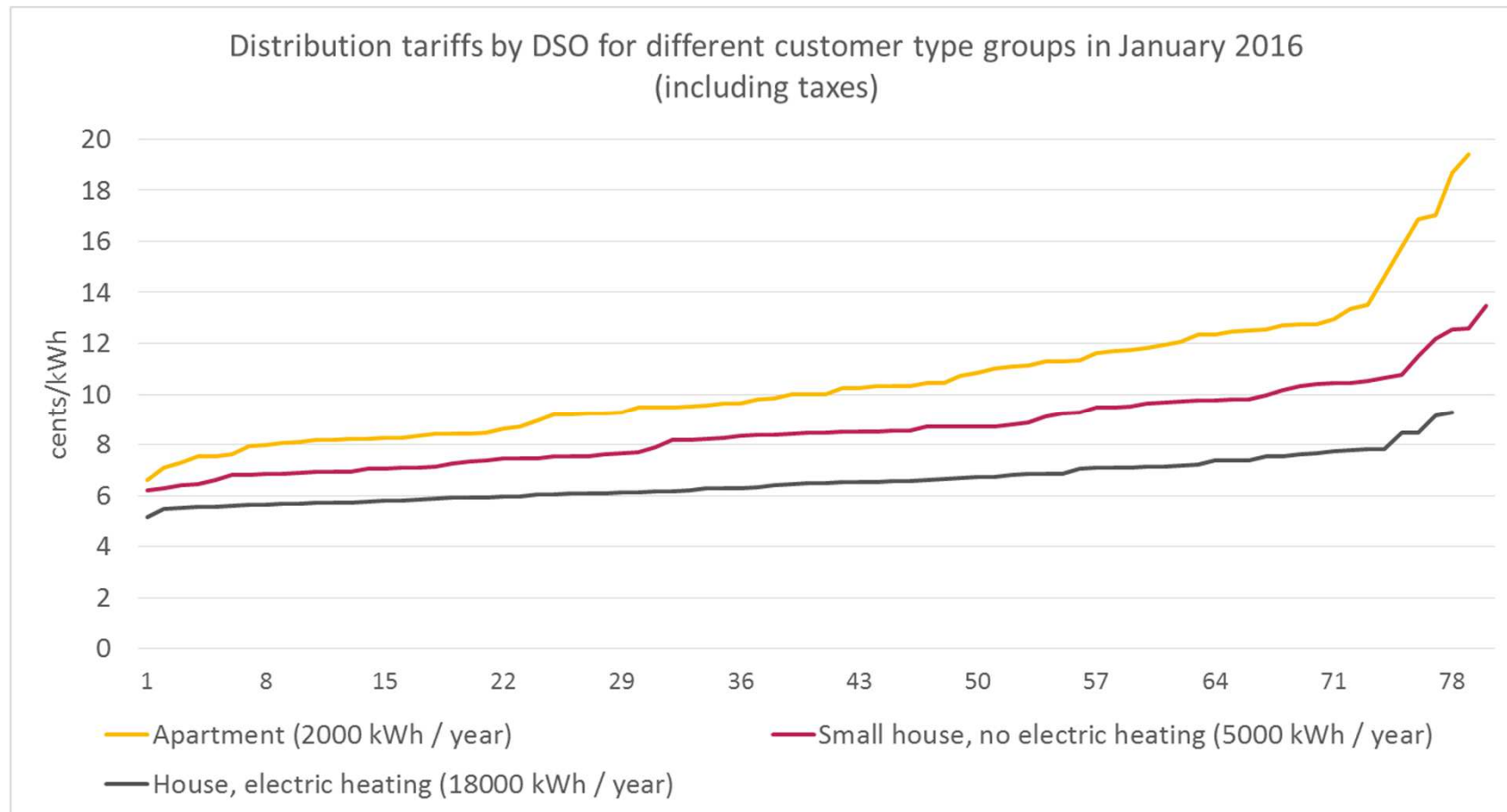
- DSOs set their tariffs independently
- Tariff setting guided by Electricity Market Act (588/2013, 24§)
 - Tariffs must be set in impartial and non-discriminatory way
 - Tariffs must be presented to consumers in a clear and understandable way
 - Tariff setting shall not prevent competition in electricity markets
 - Tariff setting shall not prevent energy efficiency measures
 - Tariff setting shall not prevent demand elasticity measures
- DSO shall provide the users of its network services according to their needs (588/2013, 54§)
- Tariffs should also be cost reflective

Components of retail electricity price – development in 2010 - 2016





DSO tariffs – variation between DSOs



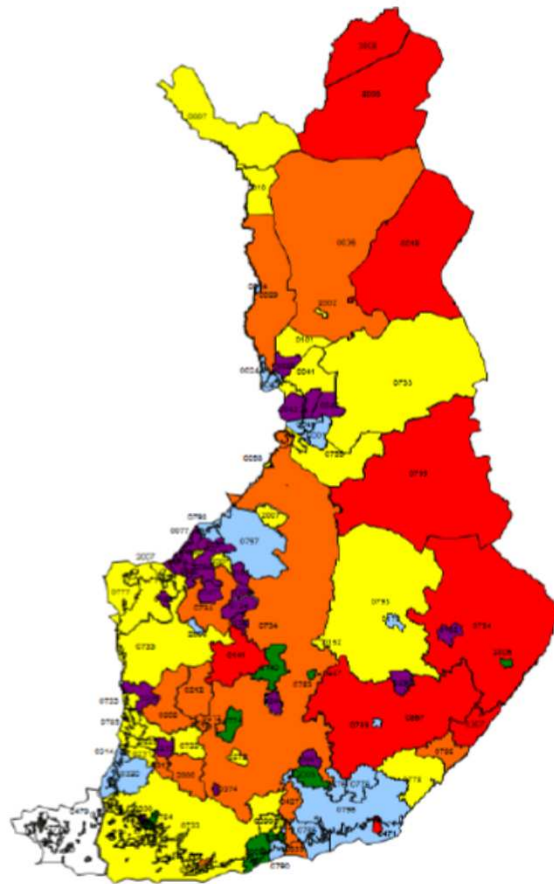


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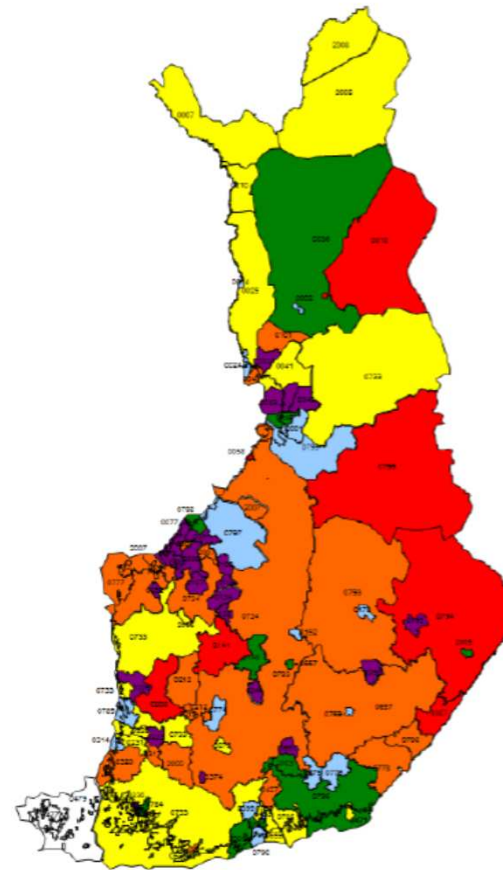
DSO tariffs – variation between DSOs

Apartment (2000 kWh/year)

House, electric heating (18000 kWh/year)



yli 250 €/vuosi	250 – 200 €/vuosi	250 – 200 €/vuosi	250 – 200 €/vuosi	alle 100 €/vuosi	ei dataa
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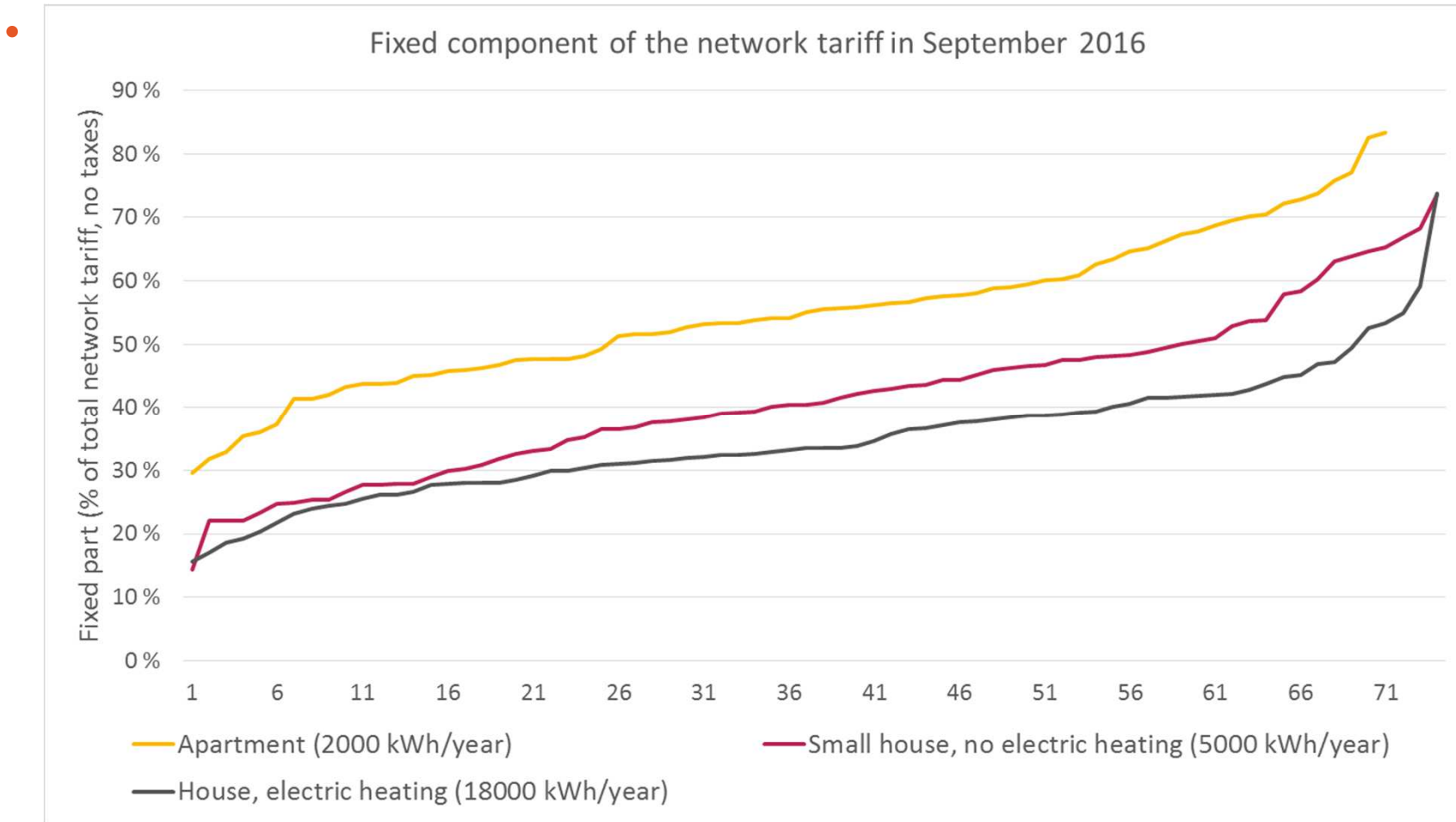


yli 850 €/vuosi	850 – 750 €/vuosi	750 – 650 €/vuosi	650 – 550 €/vuosi	alle 550 €/vuosi	ei dataa
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Source: J. Silventoinen
2016, LUT



Fixed component of network tariff



Current issues regarding tariffs (fixed and energy components)



- Tariff setting varies a lot among DSOs
 - The average share of fixed component has increased in recent years
 - Currently no power based tariffs for small customers
- Tariff structures and power based tariff currently discussed in a working group
 - Representatives from network industry, academics and EA
- No exact regulations on how the DSO should allocate costs on fixed and variable components of network tariff
- Regarding tariff setting Energy Authority's task is to ensure that law is followed

Raise cap - Background

- In January 2016 the largest electricity DSO in Finland (Caruna) announced it will raise distribution tariffs starting 1.3.2016
 - Average raise 27% (price after taxes)
- Lots of public discussion on size of the raises
- Lots of dissatisfied customers contacting Energy Authority (EA)
 - However, EA is not authorized to investigate reasonableness of individual price increases
 - A matter of Judicatures and Consumer Authority
- Consumer Authority negotiated with Caruna, agreement was found 18.2.2016
 - Fixed part of tariff cut by 25% until 2/2017
 - Total increases diminished – average increase now less than 15%
 - Class action lawsuit avoided

Raise cap - Background

- The Consumer Disputes Board made its decision on 1.4.2016
 - Raises of less than 15% generally reasonable
 - Raises more than 15% reasonable also if annually less than 150 euros
- EA investigated if tariffs have been raised according to Electricity Market Act
 - Customers were informed of raises in appropriate way
 - Raises were made in equal and non-discriminatory way within customer groups
- EA regulates reasonableness of pricing (turnover) in 4 year regulatory periods

Amendments to legislation – EA:s proposals



- Ministry of Economic affairs and Employment also took interest on the case
 - Minister announced that law should prevent extraordinary price raises
 - Minister asked EA to give proposals how the law could be amended
- EA gave 2 proposals to the Ministry (7.3.2016):
 1. Maximum % - cap for tariff raises within a time period
 - However, the regulation methods have to be taken into account. The cap should not affect the calculation of regulatory return
 - Reasonableness of pricing (turnover) would still be confirmed for regulatory periods
 2. Ensure that adequate level of tariff revenue is spent on investments, for example:
 - Allow variation in WACC – return between DSOs, expand network development plans to cover investments, cap for dividends, group subsidies etc

Amendments to legislation – Ministry's preliminary proposals



- In June 2016 Ministry of Economic affairs and Employment gave its preliminary proposal for law amendments
- 15 % cap for tariff raises (price after taxes) within a 12 month period
 - The level of cap in line with practise of Consumer Protection Act
 - Big differences in price without taxes between customer groups
 - Applies to all electricity and natural gas TSOs and DSOs (also high voltage)
 - Also industrial customers operating in monopoly network need protection
 - Evaluation by customer type groups
 - Calculation based on total network tariff, including fixed-, variable-, metering- etc components
 - Consumer specific evaluation only in exceptional cases
 - Comparison to 12 month period before the raise
 - Moving 12 month period, not a calendar year

Amendments to legislation – Ministry's preliminary proposals



- Ex post monitoring
 - Obligation to return overcharged amount
 - However, network operator still sets its own tariffs
- Temporary tariff reductions not included in calculation of the cap
 - Tariff reduction in order to avoid surplus from the regulatory period (overcharging)
- Tariff increases in order to recover deficit from the regulatory period (undercharging) not included in calculation of the cap
- From application EA may grant exception
 - If deviation from raise cap rule is necessary for network operator to fulfill its obligations

Amendments to legislation – EA:s comments



- Clear definitions how the raise cap is calculated
 - 12 month period
 - Taxes
- Only temporary tariff reductions in order to compensate surplus not included to calculation of the cap
 - Temporary = max 6 months
 - Price increases in order to recover deficit should be included in cap
- Regulation methods have to be taken into account!
- EA would define customer type groups that are used in raise cap calculations
- EA will need more resources (at least 1 person)

- Timetable: The Ministry's final proposal not ready yet
 - The proposal will be discussed in Parliament next year

Thank You!

More info:

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