

Phasing out subsidies in energy tariffs: why it's necessary

Properly set tariffs are essential as they ensure the quality of energy supply and fund future investments in energy which in turn are necessary to meet the growing energy demands of a country. However, a tariff must be cost-reflective while also protecting socially vulnerable groups.



Do energy consumers pay a fair tariff for their heat, light and transport? The average consumer in Partner Countries has no knowledge of or information on what energy should cost or what the cost is composed of. Energy tariffs include the sourcing of energy, its distribution, a margin for building new infrastructure and a reasonable profit. Tariffs that are too low do not allow for investments in energy infrastructure, which affect the quality of the energy supplied and result in more frequent interruptions, outages, surges and losses.

Although tariffs are essential, they are politically sensitive. Politicians hesitate to raise tariffs, but energy provision has a cost which has to be paid. Customer awareness of true energy costs is very low, which reduces pressure on politicians to establish fair tariffs and publish them openly.

The EU-funded INOGATE Programme has been advocating the Partner Countries to take up EU tariff-setting methods and providing recommendations for reforming tariff systems and methodologies. Key issues of the reform also include improving transparency of energy tariff information for consumers and ensuring adequate protection measures for socially vulnerable groups.

“Keeping citizens informed is one of the important issues for the Georgian National Energy and Water Supply Regulatory Commission. Over the last several years, the Commission has introduced transparent ways of interaction, allowing each interested citizen to get information easily directly from our webpage www.gnerc.org or Facebook page or by sending an inquiry. Since 2014, we have been organizing the so-called ‘Media Club meetings’ which aim to raise awareness of the Commission’s activities among the population. Providing information to citizens on sensitive topics, such as consumer tariffs, is particularly important.” explains Irina Milorava, Chairman of the Georgian National Energy and Water Supply Regulatory Commission.

“*I am very concerned about changes in tariffs for electricity, gas and heat and whether they will be fair. It is very hard for people like us with small salaries.*”

Ludmila, 49 years old, as a concerned citizen



! Regulators are the consumer’s “protector” in the quest for fair energy tariffs. Regulators are now also developing incentive-tariff schemes which give consumers control of their bills by giving them the option of taking advantage of lower tariffs such as time-of-day or seasonal charges. They are also offering incentives to energy companies to be more efficient in optimising costs and reducing losses. In this way, energy companies are able to increase their profit margins and make the necessary investments in energy infrastructure, all while staying within set tariff limits.

Spotlight on success

The EU-funded INOGATE Programme reviewed the electricity and gas tariffs of the Partner Countries, establishing their current status and advising them on possible steps for reform, thus giving regulators the tools to “confront” energy companies. Regulators were provided guidance on how to regulate costs fairly and establish what constituted logical margins for investment and fair profit. As part of their role, the regulator also advocates energy efficiency and can provide incentives to reduce the cost of energy for consumers through the most advantageous energy mix which includes renewable energy.

INOGATE has trained regulator “watchdogs” in **Armenia, Azerbaijan, Belarus and Moldova** to work with energy suppliers. Moldova has adapted the EU methodology for establishing its tariff system. INOGATE’s ground-breaking regional tariff study provided regulators with information, comparison and support in negotiating their own fair tariff. Armenia, Azerbaijan, Belarus and Kazakhstan are already following the recommendations of INOGATE’s tariff study. A number of regulators in the Partner Countries now publish information on the components of the energy bill so that the consumer is aware of what they are paying; socially vulnerable groups can apply for special protection measures.

In **Georgia and Ukraine**, INOGATE facilitated high-level policy talks to engage policy and decision-makers and set the stage for pushing through crucial energy reforms. In Georgia, the talks focused on optimising the electricity value chain – from production to consumption. This optimisation is important because it benefits the final consumer by providing for better quality energy services and more fair tariffs. Knowing the benefits it could provide, Georgia is now well-prepared to make a final decision on joining the Energy Community.

In Ukraine, high-level policy talks were held to discuss short and long-term energy efficiency measures to address the



needs of the vulnerable consumers. Energy poverty is an issue in many countries. Consumers in Ukraine are being empowered to take energy efficiency measures and help reduce their energy bills as subsidies will be phased out. The government is working on introducing metering and consumption-based billing as a top priority.

At Kiev’s recent discussion on energy policy, H E Ambassador Jan Tombinski, Head of the European Union Delegation, emphasised this very important issue within the social dimension of energy: “EU sponsored Energy Policy Talks are about practical and concrete measures to address energy poverty and come up with solutions, which will result in lower energy costs and increased savings for most vulnerable consumers. We encourage Ukrainian policy makers and law-makers to act without delay in order to provide the right incentives for consumers and greater individual control of the energy they use by regulating own energy consumption with temperature controls and meters. I also would like to encourage the authorities to invest in activities which will result in greater awareness of energy use, which in turn will lead to greater energy efficiency and the sustainable use of energy resources and the environment”.

The EU-funded INOGATE Programme promotes international energy cooperation between the European Union and the Partner Countries of Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

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