



هيئة تنظيم الكهرباء - عمان
AUTHORITY FOR ELECTRICITY REGULATION, OMAN

2007 Forward Work Programme

December 2006

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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 its Forward Work Programme before the commencement of each Financial Year (1 January to 31 December). This document presents the Authority’s 2007 Forward Work Programme.

Further information about the Authority and the new electricity and related water sector market structure 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 2007 Forward Work Plan, must be conducted in accordance with these statutory duties.

Consultation

The Authority consulted on the 2007 Forward Work Programme and has responded to all comments received during the consultation.

Purpose of Forward Work Programme

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

- (i) publication of a Forward Work Programme gives notice to any Person who may be affected by the programme;
- (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 2007 Forward Work Programme

The 2007 Forward Work Programme is the second such programme published by the Authority since its establishment. Like the 2006 programme, the 2007 programme comprises both general policy initiatives and tasks specific to the regulated activities identified in Article (3) of the Sector Law. The 2007 Forward Work Programme continues work streams started in 2006 and certain tasks in the 2006 Forward Work Programme that the Authority was unable to initiate in 2006.

Tasks in the 2007 Forward Work Programme are in addition to the general work of the Authority that centers on the monitoring and enforcement of all relevant rules and regulations.

Having allowed licensees time to adjust to the new market structure, 2007 will see greater emphasis on performance assessments and the publication of reports showing licensee performance against key performance indicators. The Authority also proposes to strengthen price control incentives to ensure licensees are properly motivated to improve efficiency. The Authority will implement further measures to improve the metering of flows on the transmission and distribution systems. The Authority will introduce minimum acceptable levels of technical and non technical losses and mechanisms to penalize licensees for losses above stipulated levels.

The Authority will conduct reviews of the distribution and supply price controls and implement new controls to take effect from 1 January 2008. 2007 will see the introduction of guaranteed and overall standards of performance to improve licensed suppliers' accountability to customers and provide incentives to improve 'quality of service'.

The Authority will conduct interim reviews of the price controls of the Oman Electricity Transmission Company SAOC and the Oman Power and Water Procurement

Company SOAC. These reviews will allow the Authority to strengthen incentives for efficiency and introduce more explicit performance targets.

The Authority will press for the completion of the regulatory reporting framework for the Rural Areas Electricity Company SOAC that is essential to the regulation and supervision of electricity related activities in rural areas.

The 2007 Forward Work Programme includes a number of important new initiatives:

- (i) The Authority proposes an Initiative to assess the costs and benefits of renewable sources of energy in the Sultanate. The initial focus will assess the potential use of solar panels to Supply electricity in remote rural locations, and review previous research into the potential for 'wind energy' at specific locations. The Authority will coordinate and share information with the Research Council and seek the full participation and involvement of licensees;
- (ii) The Authority proposes to introduce regulatory accounting guidelines for licensees with separate businesses. In addition to facilitating the (accounting) separation of distribution and supply activities, the guidelines will reduce regulatory reliance on statutory accounts, and provide greater transparency of licensee performance under their respective price controls;
- (iii) The Authority is presently coordinating with the Royal Oman Police on the preparation of revised Emergency Procedures for the electricity and related water sector. This important initiative will ensure the electricity and related water sector responds quickly and effectively to emergency situations by establishing clear lines of communication and coordination between the sector and competent authorities; and
- (iv) The Authority proposes to publish a statistical bulletin of electricity and related water sector statistics as an appendix to the 2006 Annual Report, and annually thereafter. The format of the statistics will be consistent with the new market structure and will assist electricity and related water sector research whether for educational purposes, to assess sector performance or to inform investment decisions.

The Authority has identified a challenging work programme for 2007 and remains committed to serving the interests of customers, investors and the Government.

Authority for Electricity Regulation, Oman

December 2006

2007 Forward Work Programme

1: General Policy Issues

Code	Task	Objective	Target Completion date
GP 1	Health & Safety (HSE) audits	The Authority will conduct further Audits of licensee operations to confirm compliance with health and safety obligations. The Authority is also proposing a wholesale review of HSE documentation and manuals used in the electricity and related water sector, with a view to securing an update of all such documentation.	1 July 2007
GP 2	Omanisation	The Authority proposes further coordination with the Ministry of Manpower to confirm the Omanisation obligations of licensees consistent with the skills requirements of the sector and the new electricity market structure.	1 April 2007
GP 3	Environmental Issues	Following production facility Environmental Audits in 2006, the Authority proposes to conduct Environmental Audits of other Licensees and Licence Exemption Holders in 2007.	1 October 2007
GP 4	Undergrounding policy	The undergrounding policy for Muscat Governate was clarified in 2006. The Authority proposes to seek clarification of undergrounding policy requirements elsewhere in Oman in 2007.	1 October 2007
GP 5	Planning and coordination issues	The Authority proposes to continue to improve coordination between licensees and promoters of major projects (e.g. Tourism and industrial developments) to ensure planning coordination is appropriate.	31 December 2007
GP 6	Regulatory Accounting Guideline Initiative	The Authority proposes to introduce regulatory accounting guidelines (RAG) for licensees to (i) reduce regulatory reliance on the statutory accounts, and (ii) provide greater transparency of the operation of price controls and licensee performance under the controls.	1 April 2007
GP 7	Renewable Energy Initiative	The Authority proposes an Initiative to assess the costs and benefits of renewable sources of energy in the Sultanate. The initial focus will look at the potential for solar panels to Supply electricity to remote rural locations, and review previous research and development into 'wind energy' potential at specific locations.	1 October 2007
GP 8	Statistical Bulletin Initiative	The Authority will publish a statistical bulletin of electricity and related water sector statistics as an appendix to the 2006 Annual Report, and annually thereafter. Statistics will be in a format consistent with the new market structure to assist those research for educational purposes or to inform a potential investment.	1 July 2007
GP 9	Emergency Procedures Initiative	The Authority is coordinating with the Royal Oman Police to prepare revised and updated emergency procedures for the electricity and related water sector.	1 July 2007

Code	Task	Objective	Target Completion date
GP 10	Permitted Tariffs & subsidy	The Authority proposes a detailed assessment of (i) the distribution of subsidy by customer category, and (ii) research into the demand profiles of customer categories. The assessment will inform a submission to the Council of Ministers on the economic effectiveness of sector subsidy and proposals for tariff reform.	31 December 2007
GP 11	Review of organisational structure and resource requirements	The Authority is reviewing its organisational structure and resource requirements to ensure it can effectively fulfil its statutory functions and duties. Changes expected to be implemented during 2007 include a modification to the management structure and an increased staffing compliment.	31 December 2007
GP 12	Licence Compliance Statements	The Authority will publish statements detailing the compliance of each Licensee with each Licence Condition. The statements will be published by 1 April 2007 and annually thereafter. Publishing the compliance statements will provide licensees with a further incentive to ensure they are complying with their licence obligations.	1 April 2007

2: Generation & Generation/Desalination

Code	Task	Objective	Target Completion date
G - GD 1	Rusail privatisation & BARKA II IWPP	The Authority will consider a change of control application for the Al Rusail Co licence and authorisation applications for the new Barka II IWPP (inc a review of financing arrangements to confirm market share restrictions and ring fenced financing undertakings are properly implemented).	31 December 2007

3: Power & Water Procurement

Code	Task	Objective	Target Completion date
PWP 1	Price control	The Authority will discuss with the PWP arrangements for extending the present PWP price controls pending finalization of the Salalah restructuring.	1 October 2007
PWP 2	Salalah IWPP	The Authority will review and monitor the competition for a new IWPP in Salalah to ensure the competition is fair and transparent.	31 December 2007
PWP 3	Salalah restructuring	Significant resource will be required to implement a possible restructuring of the Salalah Concession Agreement. 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 price controls for all activates except generation.	31 December 2007

4: Transmission & Dispatch

Code	Task	Objective	Target Completion date
T&D 1	Price control	The Authority will discuss with OETC arrangements for extending the present OETC price control to 2008 so that a new price control (of 5 year duration) can be introduced following the privatization of the company.	1 October 2007
T&D 2	Economic Purchase Reviews	The Authority proposes to review a sample of OETC capital expenditure projects to test compliance with the economic purchase obligation.	1 October 2007
T&D 3	Review of Transmission OES	The review of transmission Oman Electrical Standards ("OES") scheduled for 2006 will now take place in 2007. The review will ensure all such standards are fit for purpose and consider the need for new / amended transmission OES.	31 December 2007

5: Distribution & Supply

Code	Task	Objective	Target Completion date
D&S 1	Price control review	The Authority will undertake a consultation exercise and full review of the distribution and supply price controls with the introduction of new controls from 1 January 2008. The Authority will determine whether the new controls should be for 3 or 5 year durations.	31 December 2007
D&S 2	Economic Purchase Reviews	The Authority proposes to review a sample of distribution capital expenditure projects to test compliance with the economic purchase obligations of licensees.	1 October 2007
D&S 3	Technical & non-technical losses	The Authority will introduce specific measures to reduce technical and non-technical losses to stipulated levels, and that will relate each licensees subsidy entitlement to meeting stipulated losses reduction targets.	1 October 2007
D&S 4	Review of Distribution OES	The review of distribution Oman Electrical Standards ("OES") scheduled for 2006 will now take place in 2007. The review will ensure all such standards are fit for purpose and consider the need for new / amended distribution OES.	31 December 2007

6: Rural Areas Electricity Company SAOC

Code	Task	Objective	Target Completion date
RAEC 1	Health & Safety (HSE) audits	The Authority will audit RAEC operations to assess compliance with health and safety obligations.	1 July 2007
RAEC 2	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 December 2007

7: Import & Export of Electricity

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

Glossary of Terms

<i>Al Rusail Co</i>	The Al-Rusail Power Company SAOC
<i>Cost Reflective Tariff</i>	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
<i>Economic Purchase</i>	The procurement of all required goods and services on the best economic terms taking into account quality, quantity, the nature of the items intended to be purchased, the available manner of delivery and the future security, reliability and diversity of supply of the items to be purchased
<i>Export</i>	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
<i>Import</i>	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
<i>International Interconnections</i>	An interconnection between a System within the Sultanate of Oman and a System outside the Sultanate of Oman
<i>IWPP</i>	Independent Water and Power Project
<i>Licence</i>	An authorization granted by the Authority to undertake one or more of the Regulated Activities stipulated in Article (3) of the Sector Law
<i>Licence Exemption</i>	An authorization granted by the Authority to undertake one or more of the Regulated Activities stipulated in Article (3) of the Sector Law
<i>OES</i>	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

<i>OETC</i>	The Oman Electricity Transmission Company SAOC
<i>Omanisation</i>	The policy for the employment of Omani nationals as issues from time to time by the Government of Oman
<i>Permitted Tariff</i>	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
<i>Price control</i>	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
<i>PWP</i>	The Oman Power and Water Procurement Company SAOC
<i>RAEC</i>	The Rural Areas Electricity Company SAOC
<i>Regulated Activities</i>	The activities stipulated in Article (3) of the Sector Law
<i>Sector Law</i>	The law for the regulation and privatization of the electricity and related water sector promulgated by Royal Decree 78/2004
<i>The Authority</i>	The Authority for Electricity Regulation, Oman, being the authority established pursuant to Article (19) of the Sector Law