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A rating agency view of regulatory practices and their effects on financing and entities ability to raise finance

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Q. How do capital markets evaluate the US and the EU electricity sectors, and what changes need to be implemented in electricity regulation to improve financial markets access and performance?

A. Easy!

- Capital markets undertake quantitative and qualitative analysis of market participants, and form views on sector risks
- Regulators should introduce 100% certainty for participants regarding all risks and returns bar their own operational performance
- Regulators should benchmark participants own operational performance against their historical 5 year average

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But, in reality.....



.....the question is extremely complex and one of balance

- > Agency methodologies for analysing and evaluating risk are well documented and widely available
- > Conflicting interests and goals amongst parties involved in sector
 - Governments
 - Consumers
 - Regulators
 - Companies
 - > Generation
 - > Transmission
 - > Distribution
 - > Retail and supply
 - Shareholders
 - Lenders



What do the markets look for in a regulatory system / regime?

- > Transparency
- > Consistency
- > Targeted implementation
- > Proportionate application
- > Accountability

.....and why?



What are the main investment requirements of electricity investors?

- A stable cash flow over a defined period of time (minimum)
- Economic viability
- Risk allocation
- Stable legal environment
- Strategic importance of assets
- Synergies
- Fiscal regime



Does regulation help to improve access to financial markets?

> **Yes – it promotes:**

- Consistency
- Transparency
- Fair treatment
- Certainty

> **Whether it is:**

- US style (legislative, cost of service based); or
- UK style (comparative, incentive-based); or
- Developing / evolving



But does regulation deliver a long term energy strategy?

> What it does is:

- Helps to provide a framework for implementation
- Safeguards consumer interests
- Ensures fair competition
- And thereby promotes a more stable investment climate

> But what it doesn't do is:

- Determine or drive energy strategy
- Ensure diversity of fuel mix
- Deliver surplus capacity



Some Final Thoughts

Overall...

- > Regulation assists finance-ability

However...

- > Regulation does not necessarily promote the integration of markets
- > Nor does it necessarily promote security of supply....and neither do liberalised markets

Only long-term forward looking energy sector policies that are transparent, consistent and targeted, and for which governments are prepared to be accountable, are likely to deliver the level of stability and integration being sought after across the EU.



**“I’ve never been an outright optimist,
but I am a prisoner of hope”**

Archbishop Desmond Tutu



Thank you for your attention

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