



هيئة تنظيم الكهرباء - عمان
AUTHORITY FOR ELECTRICITY REGULATION, OMAN

2008 Forward Work Programme
Consultation Paper

November 2008

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Foreword

The Authority for Electricity Regulation, Oman (“the Authority”) is responsible for the regulation of the electricity and related water sector in the Sultanate of Oman. The Authority was established pursuant to Article (19) of the law for the regulation and privatization of the electricity and related water sector (the “Sector Law”) promulgated by Royal Decree 78/2004.

Article (34) of the Sector Law requires the Authority to publish a Forward Work Programme before the commencement of each Financial Year (1 January to 31 December) setting out the principal areas of work for the coming year. This document presents the Authority’s draft 2008 Forward Work Programme and invites interested persons to submit comments or objections on the proposed programme to the following address by Wednesday 5 December 2007:

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The Authority will respond to all comments and objections received within 30 days of receipt.

The final published 2008 Forward Work Programme will be presented to the Government in accordance with the requirements of Article (36) of the Sector Law.

Further information about the Authority and the structure and regulation of the electricity and related water sector in Oman is available on the Authority’s website: www.aer-oman.org.

Statutory Functions and Duties

The Authority has a range of statutory functions and duties that are set out in various sections of the Sector Law. The Authority's principal duties (see Article (22) of the Sector Law) require the Authority to:

- secure the provision of electricity and related water services in Oman;
- promote competition in the electricity and related water sector;
- secure the safe, effective and economic operation of the electricity and related water sector in the public interest;
- protect the interests of customers, in particular those with limited income, the elderly and sick; to prepare criteria relating to the welfare of customers and to act in accordance with such criteria;
- secure compliance with Government policy relating to the protection of the environment, Omanisation and Omani Content;
- ensure the financial and technical capabilities of licensees and ensure companies operating efficiently can finance their activities;
- secure the conduct of fair and transparent competitions for new capacity by the Oman Power and Water Procurement Company SAOC;
- facilitate the privatisation of the electricity and related water sector;
- review on an annual basis the scope for further liberalisation of the electricity and related water sector; and
- prepare and maintain a Public Register of all matters relating to licenses and exemptions.

The Authority is also subject to important governance duties including a duty not discriminate against or unduly prefer any Person; to act consistently treating like cases alike and, in particular, to ensure, so far as it is appropriate, that all Licenses and Exemptions for the same Regulated Activities are granted in substantially the same form; a duty to minimise, insofar as it is able to do so, the regulatory burden on licence holders and exemption holders; and to give written reasons for its decisions.

All of the Authority's work, including that envisaged in the 2008 Forward Work Plan, must be conducted in accordance with these statutory duties.

Consultation

The Authority wishes to consult on the draft 2008 Forward Work Programme and invites interested Persons to submit comments and objections (by 5 December 2007). The Authority intends to respond to all comments and objections received in response to this consultation within thirty days of receipt.

Purpose of Forward Work Programme

The Authority's Forward Work Programme serves a number of purposes:

- (i) publication of each Forward Work Programme gives notice to any Person who may be affected by the programme and affords them the opportunity to comment on what is proposed;
- (ii) the Forward Work Programme is an important determinant of the Authority's costs (and licensees' fees) and as such is an important input to the budget development process; and
- (iii) publication of the Forward Work Programme reinforces transparency and accountability by allowing interested Persons, such as licensees and the Government, to ensure work planned for each subsequent year is consistent with the Authority's statutory functions and duties.

Context & Content of 2008 Forward Work Programme

The 2008 Forward Work Programme is the third such programme published by the Authority since its establishment. As with previous programmes, the 2008 programme comprises both general policy initiatives and tasks specific to activities identified in Article (3) of the Sector Law as regulated activities. All of the work items in the 2008 Forward Work Programme are in addition to the general work of the Authority.

Tropical Cyclone GONU

A substantial part of the 2007 work programme was delayed as a result of tropical cyclone GONU that hit Oman on 6 June 2007. Most affected were work items scheduled for the second half of the year. The Authority initiated the consultancy and research aspects of the delayed items but rather than distract licensees from restoration and reconstruction work has rescheduled the completion of items such as GP3 (Environmental Audit), GP5 (Planning and coordination issues), GP7 (Renewable Energy Initiative) for completion in 2008. The Authority views the completion of these and other delayed items as an important priority for 2008.

Public Authority for Electricity & Water

A new Public Authority for Electricity and Water (PAEW) was established by Royal Decree (92/2007) promulgated on 9 September 2007. PAEW has assumed the electricity and related water responsibilities of the Ministry of Housing, Electricity and Water and is the competent authority for unrelated water in the Sultanate of Oman.

PAEW has indicated it will seek advice and input from the Authority on a range of issues. Whilst no details are available about the specific issues on which PAEW may seek advice, it seems sensible to take account of an expected increase in workload when planning the 2008 programme.

2008 Initiatives

The draft 2008 Forward Work Programme includes the following initiatives:

(i) Renewable Energy Initiative – Implementation

The consultancy and research part of the renewable initiative highlighted in the 2007 Forward Work Programme should be completed by end 2007. In the course of 2008, the Authority expects to issue decisions implementing small scale renewable projects in rural areas and will submit analysis and recommendations to the Public Authority for Electricity and Water on the potential for large scale renewable energy projects in the Sultanate of Oman.

(ii) Emergency Procedures - Implementation

During 2007 the Authority coordinated with the Royal Oman Police (“ROP”) on the preparation of revised Emergency Procedures for the electricity and related water sector. The revised procedures will be implemented during 2008. The Authority will ensure relevant companies have the resources and arrangements in place required to implement the new Emergency Procedures by requiring companies to conduct simulated exercises of emergency situations. Separate simulations, supervised by ROP, will be undertaken for each of the three market segments: the Main Interconnected System, the rural systems of the Rural Areas Electricity Company, and the Salalah Power System.

(iii) Energy Efficiency Initiative

The Authority proposes to issue regulations pursuant to Article (38) of the Sector Law to encourage the efficient use of electricity. To initiate debate and identify specific energy saving measures, the Authority will host a public seminar that will consider how energy efficiency initiatives can contribute to sustainable development objectives. To ensure informed discussion, electricity and related water sector companies, customers and other Ministries and authorities with an interest in these matters will be invited to participate in the seminar.

(iv) Guaranteed and Overall Standards of Performance

The Authority has retained Consultants to prepare Guaranteed and Overall Standards of Performance (“Performance Standards”) with which licensed distribution and supply companies will be expected to comply. The Authority will coordinate with relevant licensees on the implementation of the Performance Standards during 2008.

The Performance Standards will require material changes to “emergency service contracts” that are the principal means through which the services to which the Performance Standards relate are provided to customers. Licensees may need to substantially revise the scope of the emergency service contracts and implement improved arrangements for monitoring and enforcing the scope and standards of service provided by contractors.

(v) Accelerated Implementation of (Customer) Digital Metering

The Authority has been asked by the government to accelerate the introduction of digital metering at customer premises in order to restrict the scope for meter tampering and contribute to further reductions in non technical losses. Digital metering would also facilitate the widespread implementation of automatic (remote) meter reading.

The Authority will set targets for the installation of digital meters at customer premises and provide financial incentives through licensee price controls to help fund the initiative. Targets will be determined following discussions with licensees and on the basis of recommendations of metering experts.

(vi) GONU Assessment

On Tuesday/Wednesday 5/6 June 2007 Tropical Cyclone Gonu caused extensive damage to electricity infrastructure in areas along the north and east coasts of northern Oman. The Authority has appointed a Consultant to assess the damage caused by Cyclone Gonu both in physical and financial terms. The assessment includes a full review of all existing Oman Electrical Standards (OES), and a review of the way land is allocated to electricity companies for the location of electricity sub-stations, lines and other infrastructure assets. The Consultant will prepare revised estimates of the capital expenditure requirements of licensed transmission and distribution companies in light of revised OES requirements.

The assessment objective is to improve the resilience of electricity networks to severe weather conditions drawing on the experience of other countries.

The Consultant is expected to present their report to the Authority by 1 July 2008. On receipt of the report, the Authority will coordinate with licensees on the preparation and issue of new and modified OES, and will present recommendations to relevant government authorities seeking improvements to electricity and related water sector land allocations.

(vii) Privatisation of OETC

In anticipation of a decision (by government) to proceed with the privatisation of OETC, the Authority will initiate work to assist the privatisation process and in particular to clarify the regulation of OETC activities in order to minimise investor uncertainty in this regard.

(viii) Cost Reflective Tariffs – Implementation

The Authority is preparing a detailed submission to support the introduction of Cost Reflective Tariffs for large consumers of electricity. In accordance with Article (9) and Article (10) of the Sector Law, the Authority expects to submit draft tariff regulations to PAEW by 1 April 2008.

(ix) Public Consultations

The Authority will initiate public consultation during 2008 on the following matters:

- a. **Further Market Liberalization:** the objective of this consultation will be to solicit feedback from interested persons on whether the electricity and related water sector is ready for any of the four liberalization measures listed in the Sector Law;
- b. **Meter Tampering Penalties:** the Authority wishes to implement revised penalties for meter tampering, and considers it appropriate to consult on matters such as the level and application of revised penalties prior to their implementation. The consultation would alert customers to the introduction of new penalties and may dissuade persons contemplating tampering with a meter from so doing; and
- c. **Customer Compensation - Guaranteed Standards of Performance:** Guaranteed Standards of Performance would require licensees to compensate customers if a licensee failed to comply with a guaranteed standard. The Authority expects to introduce compensation payments in 2009, and considers it appropriate to seek the views of interested persons, including customers and licensed suppliers, on the level and applicability of compensation payments.

The Authority has identified a challenging work programme for 2008 and invites comments and/or objections from interested persons on the draft programme.

Authority for Electricity Regulation, Oman

November 2007

2008 Forward Work Programme

1: General Policy Issues

Code	Task	Objective	Target Completion date
GP 1	Health & Safety (HSE) audits	Health and Safety audits scheduled for 2007 will be undertaken in 2008. These will include audits of RAEC facilities and licensed transmission and distribution systems.	01-Oct-08
GP 2	Environmental Issues	Environmental Audits scheduled for 2007 will be undertaken in 2008. These will include Environmental Audits of the licensed transmission and distribution systems.	01-Oct-08
GP 3	Under grounding policy - further clarificaion	The under grounding policy for Muscat Governate was clarified in 2006. The Authority will seek the assistance of PAEW to secure clarification of under grounding policy requirements in other areas of Oman.	01-Apr-08
GP 4	Planning and coordination issues	The Authority proposes to improve coordination between licensees and promoters of major projects (e.g. Tourism and industrial developments) to ensure planning coordination is appropriate.	31-Dec-08
GP 5	Emergency Procedures - Implementation	The Authority will ensure companies have the resources and arrangements in place to implement new Emergency Procedures. Companies will be asked to conduct simulated exercises of emergency situations supervised by ROP.	31-Dec-08
GP 6	Renewable Energy Initiative - Implementation	The Authority will issue decisions implemeting small scale renewable energy projects in rural areas, and will present recommendations to the Public Authority for Electricity and Water for potential large scale renewable energy projects in the Sultanate.	01-Jul-08

Code	Task	Objective	Target Completion date
GP 7	Energy Efficiency Seminar	The Authority will host a public seminar to consider how energy efficiency can contribute to sustainable development objectives. Electricity and related water sector companies, customers and other Ministries and authorities with an interest in these matters will be invited to participate in the seminar. Energy efficiency initiatives will be implemented through regulations issued pursuant to Article (38) of the Sector Law	01-Jul-08
GP 8	Public Consultations	The Authority will initiate public consultations during 2008 on (i) Further Market Liberalization, (ii) Meter Tampering Penalties and (iii) Customer Compensation (payable when licensees fail to meet Guaranteed Standards of Performance)	01-Oct-08
GP 9	Cost Reflective Tariffs - Implementaiton	The Authority will present draft tariff regulations to PAEW in the first quarter of 2008 for the introduction of Cost Reflective Tariffs for large consumers of electricity.	01-Apr-08
GP 10	GONU Assessment	The Authority proposes a rigorous assessment of damage caused by cyclone Gonu both in physical and financial terms, and a full review of all existing Oman Electrical Standards (OES). The assessment will review the basis of land allocations to electricity companies for electricity sub-stations, lines and other infrastructure assets, and present recommendations for change.	01-Jul-08
GP 11	Review of organisational structure and resource requirements	The Authority's workload is increasing and additional resources are required to sustain an acceptable level of performance. The Authority will conduct a review of its organisational structure and resource requirements.	31-Dec-08

2: Generation & Generation/Desalination

Code	Task	Objective	Target Completion date
<i>G - GD 1</i>	<i>Licence & Licence Exemption applications</i>	The Authority expects to process a licence and licence exemption application in 2008 and application for a change of control of a licence holder.	31-Dec-08

3: Power & Water Procurement

Code	Task	Objective	Target Completion date
<i>PWP 1</i>	Price control	The Authority will implement revised PWP price controls starting 1 January 2009.	01-Oct-08
<i>PWP 2</i>	Salalah IWPP	The Authority will review and monitor the competition for a new IWPP in Salalah to ensure the competition is fair and transparent. Following award, the Authority will process an application for a generation/desalination licence.	31-Dec-08
<i>PWP 3</i>	Salalah restructuring	Discussion on the possible restructuring of the Salalah Concession Agreement expected in 2007 will now take place in 2008. If the restructuring proceeds, the Authority will be required to issue authorisations for the generation, transmission, distribution and supply activities in the Salalah Concession Area, and implement a number of price controls.	31-Dec-08

4: Transmission & Dispatch

Code	Task	Objective	Target Completion date
<i>T&D 1</i>	<i>Price control</i>	The Authority will implement a new OETC price control (of 3 or 5 year duration) starting 1 January 2009.	01-Oct-08
<i>T&D 2</i>	<i>HSE & Environmental Audits</i>	The Authority will conduct audits of OETC operations to assess compliance with health and safety and environmental obligations.	30-Nov-08
<i>T&D 3</i>	<i>OETC privatisation</i>	The Authority will require specialist advice in anticipation of a decision (by government) to proceed with the privatisation of OETC.	31-Dec-08

5: Distribution & Supply

Code	Task	Objective	Target Completion date
<i>D&S 1</i>	<i>Price control review</i>	The Authority will implement new distribution and supply price controls (of 3 or 5 year duration) starting 1 January 2009.	31-Oct-08
<i>D&S 2</i>	<i>HSE & Environmental Audits</i>	The Authority will conduct audits of licensee operations to assess compliance with health and safety and environmental obligations.	30-Nov-08
<i>D&S 3</i>	<i>Guaranteed & Overall Standards of Performance</i>	The Authority will implement Guaranteed and Overall Standards of Performance for licensed distribution and supply companies. The standards will require major changes to the 'emergency service contracts' of licensees.	30-Nov-08
<i>D&S 4</i>	<i>Digital Metering Initiative</i>	The Authority will set targets for the installation of digital meters at customer premises and provide financial incentives through licensee price controls to help fund the initiative.	31-Dec-08

6: Rural Areas Electricity Company SAOC

Code	Task	Objective	Target Completion date
RAEC 1	HSE & Environmental Audits	The Authority will audit RAEC operations to assess compliance with health and safety and environmental obligations.	01-Nov-08
RAEC 2	Digital Metering Initiative	The Authority will set targets for the installation of digital meters at customer premises and will provide financial incentives through licensee price controls to help fund the initiative.	01-Dec-08
RAEC 3	Renewable Energy Pilot Projects	The Authority will set targets for implementing small scale renewable energy projects in Rural Areas and will provide financial incentives through licensee price controls to help fund the initiative.	01-Dec-08
RAEC 4	Information Framework and Price Control	The Authority will continue to develop and implement the RAEC information framework and will consider the introduction of price control arrangements for RAEC. The objective is to implement arrangements to provide RAEC with incentives to perform efficiently and that will improve the transparency and accuracy of RAEC subsidy calculations.	31-Dec-08

7: Import & Export of Electricity

Code	Task	Objective	Target Completion date
<i>I&E 1</i>	<i>Licensing and consents</i>	Ensure authorisations are in place for Import and Export across International Interconnections	As necessary
<i>I&E 2</i>	<i>Contracts and procedures</i>	Ensure licence and Code compliance in respect of agreed commercial and operational procedures (OETC, PWP and RAEC).	As necessary

Glossary of Terms

Cost Reflective Tariff	Amounts charged by the Licensed Transmission System Operator and Licensed Distribution System Operators in consideration for Connection and use of their Systems, and amounts charged by Licensed Suppliers in consideration for Supply where no Permitted Tariff exists, and such tariffs shall be calculated in respect of each calendar year on the basis and rules prescribed by the Authority
Export	Electricity generated in the Sultanate of Oman which is exported from the Sultanate of Oman pursuant to a legal transaction in accordance with the provisions of the Sector Law
Import	Electricity generated outside the Sultanate of Oman and imported into the Sultanate of Oman pursuant to a legal transaction in accordance with the provisions of the Sector Law
International Interconnections	An interconnection between a System within the Sultanate of Oman and a System outside the Sultanate of Oman
IWPP	Independent Water and Power Project
Licence	An authorization granted by the Authority to undertake one or more of the Regulated Activities stipulated in Article (3) of the Sector Law
Licence Exemption	An authorization granted by the Authority to undertake one or more of the Regulated Activities stipulated in Article (3) of the Sector Law
OES	The standards previously issued by the Ministry of Housing, Electricity and Water and the standards approved, reviewed and modified from time to time by electricity regulations made in accordance with Article (38) and Article (39) of the Sector Law, in relation to the safety of equipment and electrical Systems and procedures associated with the operation of electrical Systems
OETC	The Oman Electricity Transmission Company SAOC

PAEW	The Public Authority for Electricity and Water established by Royal Decree 92/2007
Permitted Tariff	The tariffs Customers are obliged to pay in consideration for Supply of electricity or for Connection to a Distribution System or a Transmission System, which tariff shall be determined in the manner stipulated in Article (9) of the Sector Law
Price control	A mechanism for determining the maximum allowed revenue a licensee can recover in each year from users of its services, as stipulated in a schedule charge restriction condition of a Licence
PWP	The Oman Power and Water Procurement Company SAOC
RAEC	The Rural Areas Electricity Company SAOC
Regulated Activities	The activities stipulated in Article (3) of the Sector Law
Sector Law	The law for the regulation and privatization of the electricity and related water sector promulgated by Royal Decree 78/2004
The Authority	The Authority for Electricity Regulation, Oman, being the authority established pursuant to Article (19) of the Sector Law