

## PRICE REGULATION OF A DISTRICT HEATING

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With the new Energy Act (from now on referred to as EA-1) the area of district heating and cooling and the area of the distribution of other energy gases from isolated distribution systems are treated within the regulatory framework. The heat price regulation is namely passed from the Price Control Act to the EA-1; price regulation for district heating must be done by a distributor carrying out a service of general economic interest and by regulated heat producer. Distribution of heat can be carried out as commercial distribution, or as an optional local service of general economic interest, depending on the number of connected household consumers, and with a view to satisfying the public needs.

In accordance with the EA-1, the Energy Agency is responsible for price regulation for district heating; until the implementation of the new legislation, this task was performed by the Ministry of Economic Development and Technology. In 2015, the Energy Agency adopted the Act on the methodology for district heating pricing (from now on referred to as the Act), which constitutes a new legal framework for the formation of the starting price of heat for district heating within distributions systems of distributors carrying out a service of general economic interest, and the price charged by a regulated heat producers.

The price of heat for district heating is formed separately for a variable and a fixed part. The variable part of the starting price consists of variable costs, which mainly are the costs of input fuels. The fixed part of the starting price are fixed costs, which include costs and expenses of activities other than those which are included in the variable part of the starting price. The regulation done by the Energy Agency is based on the eligible costs; meaning that when setting the starting price only the costs necessary to carry out the service of general economic interest, or result from the provision of such activity.

A heat distributor or regulated producer of heat must, before commencing the activity, lodge an application with the Energy Agency for the approval of the starting price. If the calculation of the starting price is consistent with the Act, the Energy Agency issues its approval. Previously, the issuing of approval was done by the Ministry, but with the implementation of the EA-1, this method is changing.

Before the approval is given by the Energy Agency, the approval of the local community to the starting price of heat is no longer required. Local communities can state their views on the starting price, but the Energy Agency is not bound by their opinions. The Act also specifies the conditions for the amendment to the starting price. In such case, the distributor must again obtain the Energy Agency's approval. If the obligated party does not meet the conditions for the amendment to the starting price of heat may, due to changes in eligible costs, change a variable or a fixed part of the starting price. For such a change, a distributor does not need a new approval of the Energy Agency, but only informs the Energy Agency in due time. In all

these cases of formation or alteration of the starting price, a new average price is calculated, which may not exceed the input price. The calculation is therefore determined on the calculation of income made from heat distribution on the basis of the proposed tariff system, and a comparison of the calculated income and eligible costs. Tariff systems are prepared in compliance with heat distributors' system operating instructions.

Regulated distributors, which had performed heat distributions before EA-1 came into force, had to, in accordance with the Act, submit an application with the Energy Agency for the approval of the starting price of heat no later than by the end of 2015. The Energy Agency has a limited time to issue the approvals to starting prices; by June 2016, it has to decide on all requests of heat distributors. The approved starting prices will take effect on 1 July 2016.

## **AUTHORS ADDRESS**

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