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The experience of European regulators in the opening of electricity & gas markets

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Who are EU Energy Regulators?

- **Regulators have very different legal nature**
 - Ministry Departments;
 - Independent Agencies;
 - No-profit companies
- **Regulators have very different structure**
 - Single person, 3-9 member Boards
- **Regulators are appointed by different institutions**
 - Parliament, President, Ministry, and combinations
- **Regulators have different duration and re-election rules**
- **Regulators are subject to different appeal/control bodies**



EU Regulators have common features and objectives

- **Independence from industry and governments**
- **Opening markets and enhancing competition**
- **Promoting system adequacy, energy efficiency and quality of service**
- **Protecting (especially vulnerable) customers**
- **Ensuring security of supply**
- **Eliminating restrictions to cross-border trade and fostering EU market integration**

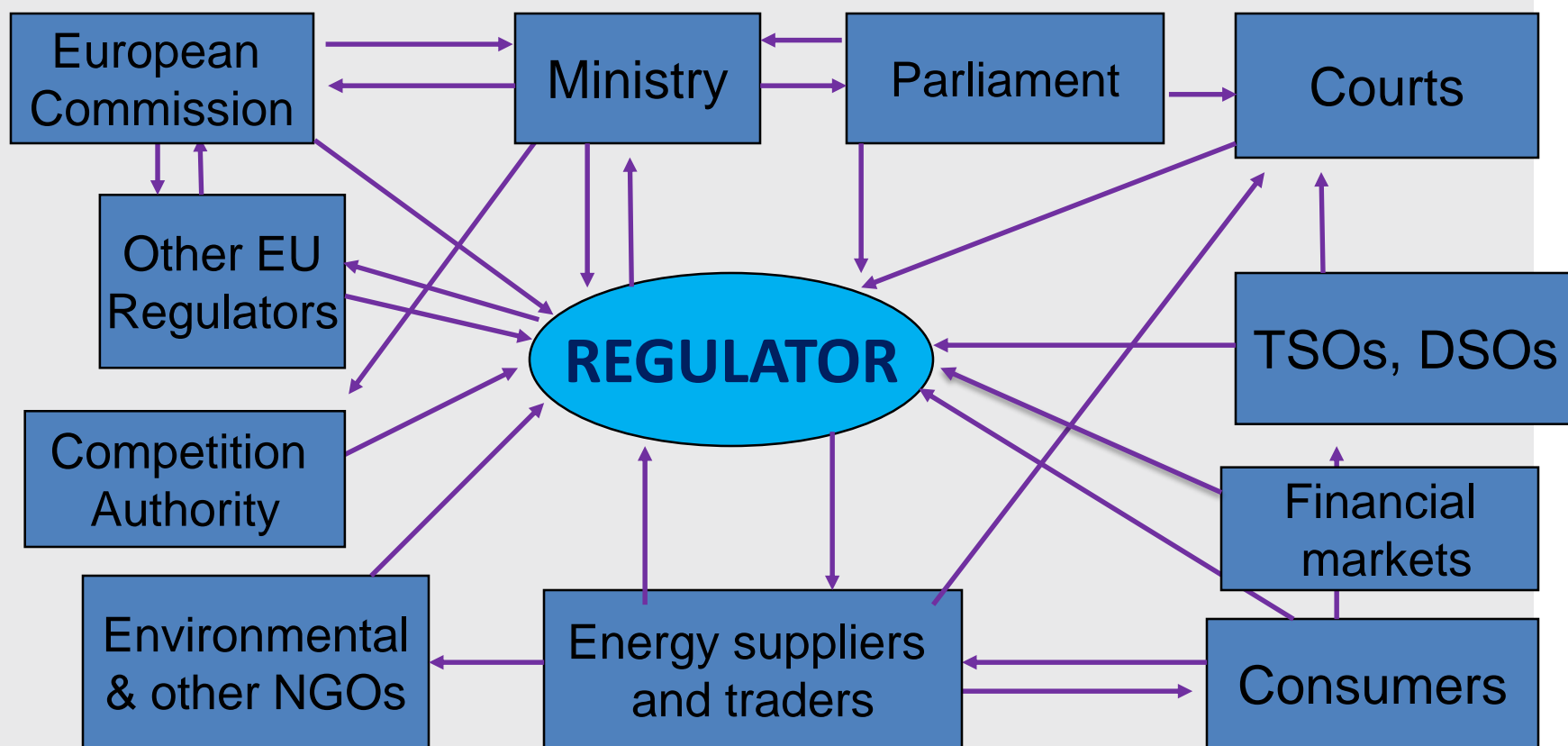


EU Regulators have common duties and powers

- **Setting access rules to transmission and distribution networks or their methodologies**
- **Ensuring compliance of transmission and distribution system operators with the relevant EU legislation**
- **Reporting annually on their activity**
- **Ensuring that there are no cross-subsidies between transmission, distribution, storage, LNG and supply**
- **Issuing binding decisions on regulated companies and entities**
- **Investigating and accessing data**
- **Issuing penalties for non-compliance**



EU Regulators interact with several stakeholders





The art of regulation: who are the friends?

- **Market newcomers**
 - At the beginning, they fight for access to networks and markets
 - Later, they may prefer collusion with traditional suppliers
- **Consumer associations**
 - Usually weak but vocal, may be strengthened by cooperating with the Regulator
- **Competition Authority, European Commission**
 - Often endowed with stronger power than Energy Regulators
- **Other EU regulators, sharing similar problems**
- **Parliament**
 - usually siding with consumers, but sometimes influenced by TSOs and traditional suppliers



The art of regulation: who are the foes?

- **Traditional integrated suppliers (*Incumbents*)**
 - Protecting their monopolies
- **Ministries of Economy / Development / Finances**
 - Prefer monopoly profits and state income rather to raising taxes
 - Prefer consumer subsidies to competition
 - See their traditional power partly transferred to Regulators
- **Distributors (and their trade unions)**
 - Afraid of efficiency-minded tariffs
- **Courts**
 - Privileges of monopolies often enshrined into legislation, enforced by Courts, which may cancel Regulators' decisions as unlawful



The art of regulation: who can be on your side?

- **Financial institutions and banks**
 - Often prefer unbundled and transparent businesses
 - Like low but stable tariffs more than political uncertainty
- **TSOs (after unbundling from supply)**
 - Often happy to accept low tariff / low risk regime
 - May cooperate in market control provided they are not squeezed
- **Environmental and other NGOs**
 - Regulator likely to promote energy efficiency and renewable
- **Workers' Unions**
 - If regulator can squeeze monopoly profits but avoid putting pressure on wages



Main lessons from EU regulators' experience

- **Pattern of key stakeholder relations is fairly stable across countries**
 - If it does not happen in your country, be suspicious
- **Independence is crucial, but in practice it requires:**
 - No crippling legal provisions
 - Committed and charismatic leaders, with good political skills
 - Expert but young staff, not too tied to regulated companies
 - Attractive salaries to reduce appeal of switching to industry
- **Conflict with traditional suppliers and Ministries can be very hard at the beginning - with casualties!**
- **Winning the trust of potential allies and public opinion (press) is key to success**



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Thanks for your attention!

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(Disclaimer: all opinions are the author's and do not involve FSR, EUI or RSCAS)