



# Intensifying Transition Process of Energy Sector towards Market Economy Relations

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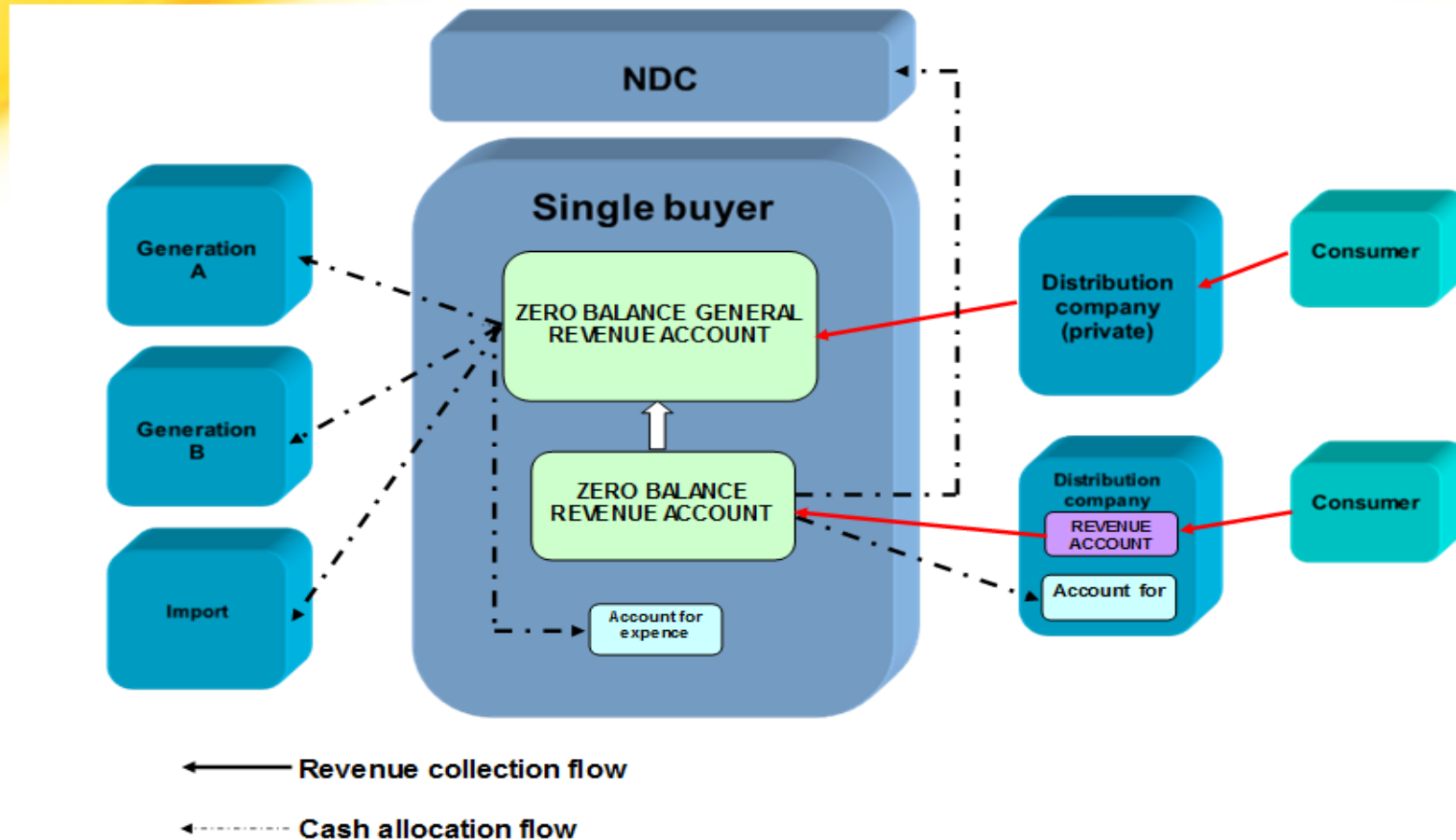


# ***Energy sector unbundling, current market structure***

- ❖ In accordance with the Energy Law which was passed by the Mongolian Parliament in 2001, restructuring and unbundling of the Energy sector has been implemented and independent generation, transmission, distribution companies and System Operator started their operation. As a result, the Energy sector structure came to be consistent with market principle that provides competitive and equal opportunity for participation.
- ❖ The Single Buyer Model (SBM) wherein generators and transmission company and distribution/supply companies have sell/purchase agreements has been used as a main market model since 2002 in Mongolia. There are also balancing Spot Market was introduced since 2006, and Auction Market since 2007 in which auction organized among the generators based on their offered generation tariffs and their growth in electricity demand within SBM.

# Energy sector unbundling, current market structure (cont'd)

## Operational scheme of the Single Buyer Market



# ***Energy sector unbundling, current market structure (cont'd)***



**Based on the analysis of the ongoing current markets in terms of:**

- 1) Level of competition,
- 2) Market operation mechanism,
- 3) Market pricing,
- 4) Market structure,

**it was found that the current market arrangements are unable to provide incentives for**

- Improving responsibilities
  - Refining operational efficiency of the energy companies for a long time period and
  - Introduce competition
- 
- Additionally, limited financial capability and weak management practice of the energy companies require to intensify transition process of the sector to market economy relations.
  - The Energy Regulatory Commission (ERC) has come to a conclusion that in order to accelerate transition process to market economy relations it is necessary not only to change market or commercial model as well as implement "tariff reform" together.

# *Planned energy tariff reform*

For defining the objectives of the tariff reform, the ERC will take into account the strategy that most of the countries in the world consider for developing their own tariff design. For example:

- Comprise revenue from each customer class based on their real cost allocation;
- Sell energy at the same price for the same class of consumption or practice fair and non-discriminatory manner;
- Introduce incentives to consume energy effectively by end users and support smart consumption;



# ***Planned energy tariff reform (cont'd)***

**The ERC is planning to implement the proposed tariff reform within the framework of :**

**1. Parliament Resolution #72 of 2010 on "Measures to be taken for the Fuel and Energy sector". The Resolution states:**

- While subsidizing from the state budget, introduce electricity block tariffs for households and implement indexation of current tariff of households for first 150 kWh of monthly consumption and estimate tariffs for the consumption above 150 kWh and for industries and entities based on the real costs.
- Implement policy and institutional measures in cooperation with the relevant authorities to operate energy companies in market principles according to the provisions 26.2.1, 26.2.5 of Energy Law starting from 2014.

**2. Parliament Resolution #34 of 2014 on "Measures to Intensify Economy" states:**

“ ... to liberalize fuel and energy tariff within the implementation measures of Parliament Resolution #72 of 2010 ... “



# ***Planned energy tariff reform (cont'd)***

## **The other planned measures in the context of tariff reform:**

- to tie up cost allocation in thermal power plants (CHP) with its combined generation technology peculiarities,
- to introduce capacity and energy tariffs renewing cost calculation methodology,
- to apply indexation for service charge or source of operational revenue of transmission and distribution companies,
- to create energy supply tariffs for distribution companies.

## **Within the framework of consumer tariff reform the ERC has a policy:**

- to introduce block tariffs depending on the voltage level for the industrial customers,
- to amend heat tariff classification in accordance with the heat consumption features,
- to reduce cross-subsidy between tariff classes and to bring tariffs to the cost recovery level.





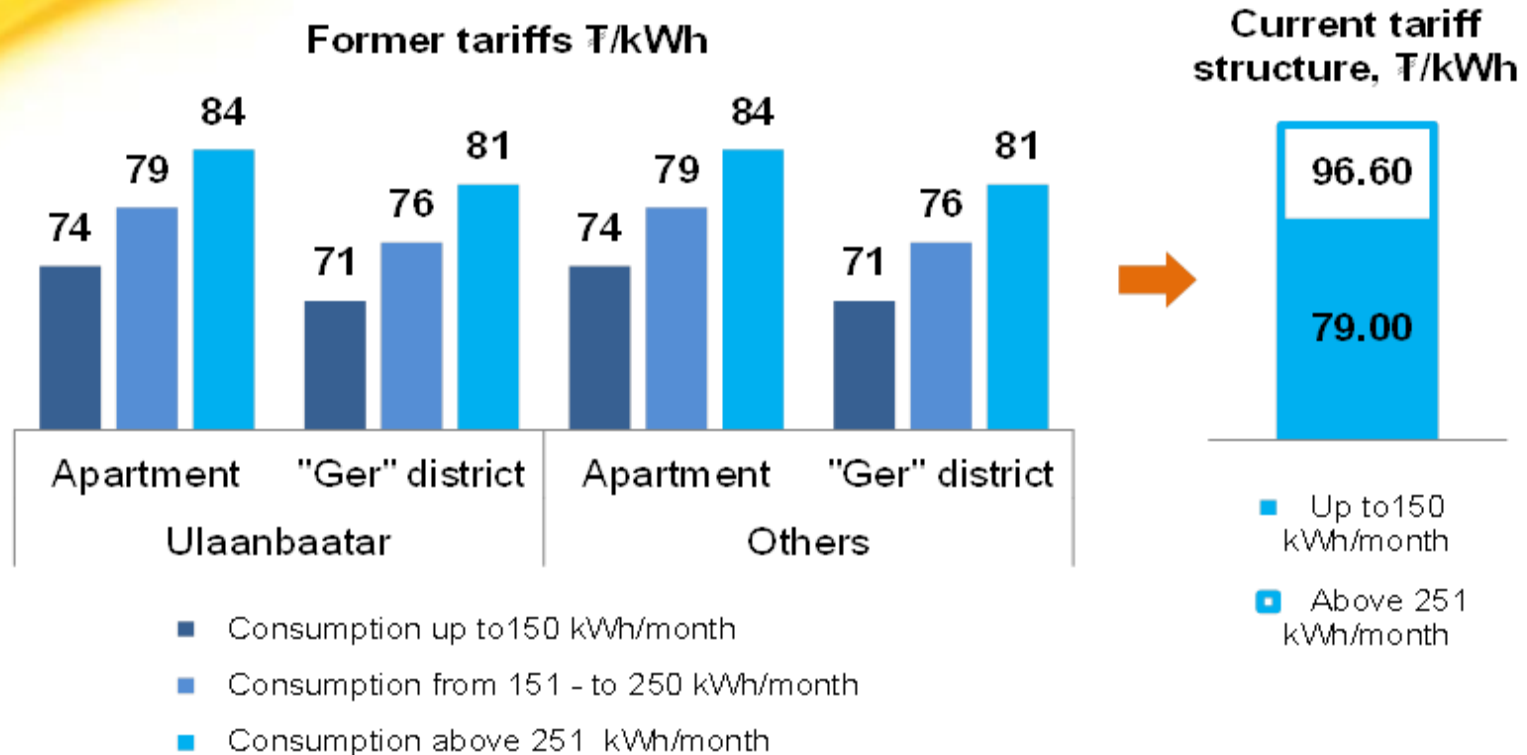
## ***Tariff regulation in 2013***

In 2013, the ERC has implemented tariff regulation which promoted "smart consumption" and conservation of energy for end users. Specifically :

- For the electricity residents, has been taken into account the main principle - not to classify type of "consumer" but a "consumption";
- Tariff structure has been renewed to be simple and understandable for consumers in accordance with the Article 26 of the Energy Law.
- The time-period of discounted tariffs for street lighting, apartment entrances have been changed having seasonal feature in accordance with natural illumination;
- Electricity end-users' tariffs for Central, Eastern, South and Altai-Uliastai Power systems have been raised to the same level;
- In relation to the cost of heat distribution and supply, the new "**Heat service tariff**" or capacity charge was introduced for households.

# Tariff regulation in 2013 (cont'd)

**Amendment in electricity tariff for residential customers:**





## *Proposal, conclusion*

Although the implementation of above-mentioned measures by the ERC will have significant influence on intensification of the transition process to market relations, the issue to make some amendments in legal regulation framework facing the Energy sector of Mongolia. Particularly:

- There is need to change the concept of giving subsidies from “brown” energy to renewables stipulated in Renewable Energy Law,
- To make clear the legal environment for generation tariff setting process and Power Purchase Agreement issues of projected power plants which have got construction licenses under the Energy Law;

Implementing the tariff reform to attract investment and clarifying the legal environment by deepening restructuring and reform of the energy sector will intensify the transition process towards market relations.



# THANK YOU!

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