MONGOLIA COUNTRY PROFILE

Overview

Mongolia has a GDP of USD 5,259 million\textsuperscript{lxvi} and a population of approximately 2.61 million.\textsuperscript{lxvii} The total primary energy supply in 2007 was 3.09 Mtoe (million tons of oil equivalent) of which 71.1% is coal/peat; 3.4% is combustible renewable and waste (including biomass, biogas and waste) and 25.5% is oil. Mongolia is a net exporter, with minimal import of electricity and no import of natural gas. CO\textsubscript{2} emissions are 11.28 (measured as Mt of CO\textsubscript{2}).

1. Institutional structure

The Ministry for Mineral Resources and Energy (Ministry) sets policy in the energy sector, while the regulatory authority, the Energy Regulatory Administration (ERA), is the implementing authority. ERA is an autonomous regulatory agency that covers only the electricity and heat supply sectors; there is no natural gas supply and no gas market. As a practical matter, some overlap in responsibilities between the Ministry and ERA are found in the law, and efforts are underway, pursuant to a Memorandum of Understanding between the two bodies, at the initiative of the regulator, to better delineate the functions and responsibilities of each.

In place since 2001, ERA is a multi-member body. Its board (Council of Regulators) consists of three regulators including the Head of the Council. The Prime Minister of Mongolia designates the Head of the Council of regulators and the other two regulators, upon proposal of a member of the Cabinet responsible for the energy sector. The initial appointment of regulators is for two, four and six years on the rotary principle and the subsequent appointment is for six years. The appointment can be renewed only once. The regulators can be dismissed by the Prime Minister only for cause. Conflict of interest rules prohibit the regulators and senior staff from having interests in the regulated entities and from having management positions in these entities.

In accordance with ERA’s Charter, the Head of the Council of Regulators establishes the salaries for the board and personnel, which are higher than civil servant salaries. ERA has 26 employees, including its Council of Regulators. ERA has an independent budget, approved by the Cabinet, though the Ministry on Mineral Resources and Energy and Ministry of Finance can revise the ERA budget before its approval by the Cabinet. ERA’s budget is made up of fees paid by the regulated entities. In 2009, the budget of ERA was USD 440,000.

The regulatory authority is responsible for: tariff methodology; tariff levels; licensing and establishing licence conditions; authorisations of new generating capacity; service quality; consumer complaints; wholesale market structure; penalties against energy enterprises for failure to comply with energy legislation and licensing; and monitoring sector activity. The Ministry has authority for developing policy in the sector, for \textit{ex ante} approval of investment plans in electricity transmission and distribution and gas transportation and distribution; and for \textit{ex post} prudential review of investment decisions.

\textsuperscript{88} Information herein is drawn primarily from the regulator, from answers to questionnaires provided for this project.
According to the Law on the Energy Sector, an energy enterprise has the right to appeal a regulatory decision in the Administrative Court in the event that an enterprise does not agree with the decision of ERA. The Court can overrule a regulatory decision, though no appeals (or overruled decisions) have occurred to date. The Court is also empowered to suspend a regulatory decision pending appeal.

Mongolia has a competition authority (the Unfair Competition Regulating Authority), which is responsible for addressing anti-competitive behaviour and reviewing mergers and acquisitions. The ERA cooperates with this authority.

2. Electricity sector

a. Market framework

Market participants are five combined heat and power plants, one (state-owned) electricity transmission operator and ten electricity distribution companies. One of the four largest distribution companies was fully privatised in 2004; with the exception of two private distribution companies, all the rest are state joint-stock companies.

Vertical separation of an integrated utility enterprise took place in 2001 according to the Law on the Energy Sector. The integrated enterprise was unbundled into generation, transmission and distribution companies; the law does not require separation between distribution and retail/supply functions and such separation has not occurred.

The ERA launched a market model with a single buyer in 2002. Five power generating companies sell electricity at regulated tariffs to the single buyer. The central regional energy transmission company sells the purchased electricity to ten distribution companies. The central regional distribution company, which functions as the single buyer, sells the purchased electricity at wholesale prices. Distribution companies distribute electricity and supply it to the end-users at distribution prices. In accordance with this sequence, regulated generation tariffs are set, then tariffs for transmission and distribution, and finally, tariffs for end-users.

In addition to the single buyer market, a spot market has been operating since 2006 and an auction market has been operating since 2007. Incremental electricity demand is now auctioned among generating licensees for the best price reducing percentages.

At the moment, customers cannot switch suppliers. A timetable for market opening has not been set and there are no eligible customers at present. ERA has the right under the law to designate a date for market opening.
b. Network access and tariffs

ERA has the following tariff authority under the law:

- Set methodologies used for calculation of tariffs on electricity and heat for licensees and consumers
- Set methodologies used for calculation of balancing services and auxiliary services
- Set the tariff structure
- Provide conditions for stabilising the tariffs for the use of the most low-cost electricity and make provisions for efficient market functioning
- Monitor the application of the set tariffs and actual indices of costs that are included in the tariffs

At present the regulatory authority of Mongolia has set twelve heat and eight electricity tariff categories, regulated for generation, transmission, distribution and end-users. The tariffs for electricity and heat are set based on the specifics of the territorial location and needs for their consumption and are calculated according to the appropriate methodology. For instance, for the inhabitants of the central, western and eastern regions, the tariffs for electricity differ. Cross subsidies between electricity and heat are commonplace. The most recent large tariff increase (electricity price increased 28% and heat price increased 39%) took place in July 2008. Previous increases had been gradual. This increase was an effort to make tariffs more cost reflective and to provide sufficient funds to energy companies to allow them to pay for operations, maintenance and improvements. Lifeline tariffs are in place, and ERA has developed progressive block tariffs.

Currently the regulatory authority does not set access tariffs between the system operations. The rates are set on a contractual basis. During 2006 there was no increase in heat tariffs. ERA attributed the decision to not increase heat tariffs to the fact that electricity sales increased in 2006, and hence, revenues increased, making a tariff increase less necessary to produce the appropriate revenue requirement.

The law requires non-discriminatory access to transmission and distribution networks. The legislation does not require, however, that all parties seeking access to the transmission and distribution networks must follow the same set of technical terms and conditions, or pay the same tariff. In practice there is discrimination. The grid code, adopted in 2003, regulates functional and operational relations of the power plants and grid companies. The grid companies extend the networks at the expense of the municipal and state budgets. The payment for the connection is set by the grid enterprise. The transmission company and the Ministry are responsible for electricity transmission planning.

The ERA issues licences for the following activities: import/export; construction of cross-border lines having capacity of over 5 MW, upon permission of the State Central Administrative Authority; generation; dispatch, upon permission of the State Central Administrative Authority; transmission; distribution; regulated and unregulated supply.
c. Operational environment

Foreign capital investment into energy assets/companies is permitted. Incentives for providing opportunities for and encouragement of investments include tenders; guaranteed tariffs for renewable energy (though not yet implemented); long-term agreements on purchase of electricity; or a combination of all these options.

The Law on Energy Sector in force does not include special provisions for vulnerable customers, but the regulatory authority calculates and applies tariffs for vulnerable customers depending on the income of the consumers and based on the amount of their energy consumption. To meet the needs of the vulnerable and low-income categories of population, a delayed electricity tariff is set. The ERA does not have policy-making powers to eliminate access restrictions. Social authorities of this country are entirely responsible for these issues.

The law and the rules do not provide for a “supplier of last resort.” The regulatory authority does not participate in the process of implementation of measures to cover peak demand and to address any shortfalls. Shortfalls are the responsibility of the National Dispatch Centre.

The framework for ERA in primary legislation and secondary legislation developed by ERA emphasises transparency. ERA issues an annual report in Mongolian and English, and sends its reports to the Parliament, Cabinet of Ministers, licensees and other organisations with which it cooperates. These reports include the key activities of ERA and can be found on its website, www.era.energy.mn. Decisions of the Council of Regulators are published in the daily press and on its website (though not in English). As of 2006, the ERA began to perform internal audits of its licensees, with the stated objective to determine the efficiency of expenditures, assess the implementation of the International Accounting Standards and monitor compliance with the Accounting Law.

3. Renewable energy sources/energy efficiency

On 9 June 2005, the Parliament of Mongolia approved “A National Renewable Energy Programme” for the period 2005-2020, to facilitate the wider use of renewable energy in Mongolia. The Programme’s goals include: a total installed capacity generated by renewable energy power sources of 3-5% by 2010 and 20-25% by 2020 of the total energy production; and a programme for increased decentralised electrification of remote rural villages to provide electricity to 100,000 households by 2010 and all rural families by 2020.

A Renewable Energy Law was adopted in 2007. This law sets forth feed-in tariff ranges for renewable energy, categorised by type. Pursuant to the framework established by the Renewable Energy Law, ERA developed and approved the first long term Power Purchase Agreement to be signed between the “Central Regional Electricity Transmission Network” State Owned Stock Company and private investor “Newcom” Co., LTd. Approval of this agreement was the first step to encourage private sector participation in the energy sector.

Mongolia ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change in 1999.
4. Conclusion

Mongolia performs reasonably well overall and very well with respect to its grouping (Group C), largely above average for both electricity and gas. Within its Group, Mongolia has an electricity sector score of 0.746 relative to a Group C average score of 0.461. Its gas sector is too limited for rating.

Institutionally, Mongolia has made significant strides and offers a sound regulatory framework and operational structure. Additional clarity of roles and responsibilities would serve to heighten investor confidence in the sector, and additional renewable energy incentives and support schemes would likely increase needed investment.

Electricity spider graph – Mongolia

Note: The diagram presents the electricity sector results of Mongolia, in accordance with the benchmarks and indicators identified in the assessment model. The extremity of each axis represents an optimum score of 1.0, that is, full compliance with international best practices. The fuller the “web”, the closer the overall electricity regulatory framework approximates international best practices. The results for Mongolia are represented by the thick bold line. See next page for comparison purposes, the shaded area presents the electricity sector average of the Group C countries.

Electricity Sector - Comparative view of Group C countries