

EPHA Annual International Conference

16th of March 2011

Price regulation in Denmark

Price regulation, DH pricing

Lars Gullev

Managing director, VEKS

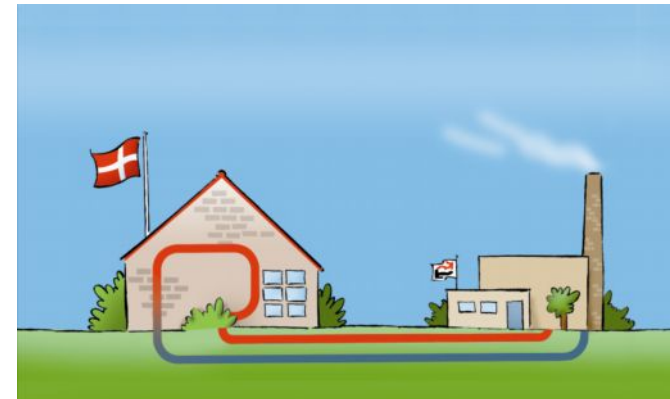


Do we need price regulation?

- Yes - we do
- Why? - DH is a vital part of the infrastructure of cities and the capital intensive network is therefore a typical natural monopoly.

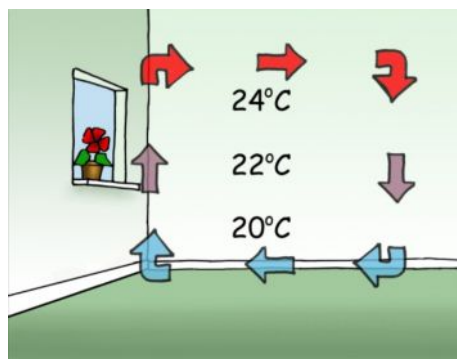
How to price DH?

- There is no single and correct mathematical solution to the problem of pricing DH.
- Instead, one can say that a tariff should satisfy a number of criteria, which are important for:
 - the DH company
 - the customers
 - the national energy authorities



What makes a good tariff?

1. Inexpensive and clear to measure the components.
2. Inexpensive to administrate.
3. Easy for the consumers to understand.
4. Accepted by the consumers as reasonable.
5. Inform the consumers about the real cost structure of the heat supply.
6. Encourage the consumers to use heat efficiently for improving comfort.
7. Encourage the consumers to develop least-cost energy saving measures.



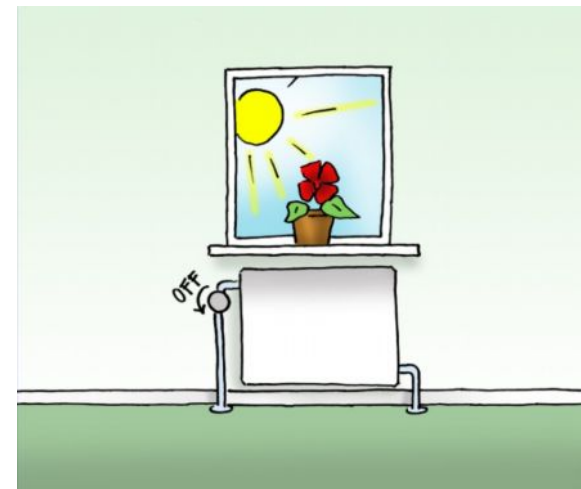
Individual tariffs in Denmark are based on general guidelines

1. The DH companies alone have the responsibility of calculating tariffs.
2. The Danish District Heating Association, which is the democratic organisation uniting almost all DH companies, prepare tariff guidelines in co-operation with some of the member companies.
3. The guidelines, which also include general and technical conditions for the customer relationship, have been presented to The Danish Energy Regulatory Authority (DERA).
4. The DH companies use the main principles of the guidelines.



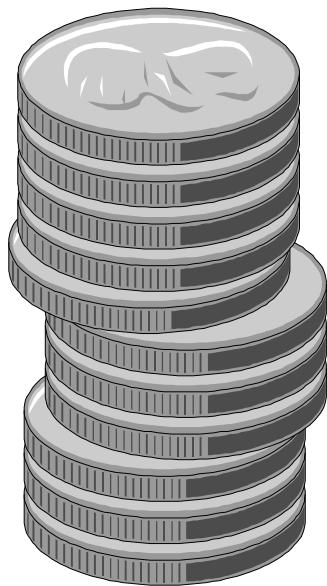
Danish Energy Regulatory Authority

- DERA
 - regulates the Danish markets for electricity, natural gas and DH. In the DH market, both production and network companies are monopolies and regulated as non-profit undertakings.
 - monitors the DH companies prices and delivery terms.
 - takes regulatory action if the prices and terms of the network companies are not in line with the non-profit regime – or if they are unfair in any other way.



A cost based tariff level

- DERA allows the DH company to include only the absolutely necessary costs in the price.
- The consumers have the right to complain to the DERA.



- This principle is logical if the DH companies, like in Denmark, are mainly owned by the consumers directly (as consumer co-operatives) or indirectly (as municipal companies).
- This system does encourage least-cost energy saving measures on both supply and demand side, as the overall objective of the DH is to provide the thermal comfort at the lowest possible total costs.
- All profit is immediately used to lower heat prices or to invest in energy efficiency measures.

Tariff to be used in new areas where natural gas costumers are converted to DH



Tariff structure

Price Guaranteed

- The project propose a **Price Guaranteed** for DH of **90 %** of the **equivalent annual cost of heating based on natural gas**:
 - The purchase of natural gas
 - Finance a new natural gas boiler
 - Operation and maintenance of a natural gas boiler.
- When investments are depreciated the DH price has to be reduced.

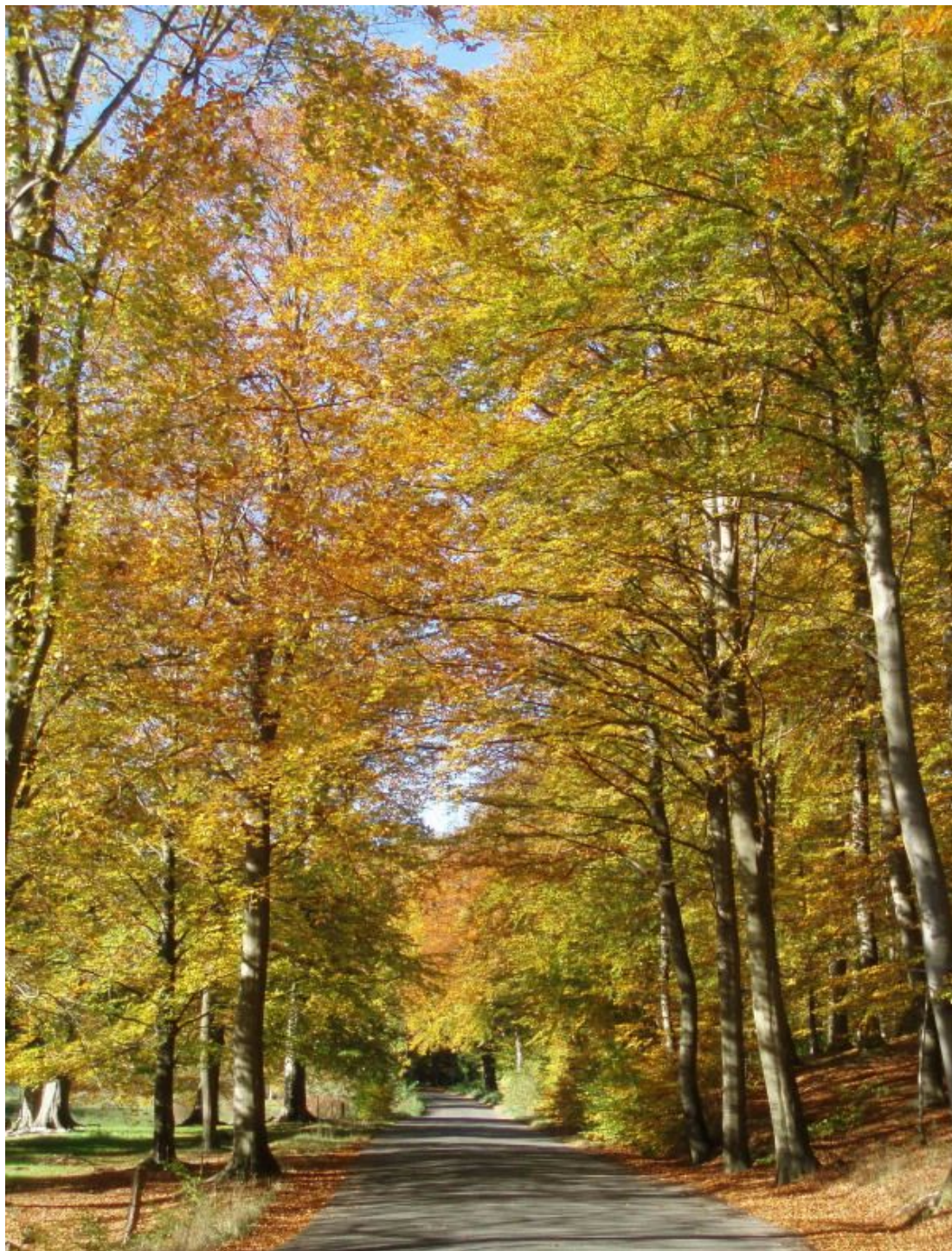


Tariff structure

Price Guaranteed

- Price Guarantee means that customers are not burdened financially with extraordinary one-time costs of converting to DH.
- The DH investments to be covered through the guaranteed price contain:
 - DH Company's financing of a new DH unit (user facilities) to the customer.
 - DH Company's total costs for the delivery of DH to the customer, i.e. financing of pipe network, heating purchase, administration and operation of the DH system etc.





Thank you

Further information:

www.veks.dk

lg@veks.dk

ENERGI TIL DIG PÅ VESTEGNEN