

CAREC

Energy Sector Coordinating Committee Meeting

ENERGY REGULATORY ACTIVITY IN MONGOLIA AND ITS OUTCOMES

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July 5, 2010

Ulaanbaatar, Mongolia

1. PREFACE

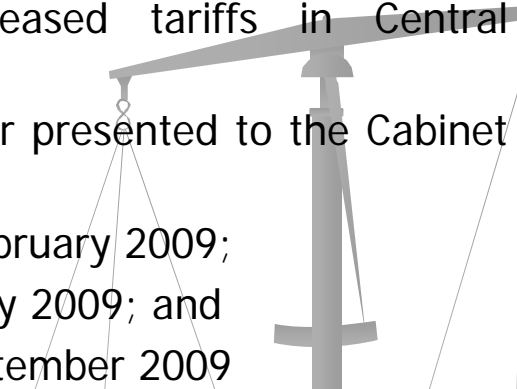
- As a consequence of the new Energy Law of Mongolia approved in 2001, energy sector had been transited from centrally planned and vertically integrated structure to horizontal management structure.
- By establishing 18 joint stock companies according to the Energy Law, new historical era began for the Energy sector of Mongolia.
- The Energy Regulatory Authority of Mongolia is the agency that has been implementing horizontal management structure stable for 9 years.

1. Major performances in 2009



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Major performances in 2009

- The ERA increased tariffs in Central region.
 - Tariff issues wer presented to the Cabinet 3 times.
 - 11 February 2009;
 - 14 July 2009; and
 - 9 September 2009
- 

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Major performances in 2009

- As a result of working together with Ministry of Finance official permission to increase electricity tariff by 16.3 Tugrik and heating tariff by 20.4 percent were taken.
- By-election in Chingeltei district of Ulaanbaatar led to delay the tariff increase issue.

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Major performances in 2009

- In order to inform and educate public 95 times of information and propaganda that cost is 4.6 million Tugrik run through mass media.
- A training for journalists of mass media was conducted in May of 2009.
- Turned to the President with this issue and met with the Advisor to the President.

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Major performances in 2009

- When turned to the Parliament, it officially replied that ERA should make decision independently.
- Made a negotiation with Unfair Competition Regulatory Authority.
- Conducted preliminary discussions with the President of Mongolian Trade Union .

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Major performances in 2009

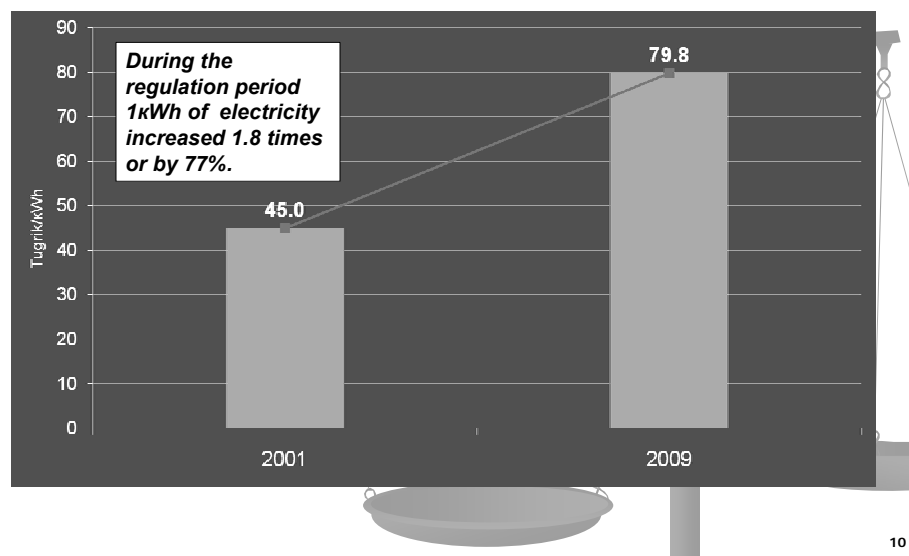
- Subsidies granted for the local energy companies were increased by 58.6 percent.
- Encouraged a proposal on financing the rehabilitation works of 170 billion Tugriks by the State budget.

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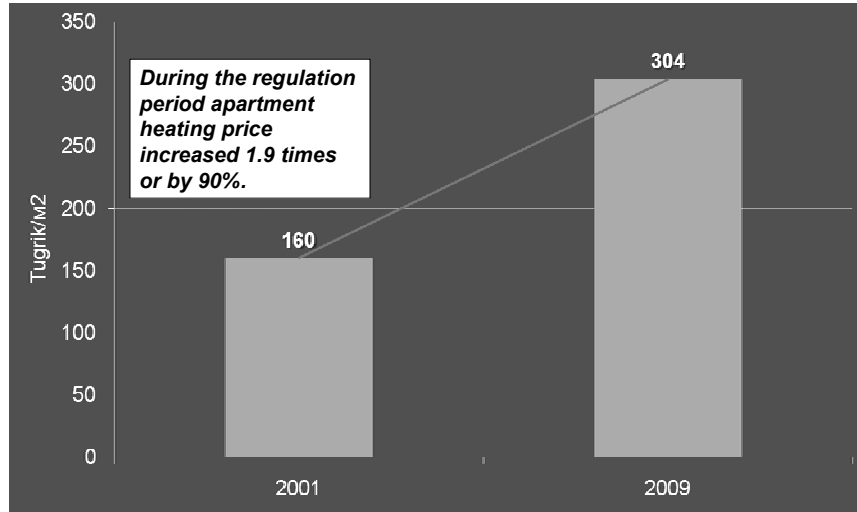
2. OUTCOMES OF REGULATORY ACTIVITY

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2.1 Electricity tariff (Tugrik/kWh)

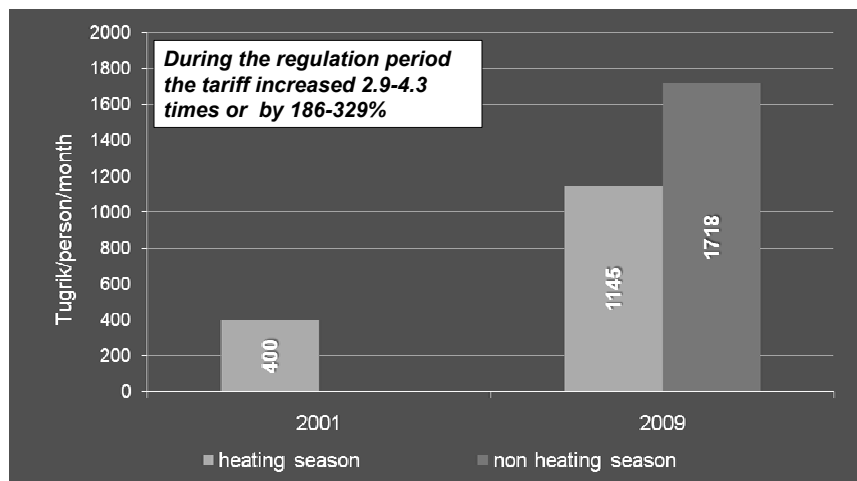


Heating tariff for apartment (Tugrik/m²)



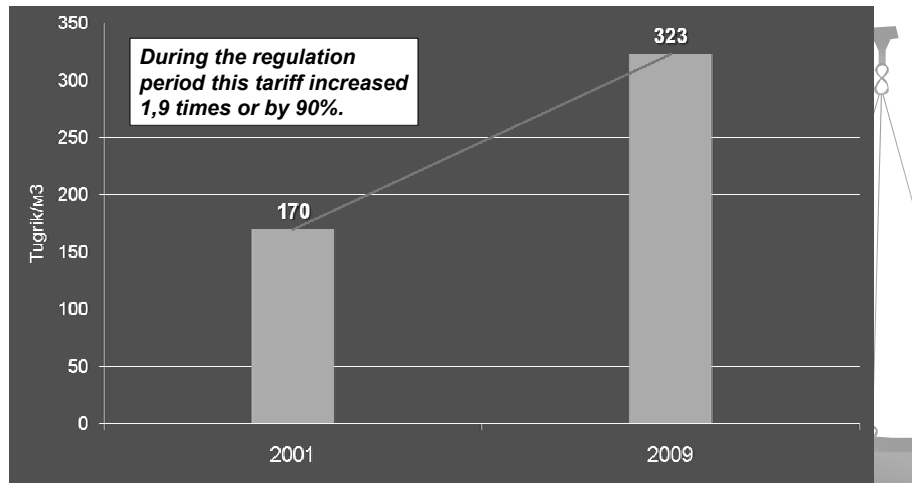
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Heat used for warm up hot water tariff



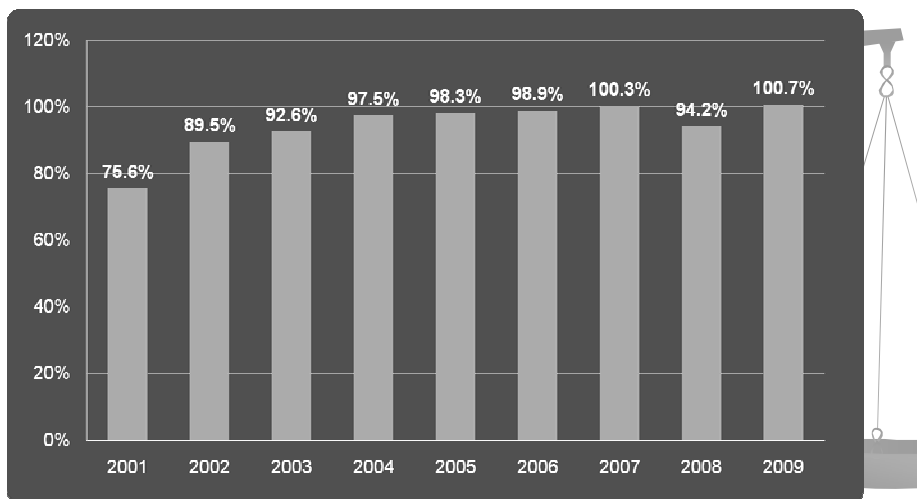
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Heating tariff for industrial users & organizations



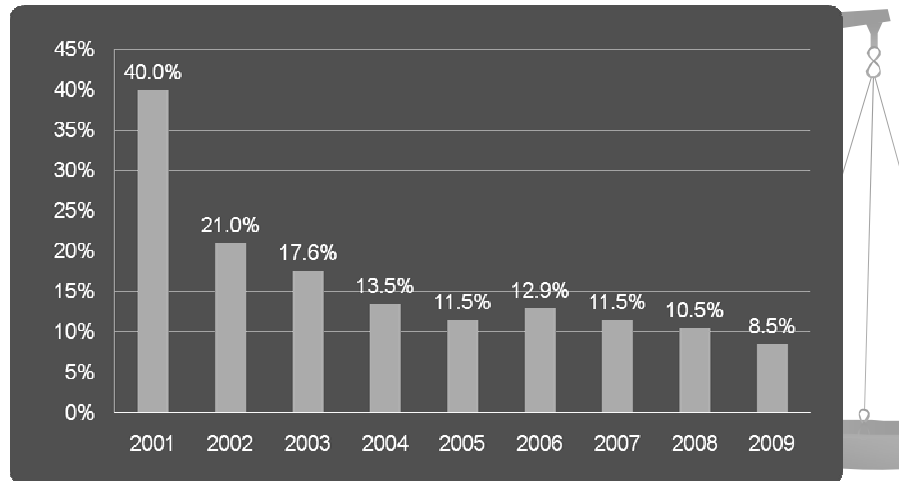
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2.2 Sales revenue collection rate reached to 100 %



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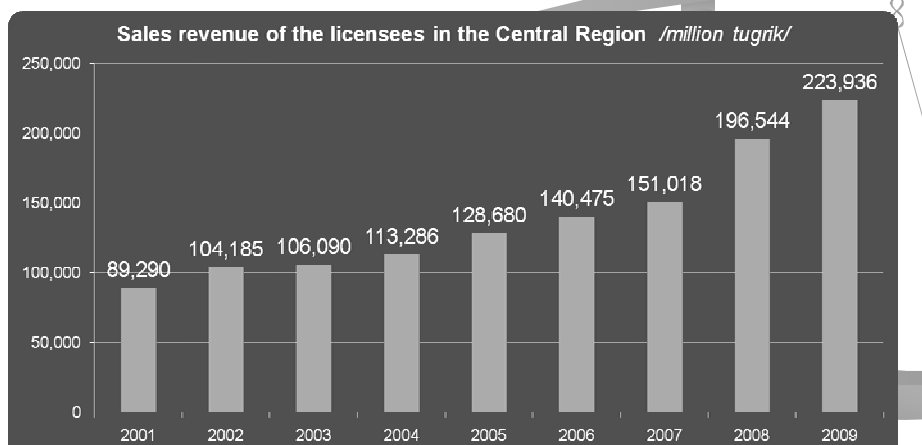
2.3 Offset payment to the sales revenue collection reduced 4 times



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2.4 Energy Licensees' operating revenue increased 2.5 times

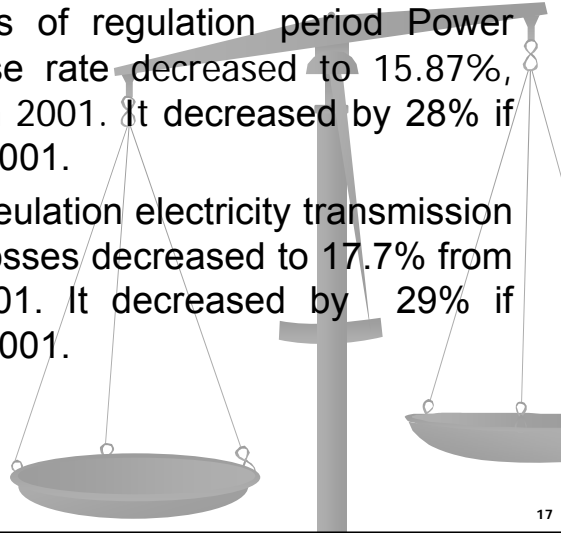
Since its establishment the ERA has made tariff changes 6 times for Energy licensees in the Central region. As a result, revenue collection of the licensees had been increased 2.5 times comparing with the year 2001. Yearly average increase **18.85 %**



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2.4 Licensees improved their operational efficiency

- During 9 years of regulation period Power plants' own use rate decreased to 15.87%, from 22.0% in 2001. It decreased by 28% if compare with 2001.
- As a result of reulation electricity transmission & distribution losses decreased to 17.7% from 23.6% in 2001. It decreased by 29% if compare with 2001.



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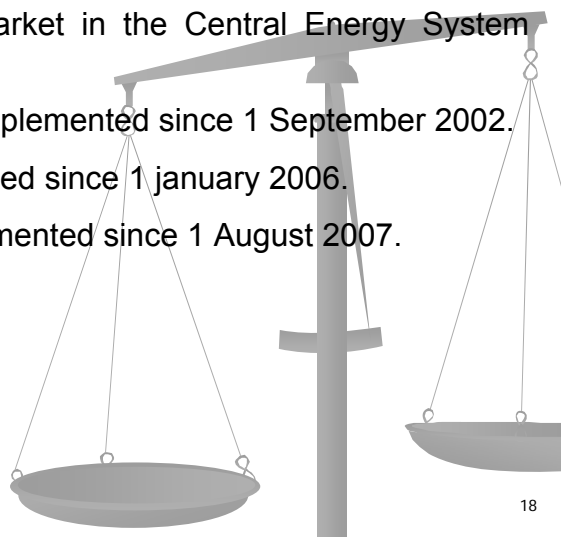
2.5 Competitive market sphere created among the Generator

Currently, electricity market in the Central Energy System consists of 3 markets.

Single Buyer Model : Implemented since 1 September 2002.

Spot Market: Implemented since 1 January 2006.

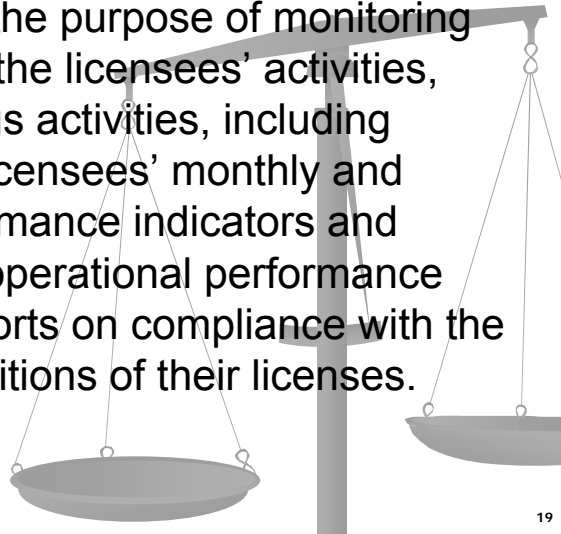
Auction Market : Implemented since 1 August 2007.



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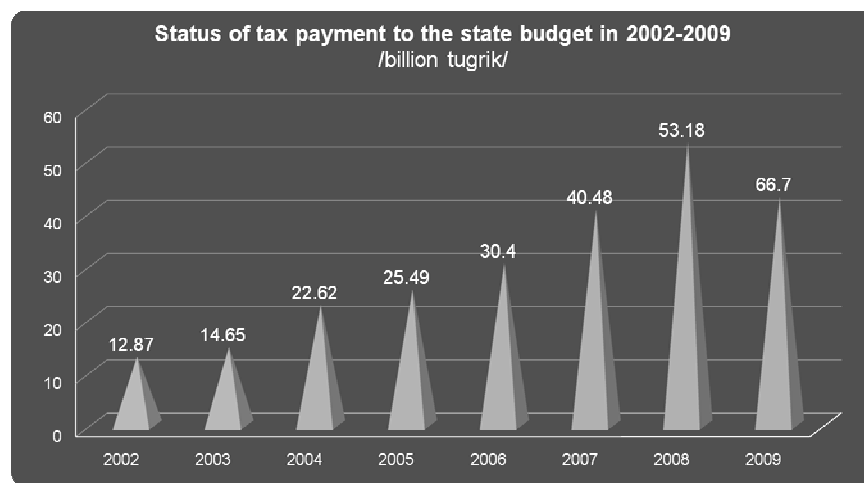
2.7 The ERA making benchmarking among the Licensees' performances

- The ERA, with the purpose of monitoring and evaluating the licensees' activities, conducts various activities, including evaluation of Licensees' monthly and quarterly performance indicators and review of their operational performance and annual reports on compliance with the terms and conditions of their licenses.



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2.8 As a result of regulation state budget revenue increased by 4%

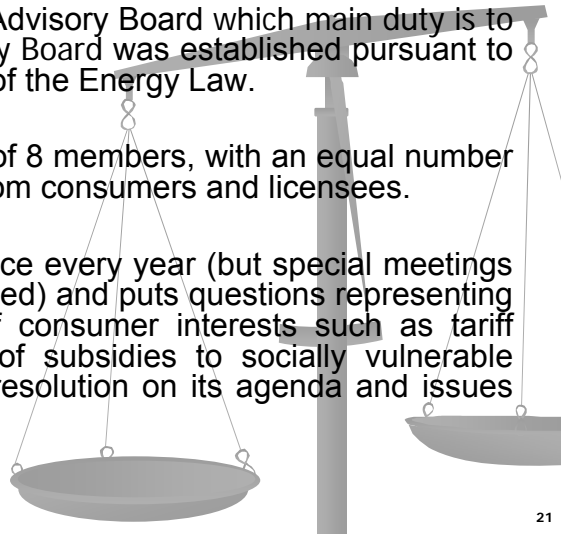


Total tax payment to the state budget is 266,4 billion tugrik in 2002-2009

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Advisory Board to the Regulatory Board

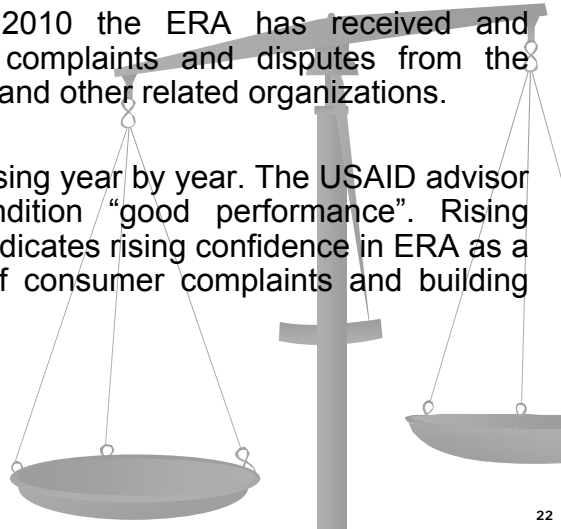
- In 2002 a Part time Advisory Board which main duty is to advise the Regulatory Board was established pursuant to Clause 8.5 Chapter of the Energy Law.
- The Board consists of 8 members, with an equal number of representatives from consumers and licensees.
- The Board meets once every year (but special meetings can be called if needed) and puts questions representing the widest range of consumer interests such as tariff setting, elimination of subsidies to socially vulnerable customers, dispute resolution on its agenda and issues recommendation .



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The ERA protects equally rights of consumers and Licensees

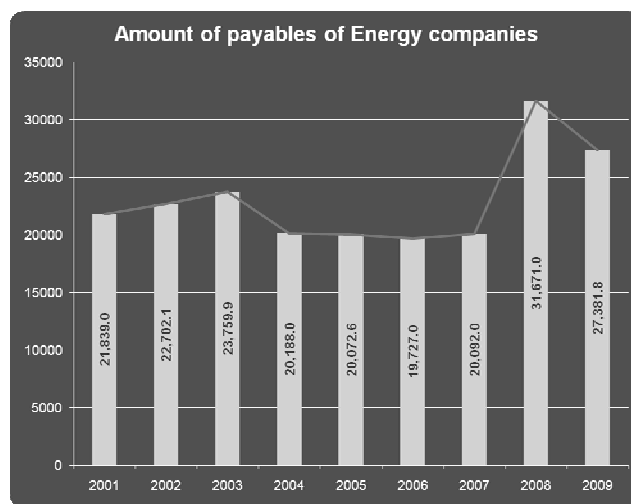
- Between 2001 and 2010 the ERA has received and resolved totally 488 complaints and disputes from the licensees, consumers and other related organizations.
- Complaints are increasing year by year. The USAID advisor summarized this condition “good performance”. Rising complaints probably indicates rising confidence in ERA as a place for resolution of consumer complaints and building consumer confidence.



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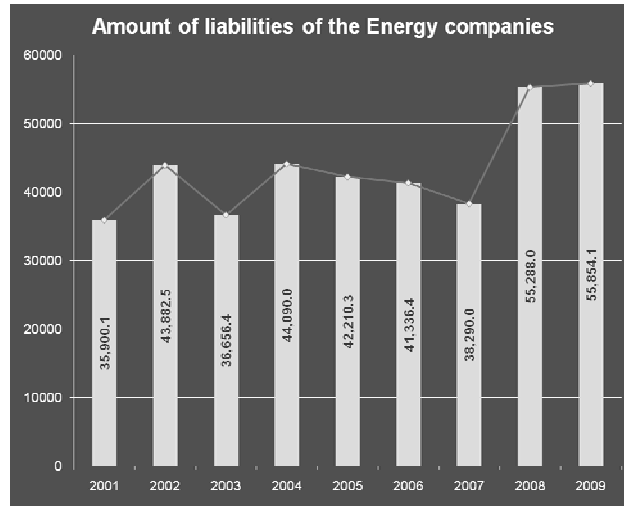
3. TWO UNRESOLVED ISSUES

3.1 To decrease payables



Decreasing payables slowly between 2002-2007, we kept it around 20 billion tugrik. Unfortunately, due to the economic crisis began in 2008 payables increased by 10 billion tugrik. In 2009 it decreased by 4.2 billion tugrik from previous year.

3.2 To decrease liabilities



During 6 years between 2002-2007 liabilities had been decreased by around 40 billion tugrik.

But in 2008 when worldwide economical crisis arisen this amount had been increased drastically.

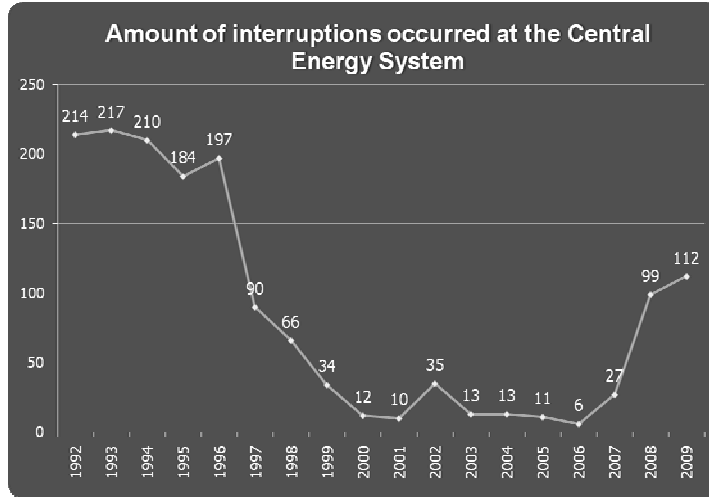
57.75% of total liabilities are belonged to only two companies TPP#3 and TPP #4.

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4. TWO ISSUES TO BE RESOLVED

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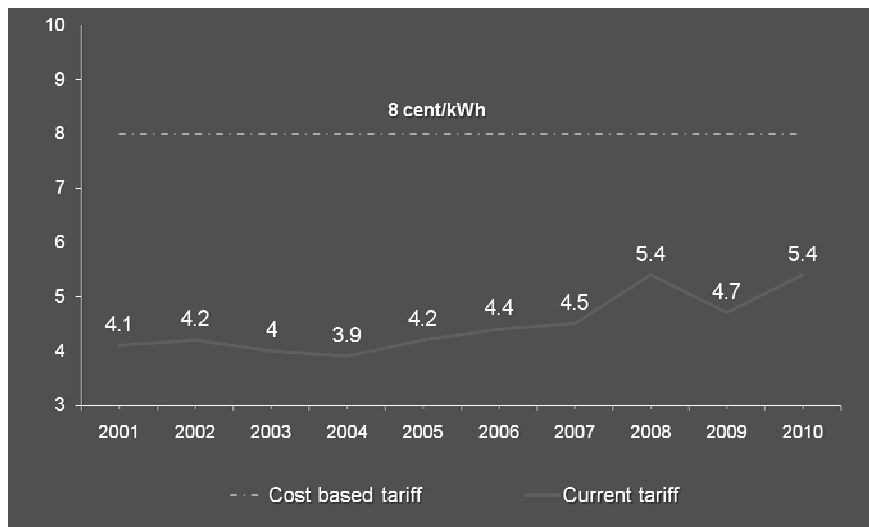
4.1 TO COMPLY RELIABILITY OF THE ENERGY SECTOR



- Our most challenging issue is to increase state investment in the energy sector, accordingly implement projects that rehabilitate currently used equipment and technology.
- First priority of the energy sector is to construct TPP#5. Otherwise we could not satisfy increase of demand and energy sector will be very closely to crisis cycle.

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4.2 TO SET COST BASED TARIFF (Uscent/kWh)



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5. ENERGY REGULATION IS CONSIDERED AS A NEW STATE MANAGEMENT

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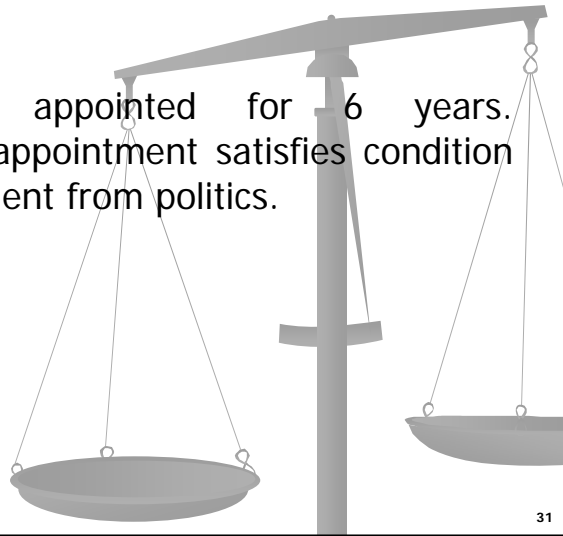
Principle of joint resolution

- Decision shall be made on a basis of majority vote of 3 regulators.
- Decision of the Regulatory Board is mandatory.
- The decision of Regulatory Board whose status level is the same as any Government Agency' management first time becomes a joint resolution.
- The principle protects from stakeholder' influences.
- Prevents any mistakes.

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Management principle of independence

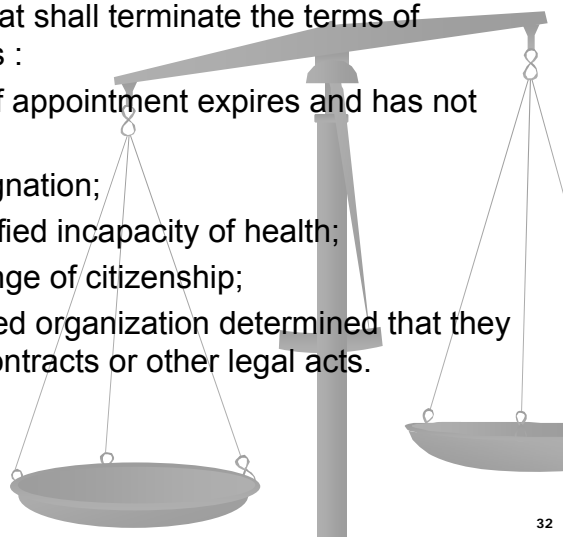
- Regulators are appointed for 6 years. Accordingly, the appointment satisfies condition of being independent from politics.



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Management principle of working stable

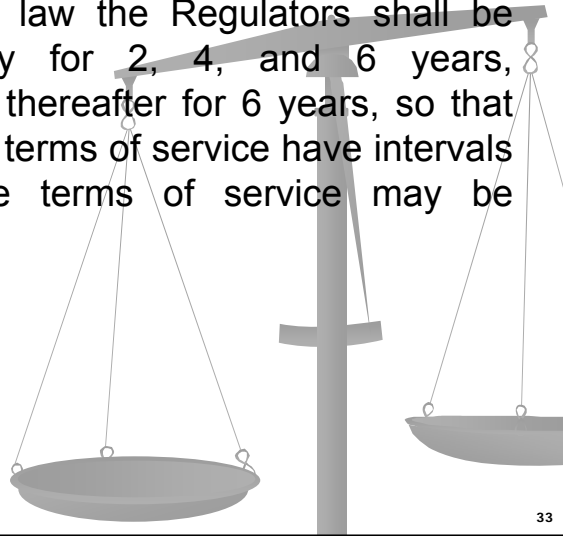
- There are 5 cases that shall terminate the terms of service of Regulators :
- 1/ When their term of appointment expires and has not been extended;
- 2/ As a result of resignation;
- 3/ As a result of certified incapacity of health;
- 4/ As a result of change of citizenship;
- 5/ When an authorized organization determined that they infringed the labor contracts or other legal acts.



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Principle of keeping management practice

- According to the law the Regulators shall be appointed initially for 2, 4, and 6 years, respectively, and thereafter for 6 years, so that expiration of their terms of service have intervals of 2 years. The terms of service may be extended once.



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**THANK YOU FOR YOUR
ATTENTION**

