



## **12<sup>th</sup> EU-US Energy Regulators Roundtable**

**April 25-26, 2016**

**Madrid, Spain**

### ***Closing Statement***

On 25-25 April 2016, United States and European energy regulators met in Madrid for the 12th EU-US Energy Regulators Roundtable to discuss common challenges and exchange best practices and experiences<sup>1</sup>. The theme of the meeting was “the new energy system.” The event was organised jointly by the US and European associations of regulators, the National Association of Regulatory Utility Commissioners (NARUC) and the Council of European Energy Regulators (CEER).

Key topics discussed were building an integrated grid; encouraging flexibility; monitoring wholesale energy trading, consumer-centric energy models, gas trading hubs and cyber security. A brief summation of each panel of the event follows.

#### ***Building an integrated grid***

Energy markets and regulators themselves are facing a range of challenges as new technologies and energy resources change how electricity and natural gas are used and managed. The massive transformation is guided not only by technological developments but also by public policies (e.g. climate change and energy). A range of market designs have evolved to accommodate this change.

For the first time, the regulators’ roundtable included two external experts, Dr. Michael Howard of the Electric Power Research Institute (EPRI) and Dr. Jorge Vasconcelos of Newes, who set out some of the background for the discussion on building an integrated grid and underlined the importance of research and innovation. The power system of today is less dispatchable, less forecastable, more dynamic and more interactive than in the past. EPRI foresees a three-fold acceleration in innovation globally with the same level of innovation over the past 25 years being achieved again within the next 8 years. The growing digital economy requires electricity that is both reliable and sustainable. Additionally, the convergence of information technologies into power system will create a more integrate grid, with a still more diverse range of end-users. EPRI’s studies foresee a future with significant electrification of transportation (e.g., electric vehicles and electric rail), electric storage, and optimised consumer energy resources.

Markets are increasingly interconnected including electricity and gas markets, with many actors. This requires appropriate governance arrangements. In Europe, policy makers are discussing a new energy market design so as to deliver an EU Energy Union that will bring secure, affordable and sustainable energy.

With ambitious climate change and renewables targets, a challenge faced by many regulators globally is the need to fully integrate renewable energy sources (RES) into the market. Both European and U.S. regulators advocated the need to move away from subsidies for RES and toward a market-based approach. The ultimate goal is for RES to bear the same risks, and tap the same sources of income, as conventional generation.

### ***Encouraging flexibility***

The move to a low-carbon society, with a likely increased penetration of renewables, increases the need for all types of flexibility: expanded transmission infrastructure, dispatchable generation, balancing and wholesale electricity arrangements, gas market flexibility, and demand-side response. Regulators explored different regulatory approaches to promote flexibility from as many sources as possible, addressing system needs, solutions and tools for implementation.

Regulators on both sides of the Atlantic described the tariff-design changes that result from an increased penetration of distributed energy resources (DERs) on consumers' premises. European regulators explained how Europe's single electricity market design should encourage flexibility and how a more active participation by energy consumers is being encouraged with the roll-out of smart meters.

Both U.S. and European energy regulators shared a common understanding on the need to give consumers not only choice but also a role in markets. U.S. regulators explained the evolution of demand-side response initiatives by state/local utilities, how third-party competitive suppliers are engaging commercial and industrial customers, and how energy efficiency is being sold into capacity markets.

### **Monitoring wholesale energy trading**

Wholesale market monitoring is an area where the U.S. and European models have both similarities and differences. The new EU-wide framework to detect and prevent market abuse in European wholesale energy markets, established under the "REMIT regulation", depends on close cooperation and coordination between ACER and national regulatory authorities (NRAs) on monitoring, investigations and enforcement. REMIT prohibits market manipulation (and attempts to manipulate the market) and insider trading. Such prohibitions do not apply to derivatives admitted to trading at regulated markets regulated by financial regulators.

Under the U.S. model, the Federal Energy Regulatory Commission (FERC) has exclusive responsibility for both surveillance for wholesale energy market manipulation and civil enforcement. FERC can impose civil penalties (\$1M per day, per infraction ceiling) and FERC must prove intent to manipulate the market. Violations of U.S. law have tended to involve either "cross-product manipulation" or "rules arbitrage manipulation."

Future issues raised included the possible need to establish minimum standards for penalties systems across EU Member States in order to ensure proportionate, effective and dissuasive penalties for breaches of REMIT across the EU. Also discussed was the scope of court review of FERC decisions and the nature of strict “rules-based” enforcement as opposed to a broader fraud-like “principles-based” enforcement.

### **Consumer-centric energy models**

At the core of the emerging de-centralised model of energy systems is a more active role for consumers in markets through energy efficiency, demand response and self-generation. This presents the need move to a consumer-centric regulatory model for energy-related products and services. Retail supply markets have begun this transformation to a consumer-centric model and to develop more competitive and innovative retail markets. CEER has been a strong advocate of this trend in Europe. Regulators must ensure fair rules in several areas, including fair access to customers and enforceable consumer protection rules. Regulators can further facilitate this change by tackling market entry barriers, ensuring the regulatory framework encourages a range of offers from retailers, increasing consumer awareness by empowering consumers (e.g., through an independent price comparison tool and on-line access to consumption information).

U.S. regulators noted a diversity of business models across the United States. They discussed how vibrant retail supply markets can be applied to markets such as distributed generation, community solar and energy storage. These technologies may also be accommodated in the traditionally vertically-integrated business model that remains prominent in the United States. Of key importance is for consumers to have access to energy-related competitive products in a fair, transparent and economically-efficient market.

Recognising the importance of competitive and secure wholesale gas markets, regulators also compared EU hub development with leading U.S. hubs.

### **Cyber Security**

Regulators are placing increased attention on cyber security concerns. This is particularly so in the wake of the cyber attack in Ukraine (December 2015) on the electricity distribution network which led to power outages. Cyber attacks are becoming more sophisticated and frequent. This roundtable event was a rare opportunity for energy regulators in America and Europe to outline some of the main cyber security challenges. Regulators discussed whether common standards are needed.

CEER outlined the new proposed European framework and how it should help resolve existing discrepancies between EU Members States. NARUC members and FERC shared what regulators can do to ensure that cyber threats do not challenge the reliability of the electric grid and ensure security along the entire value chain. Regulators agreed to further cooperate on the issue of cyber security given the urgent need to prevent, detect, respond and recover from cyber attacks.

### **Next Steps**

The roundtable offered regulators (from the U.S.A. and Europe) the opportunity to share their experience and best practice approaches to encourage flexibility, to develop consumer-centric market, to monitor wholesale markets and to address significant new challenges such as cyber security.

The issues discussed in this EU-US roundtable are common challenges faced by energy regulators around the world. Regulators participating in the roundtable confirmed their commitment to sharing best practices and improving regulatory decision-making through ongoing communication and coordination both bi-laterally and multi-laterally including through the working groups of the International Confederation of Energy Regulators (ICER<sup>3</sup>).

**Notes to Editors:**

1. On 25-25 April 2016, the [12th EU-US Energy Regulators Roundtable](#) was held in Madrid, Spain. European and U.S. energy regulators have, since the year 2000, maintained an informal dialogue meeting bi-laterally every 18 months to exchange views and experience on selected topics of mutual interest in the electricity and gas markets, compare regulatory approaches, and discuss international developments and cooperation. The EU-US roundtable is jointly organised by the Council of European Energy Regulators ([CEER](#)) and the National Association of Regulatory Utility Commissioners ([NARUC](#)), the associations representing national/state energy regulators in Europe and USA respectively. Regulators from the US Federal Energy Regulatory Commission ([FERC](#)) and the European Agency for the Cooperation of Energy Regulators ([ACER](#)) were also invited to join the roundtable, which for the first time also had two external (non-regulator) speakers.
2. Established in 2000, the Council of European Energy Regulators (CEER) is a not-for-profit association in which Europe's independent national regulators of electricity and gas voluntarily cooperate to protect consumers' interests and to facilitate the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe ([www.ceer.eu](http://www.ceer.eu)). Founded in 1889, the National Association of Regulatory Utility Commissioners (NARUC) is a non-profit organisation dedicated to representing the State public service commissions who regulate the utilities that provide essential services such as energy, telecommunications, water, and transportation ([www.naruc.org](http://www.naruc.org)).
3. ICER brings together in a formal and structured dialogue the energy regulatory authorities from across 6 continents and over 200 regulatory agencies, including both the most developed markets and those which are still taking shape. It is composed of 11 regional regulatory associations as well as the regulatory authorities for Australia and Switzerland. ICER's goal is to serve as an effective tool to help improve, worldwide, public and policy-maker awareness and understanding of energy regulation and its role in addressing a wide spectrum of socio-economic, environmental and market issues. More information and publications by ICER are available at [www.icer-regulators.net](http://www.icer-regulators.net).