REGULATION OF HEAT SUPPLY UTILITIES AND THE RELATED PROBLEMS IN THE TERRITORIES OF LOCAL GOVERNMENTS

Gabrāne I.
Regulator of Vidzeme public utilities, Latvia

Introduction

Heat supply utilities in the world have monopoly status in their region. Therefore they tend to gain extra profit out of this status. These public utilities need immense investments that are repaid in a relatively long period of time. Latvia is facing a big problem related to reasonable investments in the heat supply systems. Currently neither consumers nor the regulatory public utilities are pleased with the regulatory mechanism. There is a diverse attitude towards the current regulatory structure in local governments. Some of them think the mechanism being optimal hence it releases the local government both from responsibility and burden of issues related to solving heat supply problems. Yet an opposite opinion persists. The author in the article tackles issues addressed to the regulation of heat supply services in local governments.

Keywords: regulator, local government, heat supply, public services, energy resources.

The aim of the work – to investigate the situation in regulatory systems of heat supply utilities in Latvia and in other countries and to put forward suggestions for the development of regulatory systems in local governments in relation with heat supply services.

Methods and materials: descriptive, statistic analysis, deduction and induction.

While drafting work tasks in accordance with the goals several information sources have been used like statistic data, state normative documents, information by the Latvian Association of Local Governments, data by enterprises, data by the Regulator of Vidzeme public utilities etc.

Investigations and their results

Heat supply utilities like water supply and waste management in most countries of the world have been given over for the operation to local governments or municipalities. With passing the law “On Public Utilities Regulator” the regulatory function of heat supply (which does not result in energy production) in Latvia was taken over by local government regulators. The law “On Local Governments” stipulates that management of public utilities is one of the local governments functions irrespective of the ownership of the living fund, whereas the Energy law states precisely that local governments organize heat supply in their administrative territory as well as promote competition in the market of heat supply and combustibles.

The legislation does not permit any more open financial support of these service providers by the local government. In former years several local governments extended loans, granted fixed assets to the service providers for purchase of combustibles etc. Today the utilities must be independent from co-financing of local governments. Several local governments in Latvia rent out the heat supply to
the service providers. All these activities are oriented for the heat supply companies to be financially independent hence the local government would offer help not for all the residents (as it is when the local government supports financially the heat supply service provider) but for those who really need it (social benefits). Oversees heat supply services are also more and more provided by private business aiming at gaining profit.

In 2004 the Association of Latvian local governments in collaboration with Ramboll, Danish consultancy company within a project “Training of local government polititions and staff” financed by the Danish governments organized a seminar on urgent problems of Latvian local governments regulators in heat supply sphere. Data were collected on 11 or 64% of regulators (respondents) who answered the query and the licensed heat supply utilities supervised by them. The author took part in the query and the data processing. Main results of the study have been collected in this article.

**Licencing**

Public utilities regulator regulates entrepreneurship in heat supply where energy has not been produced in the process of heat production. Licenses are handed over for these types of entrepreneurship (production, transmission, distribution and realization). Licensing regulations by the Cabinet of Ministers are in force today. In line with the Energy law the license shall be mandatory for the yield of heat production over 1 MWh annually, for transmission when the diameter of the collector exceeds 200mm, for realization if more than 20 000 MWh are realized a year. An enterprise may not render services in this field without a license.

**Setting of tariffs**

Tariff for the heat supply is a cost for a unit of the heat energy. Methodology worked out by the Public Utilities Commission has set LVL/MWh a measure for the heat energy tariff which is mostly based on the former elaborated and applied methodology by ERP, hence for the sake of comparison LVL/Gcal may also be applied. The elaborated tariffs methodology do not allow for differentiating costs for the inhabitants and other consumers. Nevertheless some local governments and service providers do ignore this norm. This leads to situation where the heat supply tariff for inhabitants is reasonably lower than for other consumers, although cost for one MWh is the same. The methodology allows for only two tariffs that in line with the Law on VAT differs only by VAT portion. It means that when calculating the heat supply tariffs not all the cost items are incurred the VAT (bank services, salaries, taxes etc.). For other consumers VAT is added to the entire tariff (all costs included). Due to Latvia entering EU this difference will fade away since 5% VAT shall be due for heat supply services.

Heat supply tariff projects are furnished to the regulator in accordance with the Cabinet regulations No.281 passed on 26.06.2001 „Methodology for calculation of tariffs in local governments regulatory fields” (methodology) and the law. Regulators of Aizkraukle, Jūrmala, Jelgava, Liepāja, Rīga district, Daugavpils, Rēzekne and Alūksne have rejected several tariff projects as not being in compliance with the methodology or the law. Five regulators have repudiated tariff pro-
jects submitted as economically groundless. The main reasons for the rejection of the tariffs projects have been the following:

- costs have not been classified in line with the methodology and calculations have not been made in accordance with calculation formulas under the methodology;
- no grounds for the tariffs forming costs;
- overestimated volumes of combustibles shown in the tariffs projects;
- too rapid growth of the tariff and costs compared to former years;
- conditions under the licence do not match with the tariffs project, variance in data have been found out if compared to the data by other state and municipal institutions;
- depreciation time of the equipment have been lowered artificially consequently increasing depreciation costs in the tariff.

During approval of the tariffs several regulators faced objective problems the reason being both the tariff increase by 20-25% or even 60% (the cause was the interior politically approved tariffs without economical grounds) and dissatisfaction by the inhabitants about two different tariffs in one town (for instance in Liepāja, Valmiera district local government, Riga city). This is due to delivery of the heat from different heat supply sources where the costs variate.

Meetings for inhabitants are organised on the tariffs projects submitted.

**Legislation**

After summing up data of the inquiry the author concludes that there are following objections to the law:

1. there has not been set regulation for the utilities under 1 MW which a local government has included in the list of regulatory utilities;
2. suggestion to replace the word „entrepreneurship” in the law with „economical activity” since not always the public utility is being rendered by an enterprises, in some places it is a local government department etc. therefore it remains outside the regulatory circle and the control, yet delivering public services;
3. there has not been worked in the order in the law on the local governments joining already existing regulator, it is suggested to perfect this norm of the law;
4. no possibility foressen for local governments regulators to draw up proceedings of the administrative breaches;
5. to coordinate the time set prior tariffs coming into force under the law „On Public Utilities Regulators” and the law „On Renting Living Area”.

The heat supply field status in Latvia is complicated, the statistic data prove that public utilities tariffs grow faster than work salary. Local governments render a tiny financial support by handing out flat benefits. The table has summed up data from statistic information of years 2001 and 2002.
Conclusions

1. To hand over regulation of heat supply services to the competence of one the Public Utilities Regulator included where energy is produced as a result, since purchase price of the energy is known.

2. Service provider has to coordinate prior the purchase of new technological equipment with the local government and the Public Utilities Regulator in the territory it renders services.

3. The included profit norm shall be strictly fixed in methodology of tariffs calculation.

References

1. Cabinet regulations of the Republic of Latvia No. 281 “Tariffs calculation methodology of public utilities in local governments regulatory spheres” (in Latvian).