



**USAID**  
FROM THE AMERICAN PEOPLE

# Experience of EU states in organizing district heating sector under competitive frameworks

Diana Korsakaite,  
Chief of Party, Municipal Energy Reform Project  
April 12, 2017

# Municipal Energy Reform Project in a nutshell



Purpose

→ Enhancing Ukraine's energy security. Combined with related economic growth activities and improved governance, it will help the GOU build sustainable democracy through broad-based economic growth.

→ To reduce and mitigate GHG emissions resulting from inefficient uses of energy at the local and national levels.



Budget

16.5 mln USD



Time

September, 2013 – March, 2018



Ministry of Regional Development,  
Construction and Housing  
and Communal Services of Ukraine

MINISTRY OF ECOLOGY  
AND NATURAL  
RESOURCES OF UKRAINE



ДЕРЖЕНЕРГОЕФЕКТИВНОСТІ  
УКРАЇНИ



USAID

ВІД АМЕРИКАНСЬКОГО НАРОДУ

# District Heating sector organizational options



- Competitive type –
  - how much competition is potentially possible in infrastructure system
  - which conditions are needed competition to work at its full potential
  - what consequences shall be expected
- Monopoly type –
  - how much of natural is in “natural monopoly”
  - which conditions are needed monopoly to function efficiently
  - what consequences shall be expected

# United Kingdom

- DH entities operate on fully competitive market:
  - Having no specific obligations to report to administration or disclose prices to third parties;
- Competition and Markets Authority (CMA) performs general competition supervision.

# Austria

- DH sector entities operate on fully competitive basis against all and any other form of energy supply for floor heating purposes:
  - Framework on technical and environmental regulations;
  - Economic regulation is upon market forces;
- Austrian Competition Authority (ACA) performs general competition supervision over DH sector.

# Denmark

- DH entities are subject to Heat Supply Act, which establishes general principles of price-making:
  - Danish Energy Regulatory Authority (DERA) shall be notified on prices applied, although prices are set independently by entities;
  - specific form of ownership prevents overcharging;
- Danish Competition and Consumer Authority (DCCA) performs general competition supervision.

# Norway

- Norwegian Energy Act regards district heating as equivalent to other forms of energy:
  - heating price shall not exceed the cost of electric heating in the relevant NordPool area;
  - Norwegian Water Resources and Energy Directorate (NVE) shall be notified on established for connection fee, annual fixed fee and price per heat consumed;
- DH entities compete against entities from “neighboring sector” – power;
  - DH entities may charge less,
  - Consumer protection measures go in balance with investment potential.



# Netherlands

- Heat Law focuses on protection of consumers from excessive prices and their ability to make choice:
  - “not more than usual” principle is applied towards district heating prices;
  - Authority for Consumers and Markets (ACM) establishes maximum price on annual basis, consisting of fixed annual fee and price per energy unit consumed, metering and connection fees;
  - max heating prices reflect consumption in case as if consumer chooses “usual” gas option – energy, transport, supply;
- DH entities compete against entities from “neighboring sector” - gas - on vertically integrated manner,
  - DH entities may charge less than established max prices,
  - Economy of DH depends on gas market dynamics.

# Estonia

- new provisions for District Heating Law - a regulatory model with simple yet powerful incentives:
  - one reference tariff for a country, based on three types of modelled entities;
  - no price-regulation if tariff is within the reference (lower or equal);
  - no zoning in municipalities.
- DH entities compete against a vertically integrated model entity and may win or lose well in this mimic competition by Estonian Competition Authority (ECA) as they would in real market.
  - alternative of traditional regulation is possible.

# Lithuania

- monopoly preserved for pipe system and competition is facilitated for thermal energy generation, under District Heating Law:
  - third party access (TPA) to network ensured;
  - under single-buyer model, independent generating units compete for monthly contracts to incumbent generating units on equal terms;
  - obligatory usage of biomass exchange makes the economic area under competition even wider;
  - competition is monitored on ex-ante basis by National Commission for Energy and Prices Control (NCC);
- Competition is well established for competitive segments of DH system,
  - Enabled to perform fuels' switch, with direct and indirect impact

# Regulation of Heat Markets – Competition Aspect



≈ old EU

≈ new EU



≈ non EU

- **INTERSECTORAL NON-INTERVENED** - **DH companies set competitive prices** while *competition authorities* monitor excessive profits based on competition law (Sweden, Finland, Denmark, Germany, Austria, Belgium, France and United Kingdom). Effective competition between DH companies and possibility of usage other heating solutions don't allow for heat suppliers to set high heat prices.
- **INTERSECTORAL INTERVENED** - **Alternative-based heat pricing** as main pricing principle to promote DH against other heating solutions (like electrical heating in Norway and NG-based individual heating in the Netherlands).
- **INTERVENED INTRA-SECTORAL** Ex-ante price control based on **established methodology and approval of maximal prices** by independent national regulator. At that, a DH company can deviate from the tariff fixed for it towards lower values (Estonia, Latvia, Lithuania, Poland, Czechia, Slovakia, Hungary, Bulgaria, and Macedonia).
- **NO COMPETITION** Ex-ante price control based on **established methodology and approval of heat prices** by the national regulator. At that, a DH company cannot deviate from the tariff fixed for it (Russia, Belarus, Romania and Ukraine).

# Concluding remarks on competition potential in DH

- District Heating – is a valuable asset in terms of technology, comfort, environment, when it operates as entire efficient system;
- Monopoly-market is not efficient by definition, but requests a number of diverse measures to enforce to put monopoly on track with a degree of efficiency;
- Competition-market has many faces in practice, and “one size fits all” can hardly be applied;
- Different alternatives request different arrangements, for eg., network optimization and integration for intra-sectoral competition or refusal of cost-based-type pricing for inert-sectoral competition;
- Consumer interest and long-term approach are to be leading principles in all cases.





Thank you !

