

A Regulator's view of EU regulation

David Haldearn, UNECE Electricity Panel
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Context

- EU is in a period of change e.g.
 - Sector Inquiry into gas and electricity markets
 - Commission “Strategic Energy Review”, January 2007
 - Third package of legislation by Sept 2007?
- Drivers for change:
 - single EU energy market is central to core principles of “security, sustainability, competitiveness”
 - Some progress towards integration e.g. prices indicate increasing efficiency in electricity supply
 - But liberalisation overall has been too slow, within and between borders
 - Security of supply – Russia/Ukraine dispute last winter, now blackouts

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Importance of the Infrastructure

- The basis for a single market and security of supply must be an integrated EU grid
- An “integrated grid” should be a “network of networks” – i.e. national grids joined together better than today through:
 - interconnectors;
 - reinforcements to facilitate transit
 - connections to diverse sources of energy
- Investment and operation must come from private companies – Governments should not “pick winners”
- Therefore, creating climate for investment necessary to facilitate cross-border trade is vital

The scale of the task

- Commission Green Paper:
 - “around 1trillion euros will be needed over the next 20 years” to meet energy demand and replace aging infrastructure
- Commission report on TEN-energy, Oct. 2005:
 - 30 billion euros needed 2005-13 *and* 2014-23 in overall electricity infrastructure
- BUT current framework promotes liberalisation *within* member states; no effective rules for investment *across* borders

Current Problems

- The “regulatory gap” includes:
 - Varied powers of national regulators
 - No cross-border enforcement
 - Uneven implementation of existing Directives
 - Often no effective unbundling
 - Long term contracts prevalent, including grandfathering rights
 - Ongoing wholesale or retail price controls
- This absence of a clear and stable regulatory framework is a disincentive for the necessary investment

Financing cross-border infrastructure investment – the theory

- Two approaches possible:
 - “Fully Regulated” Investments
 - “Contract” or “merchant” investments
- Both feasible, and necessary, within competitive single market
- But both must meet 3 criteria ie. investors need:
 - Clear, long term market signals
 - Regulatory certainty
 - Fair rate of return

An EU regulatory framework?

- To facilitate, operate and oversee an integrated European grid:
- TSOs should:
 - Develop and meet EU operating and security standards
 - Have in place an EU-level organisation to facilitate this ie. ETSO+/GIE+
- Regulators should:
 - Approve and ensure compliance with EU standards
 - Ensure costs and risks are appropriately allocated across borders
 - Ensure non-discriminatory access ie. enforce proper unbundling
 - Have in place an EU-level organisation to facilitate this ie. ERGEG+

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Way Forward

- The CEER response to the Commission Green Paper therefore called for new EU legislation on:
 - Levelling up of powers and independence of national regulators
 - Creation of an integrated European grid based on approved operating and security standards
 - EU obligations on national TSOs, including the development of a European Networks Body
 - EU responsibilities for national regulators, including the development of a “European regulatory function”
 - Unbundling – preferably full ownership of transmission
 - Clear guidelines for long term contracts

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Summary

- Despite progress, EU energy market remains fragmented
- Investment in an integrated grid is key
- EU legislation based on a comprehensive vision is needed
- Believe the political will for change now exists...
- ...but actions will need to match promises in 2007

- Watch this space!



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