



KONKURENTSIAMET  
Estonian Competition Authority

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# District heating regulation in Estonia

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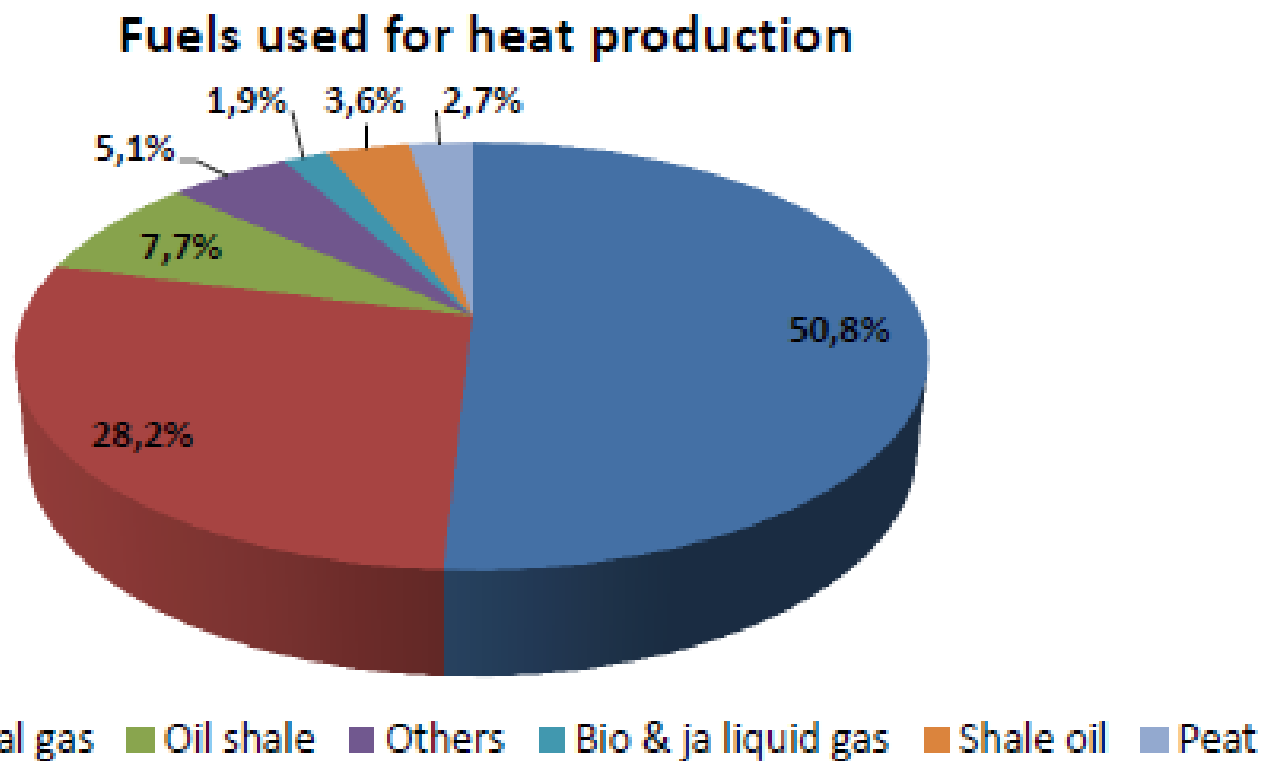
## DH in Estonia

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- DH is the most common heating source in Estonia, approx. 70% market share.
  - There are more than 200 DH enterprises.
  - DH was the most common heating resource during the soviet past.
  - The main goal of DH is to utilize the CHP potential or to use alternative fuels (peat, wood, waste, oil shale, coal, etc.).
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# Fuels used in district heating





# Legislation

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- 1998 the first legislative act in energy sector – Energy act.
    - Ex-ante price regulation.
  - 2004 District Heating Act
    - DH zoning
  - 2010 amended District Heating Act.
    - Third party access rules
  - 2014 New District Heating Act draft.
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# Price regulation

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- The end-user price shall be fixed by the regulator – Estonian Competition Authority (ECA).
- The price for CHP and independent heat generator shall be fixed by ECA.
- Cost+ type of price regulation.
  - Operating costs (OPEX)
  - Capital costs (CAPEX)
  - Reasonable return =  $RAB \times WACC$
- Stand-alone (alternative boiler house) method used for CHP-s



# Cost analyses

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- The operating cost shall be justified and demonstrate the energy efficiency gains. If the heat losses are too high or generation efficiency too low, the company is obligated to prepare the energy conservation plan.
  - Indicative DH losses and generation efficiency
    - 2011 21%
    - 2012. 20%
    - 2013. 19%
    - 2014. 18%
    - 2015. 17%
    - 2016. 16%
    - 2017. 15%
    - natural gas 92%
    - fuel oil 90%
    - solid fuels 85%
    - solid fuels large units 90%
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# DH zoning

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- The local municipality has the right to establish the DH zones, where DH is the single heating source.  
Administrative monopoly.
  - The most of municipalities have established the DH zones.
  - The purpose for ex-ante price regulation.
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# Third party access to the DH network

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- Regulated third party access to the DH network.
- If there is an application to generate heat to the DH network or there is need for new capacities, the network operator is obligated to select the generator on open tendering procedures.
- The most companies are integrated: generation + network.
- Positive experience – the network operators have strong incentive for efficient generation facilities.





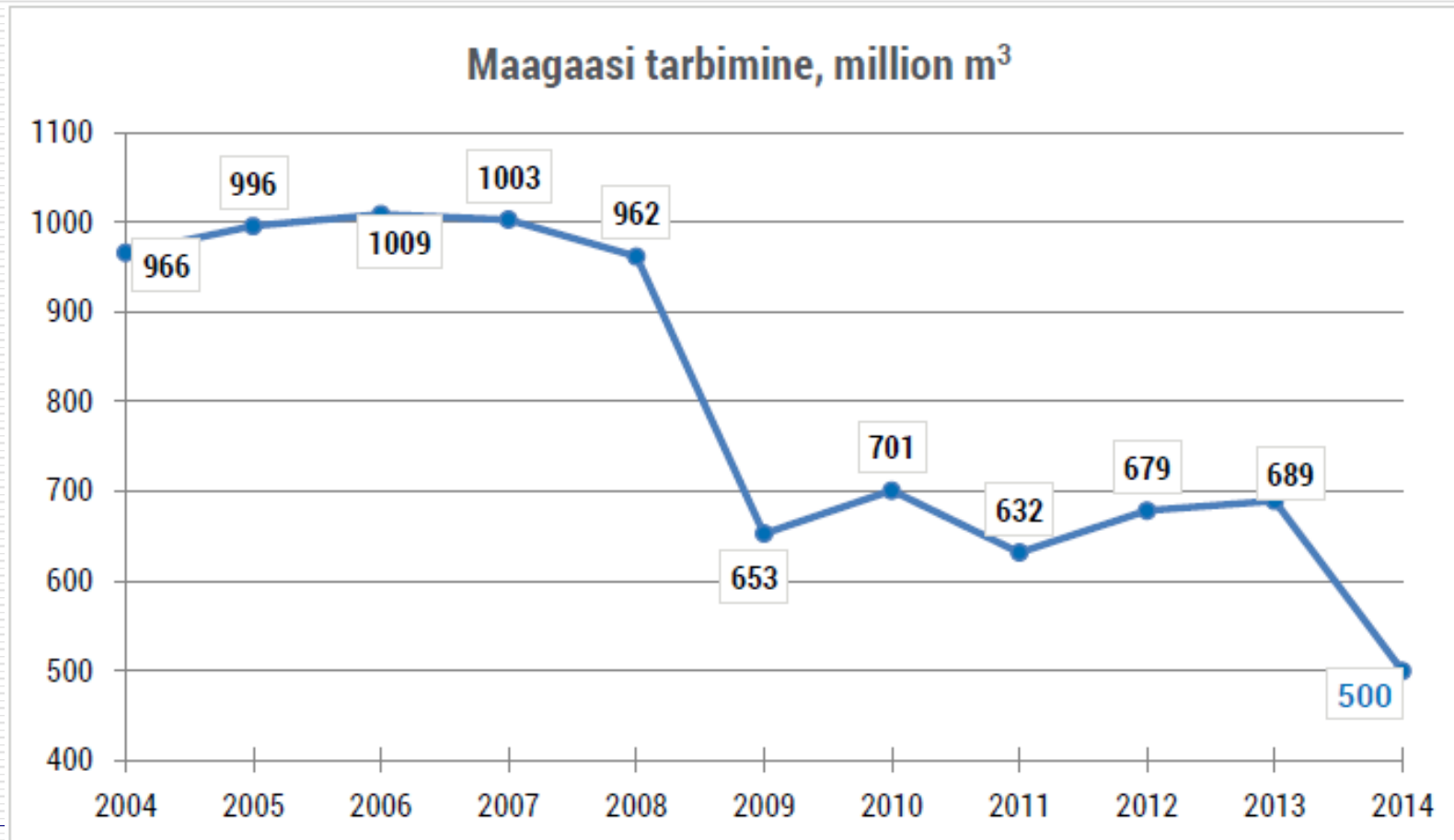
# Lessons learned

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- The sector is overregulated. Especially smaller towns, the market could be open – no zoning, ex-post price control. Especially in smaller towns, DH is not the best heating source.
  - Third party access rules to the DH network are essential, especially when DH is an administrative monopoly.
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# Natural gas consumption in Estonia





# New DH draft act.

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- ❑ Fixing of reference tariff in whole country.
  - ❑ Reference price is based on bottom up LRAIC model.
  - ❑ If the company sales heat below reference tariff, there is no price control.
  - ❑ Incentive scheme for DH companies, less administrative burden.
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# Thank You for Your Attention.

Further information  
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