



PRINCIPLES APPLIED BY ENEMALTA IN CONSTRUCTING TARIFFS

Enemalta Corporation (Enemalta) understands that tariff proposals have necessarily to be based on applicable legislation – in particular the Electricity Regulations and applicable EU Directives - as well as any directives issued by the Malta Resources Authority as Regulator.

Enemalta is by law obliged not to make losses in any financial year, a principle that makes sound economic sense but also understands that it should not make excessive profits since it enjoys a *de facto* monopoly in generation and a *de jure* monopoly in transmission and distribution.

Enemalta Corporation also understands that tariffs for the supply of electricity are meant to recover reasonable expenses incurred by the Corporation in the generation, transmission and distribution of the same and that the role of the Regulator is to ensure that in doing business, Enemalta does not have a level of profits that is un-reasonable.

Conscious of the above, Enemalta declares that the principles that it will apply to its tariff proposal (most of which principles were applied to the tariffs published in December 2008 as well) are:

1. **Full recovery of all budgeted costs** incurred by Enemalta taking into consideration the following:
 - i. the projected impact on the budget of the price of oil in any one financial year will, as a minimum, be equivalent to the price paid by Enemalta for fuels used in that financial year together with the forward price for oils for the other months of that year;
 - ii. profits or losses made with respect to both currency and oils hedges occurring or likely to occur in the period stated in paragraph 1(i) will also be taken into account;
 - iii. A rate of return on capital employed based on international recommendations and practice and adjusted according to LIBOR rates where necessary.
 - iv. organisational inefficiencies that are:
 - a) within the control of Enemalta (e.g. not arising from a collective agreement);
 - b) not requiring further investments (e.g. technical losses rare excluded); and

- c) arising from non-technical operational deficiencies shall not be recoverable. The MEU 2005 report will be used as the evaluation basis unless a more recent independent audit is carried out in which case that audit will be used.
 - v. Any subsidy or PSO received from Government will be credited as income;
 - vi. Operating losses that have been incurred in the last audited financial year provided that non-operational losses as well as extraordinary losses will not be considered;
 - vii. Latest audited accounts will be used for verifying and extrapolating cost data.
2. ***Enemalta has been informed by Government that subsidies to socially deserving cases will be paid through an energy benefit mailed directly to the deserving persons.*** Consequently, the tariffs will not apply subsidies to any sector.
 3. **Enemalta will not expect any subsidy from Government** and consequently will not base its projections on either a loss making scenario to be financed by Government or on an operational scenario that depends on Government to finance its operational costs.
 4. ***Consumers should pay for whatever amount of electricity they consume,*** within the time frames established, failing which they will be subjected to interest payments and penalties.
 5. ***No tariff in respect of a unit of energy sold will be lower than the respective price of oil required to produce the energy sold.***
 6. ***The tariff will distinguish between Residential and Non-Residential users*** provided that the utilities may suggest the inclusion of other categories from time to time.
 7. ***The tariffs will ensure that there is no cross-subsidisation between tariff users*** (presently Residential and Non-Residential) and income from each user group will be roughly in line with the percentage of generated units used by each user group.
 8. ***The tariffs will ensure that as far as possible there is no discrimination internally within each user group*** provided that:

- a. in the Residential Tariff positive discrimination measures may be taken in order to:
 - i. encourage and incentivises the use of energy saving devices;
 - ii. give preference to efficient energy users;
 - iii. penalise users who are considered as excessive users of energy;
 - iv. incentivise the pre-payment and/or immediate settlement of energy bills and disincentives late payments or arrears;
 - b. in the Non-Residential Tariff there will be no distinction between the various sectors of commercial activity and the sole criterion used shall be the amount of energy used provided that:
 - i. all the positive discrimination measures applicable to the Residential Tariff shall also apply to the Non-Residential Tariff;
 - ii. large account holders may be given quantitative discounts;
 - iii. night and day differential rate schemes may be introduced;
 - iv. incentives may be introduced for pre-payment agreements.
9. ***The service charge will generally aim to recover expenses incurred by the transmission, distribution and retail sectors whilst the consumption tariff will aim to recover the expenses incurred by the generation sector*** and for these purposes:
- a. Corporate expenses as well as other costs that cannot be easily attributed to one sector or another are divided equally between distribution and generation;
 - b. Expenses, including financial expenses and the return on capital employed, are attributed solely to the sector where they are made;
 - c. the excess of income over expenditure for each sector will be generally proportionate for each sector in line with the percentage expense of each sector relative to total cost.

Enemalta reserves the right to:

- i. As long as not contrary to any law, make exceptions to these principles for reasons of social justice or for reasons of national economic interest provided that when making such exceptions it shall as far as possible limit by time the application of such exceptions;
- ii. Develop new principles and undertake to notify the same to the Regulator;
- iii. Suggest amendments to existing principles approved by the Malta Resources Authority.