

Policy Sequencing

Essential Initial Steps

1. Establish independent regulator.
2. Set up social support programmes and eliminate direct heat production subsidies.
3. Insist on good payment discipline through legislation and enforcement.
4. Require meters at interface with all buildings and large consumers.
5. Develop policies to promote demand-side energy efficiency.
6. Establish conditions that allow for full cost recovery.
7. Remove barriers to unregulated wholesale competition.
8. Involve private sector through privatisation or public-private partnerships.

Steps for Better Regulation

1. Prepare realistic demand assessments and least-cost plans for high service quality.
2. Establish least-cost supply requirements and use competitive licensing to get least-cost new supply options.
3. Move toward more market-based tariff regulation (benchmarking, price caps with efficiency indexes or substitution tariffs).
4. In larger cities, require more extensive wholesale competition for long and medium-term heat contracts by unbundling production from transmission/distribution and establishing non-discriminatory transit tariffs.

Steps for Introducing Competition

1. Remove barriers like subsidies for competing heat sources.
2. Establish more market-based tariffs.
3. Assess market conditions.
4. Establish a body that can review and act on complaints about abuse of market power.
5. Ensure that consumers can disconnect and require district heating companies to process such requests quickly.
6. Eliminate tariff regulation.
7. Monitor market annually and establish a clear process for reviewing and acting on this information, when necessary.