

Regulatory System of Russian Electric Power Sector



Institutional structure

Federal Tariff Service (FTS)

Constituent Entities of the Russian Federation:
83 independent regional regulatory authorities (RRA)

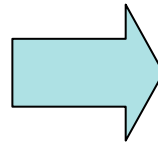
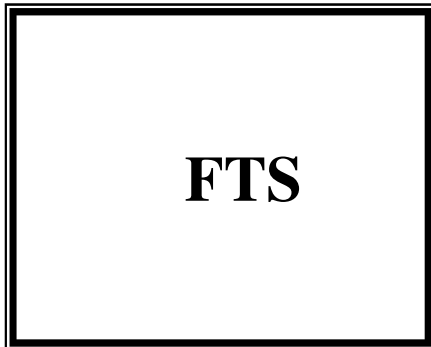
+/- 29 000 Local Authorities

Self-Governing Market Institutions:

- not-for-profit partnership «Market Council» (NP “MC”)
- Trade System Administrator (TSA), e.t.c.

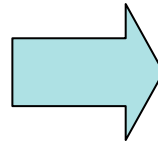
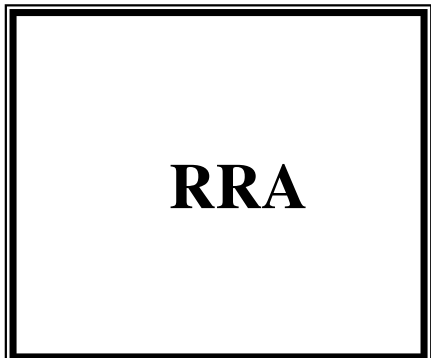
Scope of Regulation

Federal level



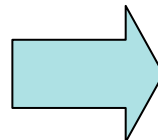
- Participation in creating of Market rules
- Regulatory methodology
- Tariffs for federal infrastructural organizations (main pipelines and power lines transmission, system operator, trade administrator, marginal tariffs for distribution companies and for vulnerable consumers)
- Marginal tariffs for wholesales producers (until 2011)
- Supervision over RRA and market players activities
- Pre-trial settlement, consideration of disagreements

Regional level



- Tariffs for distribution companies
- Retail tariffs (after 2011 – for households use and vulnerable consumers only)

Local level



- Local regulation (consumption quotas)

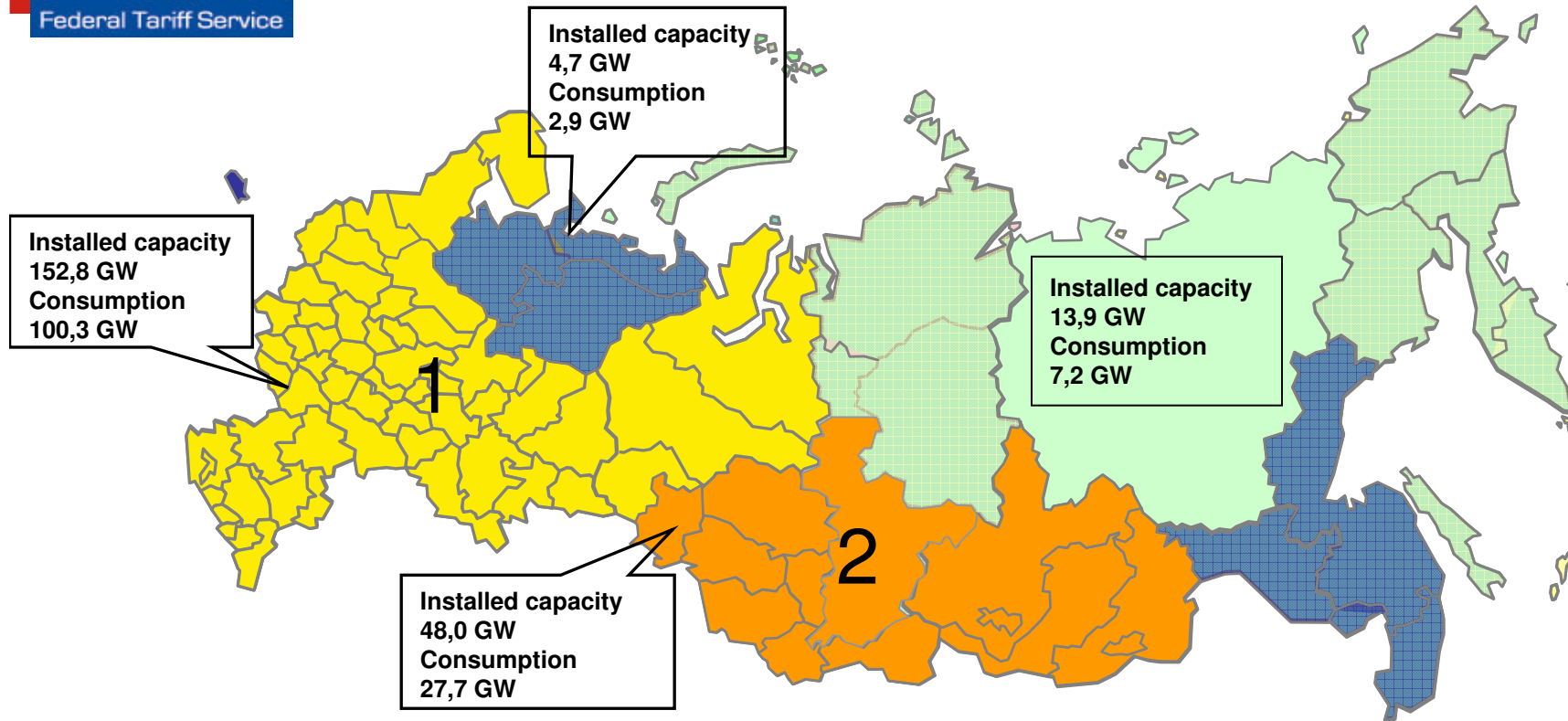
- Federal Laws
 - of 26.03.2003 № 35-FZ “On Electric Power”
 - of 14.04.1995 № 41-FZ “On State Regulation of Electric Power”

Governmental decrees:

- Wholesale market rules
 - Retail market rules
 - Non-discriminatory access to infrastructural services and network;
 - Pricing rules
 - Technical connection to networks
- Regulatory Methodology (FTS Orders)

- Violation of regulatory methodology
- Insufficient RRA participation in vulnerable customers protection
- Influence by local politics
- Lack of skills (i.e. misusing of market regulatory tools)

Market Geography



Price zones:

1 – European part of the UPS of Russia and Urals; 2 – Siberian part of the UPS of Russia.

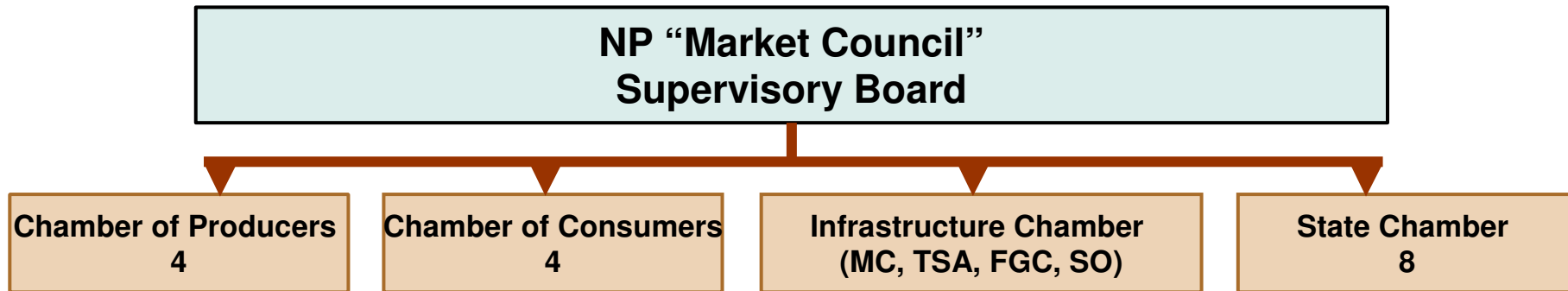
Non-price zones: Far East, Republic of Komi, Arkhangelsk Region, Kaliningrad Region, the power systems of which have limited connection to the UPS of Russia.

Regulation is generally retained in Non-price zones.

Governing Bodies and Decision-Making Procedures

Activities of NP “MC” are Generally Governed by the Supervisory Board – a collegial management body

The composition of the Supervisory Board is determined by Federal Law of 04.11.2007 № 250-FZ

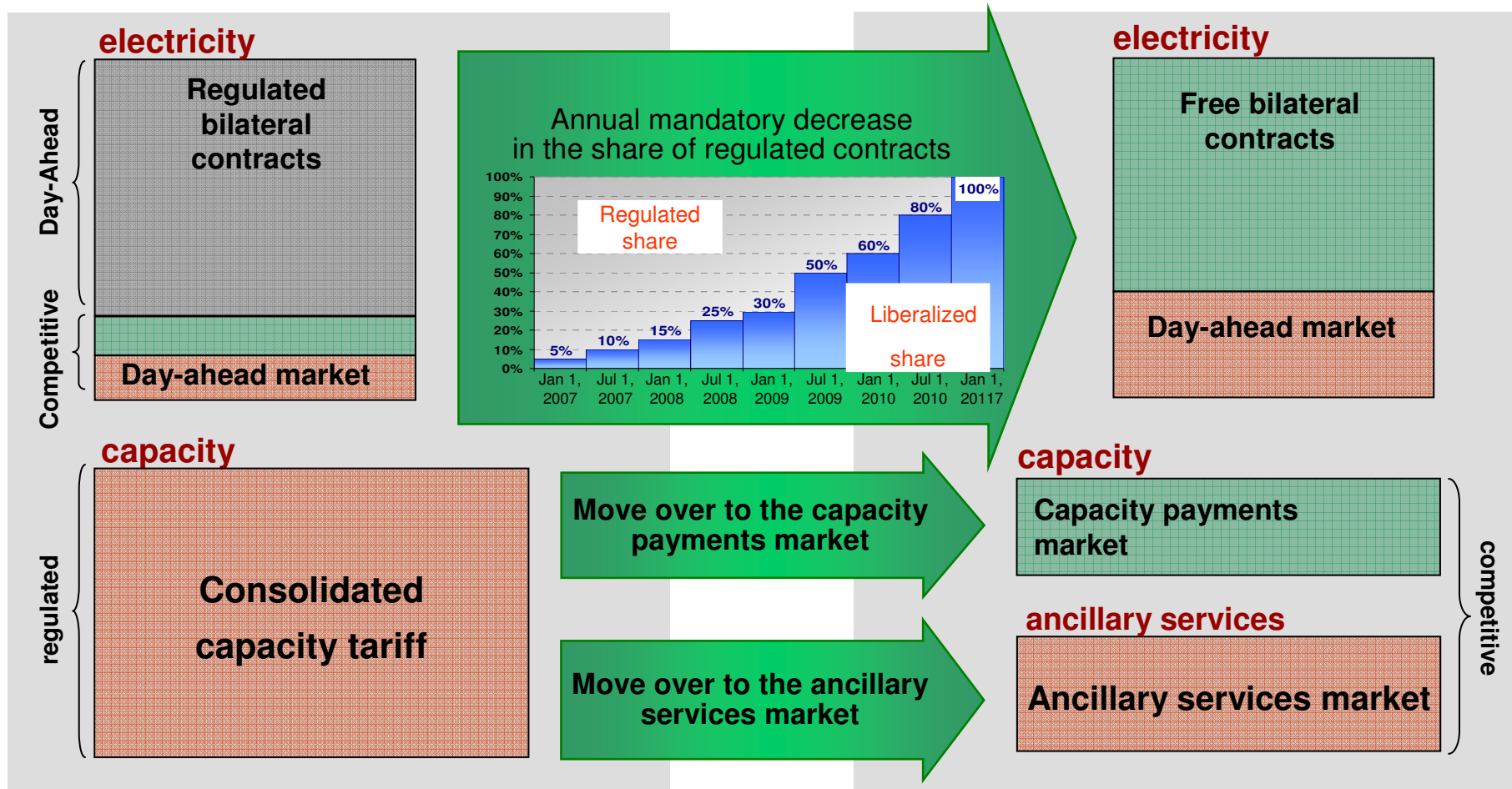


- Each Chamber has the right to veto a decision of the Supervisory Board
- Each representative of the Chamber of Infrastructure Organizations has the right to veto a decision of the Supervisory Board **CHECK**
- Preliminary discussions in MC committees and commissions
- An issue, a decision on which was not made as a result of Supervisory Board Members exercising their right of veto, may be reviewed again at an *in presentio* meeting.

Market model evolution: electricity, capacity and ancillary services

Transition market model

Target model – competitive market



Problems

- Gaps in wholesale market rules
- Insufficiency of self-governing bodies
transparency
- Problems of retail market
- Cross-board subsidizing
- Insufficient motivation for investors

Actual issues:

- Power Capacity Market
- Evolution of Retail Electric Power Markets
- Market Monitoring Independence
- Standards of Information Disclosure