



**ENERGY REGULATORS STATEMENT**

**ON**

**SOUND REGULATION AND PROMOTING INVESTMENTS**

**IN ENERGY INFRASTRUCTURE**





### ***Framework and Participants***

In the framework of the forthcoming G20 Summit, to be held in St. Petersburg on 5-6 September 2013, the Russian Presidency has asked the Federal Tariff Service of Russian Federation (FTS of Russia) to develop a regulatory agenda and organize a G20 Outreach Energy Regulators Round Table.

Therefore the Federal Tariff Service of Russian Federation has invited the G20 Energy Regulators, including the European Union's Agency for Cooperation of Energy Regulators, as well as a number of relevant international regulatory organizations and associations. They were involved in the initiative either through written contribution, face-to-face work or delegated their agreed positions to the Heads of relevant professional associations participating in the Round Table in Kazan.

Representatives of National Energy Regulators from Argentina, Brazil, Indonesia, China, Mexico, Russian Federation, South Africa, Turkey, the United Kingdom, the United States of America have come to Kazan as well as of the Agency for Cooperation of Energy Regulators (ACER), African Forum for Utility Regulators (AFUR), Association of Ibero-American Regulators (ARIAE), Council of European Energy Regulators (CEER), Energy Regulators Regional Association (ERRA), Association of the Mediterranean Regulators for Electricity and Gas (MEDREG), Regional Electricity Regulators' Association of Southern Africa (RERA), International Confederation of Energy Regulators (ICER) and Organization for Economic Co-operation and Development (OECD).

The Russian G20 Sherpa and the Executive Office of the President of the Russian Federation also participated in the work of the Energy Regulators Round Table.

After review and discussion of the general and specific energy regulatory issues the involved energy regulators and G20 Outreach Energy Regulators Round Table participants agreed on the following Statement which contains their shared perspectives Sound Regulation and Promoting Investments in Energy Infrastructure in the power sector towards a workable world energy consensus.



## STATEMENT

on

### **Sound Regulation and Promoting Investments in Energy Infrastructure**

#### ***Round Table Conclusions***

#### ***With Regard to Electricity Market and Other Energy Markets Where Appropriate***

1. In the 21<sup>st</sup> century energy regulatory policy is being designed and implemented in a much more complex and volatile context than before. Ambitious economic, social, environmental and technological goals set by most of the world's countries as well as global economic difficulties redefine challenges. The needs of developing economies must be met as their energy demands grow while energy efficiency and benefits for consumers (including security and continuity of supply) must be safeguarded. The complexity and long-term nature of these challenges means that sustained efforts are required. Major investments in new and updated energy infrastructure are a central part of meeting these challenges. Energy regulators recognize that they play a critical role in ensuring that the conditions are created which enable investments which are in the public interest to happen.
2. Energy markets are a significant part of the global economy and adequate effective regulation is an inherent dimension of optimal energy market functioning. Sound regulation leads to more efficient, clear and predictable functioning of the energy sector as well as the global economy as a whole. Efficient energy markets - at the national, regional and world levels - are a pre-requisite for energy security and sustainable development. Properly functioning competitive energy markets should provide a secure, reliable and accessible energy supply which is essential for efficient economic and social development. Barriers to well-functioning energy markets should be removed.
3. Effective regulation encourages efficient energy markets which contribute to affordable and accessible clean energy technologies and a shift towards new and smarter technological solutions. Regulation is an absolutely necessary element in the provision of safe, secure, reliable, environmentally sound, adaptive and efficient energy infrastructure, and markets working in the public interest. It must also facilitate efficient, economic and commercially viable infrastructure development and promote open and non-discriminatory access to energy networks based on new intelligent technological platforms. The National Regulatory Authority (NRA) is a crucial institutional player to achieve these goals.
4. Within the scope of their duties, energy regulators play an important role in defining and enforcing energy market design and rules to ensure open and non-discriminatory market access, adequate and sustainable investments, promote the public interest, and support public policies and related political choices. All energy regulators must develop further their own transparent regulatory framework and approaches to ensure continued effective regulation. In the case of emerging economies, where market building is an ongoing process, NRAs should be deeply involved in finding a suitable path leading to efficient national and regional markets within the applicable legal framework. Reaching this goal is basically a country-led process which may take into account, among others, the relevant market size and structure, existing and target legal framework, affordability fundamentals and regional market building possibilities.

5. It is fundamental that NRAs are independent of political and industry pressure in order to provide both operators and consumers with a transparent, stable and predictable set of rules that promotes confidence in the functioning of market mechanisms and can adapt to the changing environment in the framework of established long-term policies. It is a prerequisite for an adequate flow of the new investments needed for the development of secure, competitive and sustainable energy infrastructure and markets and one that guarantees customer protection. Whether investments are due to the replacement of ageing infrastructure; expansion of relevant networks to meet increasing (or changing) demand; or a move towards new technologies, independent regulation aims to provide market certainty, predictability and clarity to ensure fair and adequate solutions are implemented.
6. In order to foster sustainable development, including the integration of renewable generation to the system, regulation continues to play a central role in ensuring that energy markets operate in ways which can contribute to sustainable development. It must promote consistency of rules, market based mechanisms whenever technically, environmentally and economically feasible, fair and reasonable tariffs, decision-making processes based on widespread consultation and involvement of stakeholders and transparent monitoring.
7. Energy Regulators must safeguard customers' ability to have fair access to, and the use of, energy markets and infrastructure. NRAs should have sufficient powers and tools aimed at protect captive and vulnerable customers and empowering them. Regulators – within the established long-term policy framework – should create adequate incentives for the demand side to be implemented in the system operation/regulation and in the assertive energy efficiency activities. With such end-users' involvement we could ease the system operation and minimize resources adequacy problems. The market rules should also allow small customers to benefit from the market.
8. The institutional and organizational arrangements for regulatory capacity should have the following characteristics: autonomy, efficiency, accountability, adequate powers, forecasting capability, sufficient resources and contain trained professionals with expertise.
9. All the issues mentioned above require effective regulatory tools, adequate powers, role clarity and reinforced forms of institutional cooperation of NRAs with other relevant national regulatory bodies on competition, technical, consumer and environment protection, financial market issues as well as an effective dialogue and collaboration with their international counterparts.
10. Transparent, properly accountable, compatible, stable and consistent national regulatory systems and, where appropriate, regionally compatible regulatory approaches, could greatly advance efficient functioning of current and future energy markets.

**In this context Energy Regulators agree it is important to:**

- a) ensure independence of NRAs including the following:
  - regulatory decisions made within the relevant national legal system should be open to challenge and overturned only by court or other legally recognized quasi-judicial body in accordance with the appropriate national legislation. Competition (antimonopoly) protection must be consistent with, and complementary to the ex ante regulatory process and decisions;
  - NRAs should have enough power and resources to resist industry and political pressure;



- the NRAs should have exclusive right and responsibilities regarding the regulation of third party access to energy infrastructure, together with related issues;
  - regulatory tools should be proportionate, sufficient and adequate to meet current and future challenges and to ensure their mission can be accomplished in support of energy policy goals.
- b) support the efficient development of the energy infrastructure needed to meet the challenge of sustainable development by:
- taking into account investors' requirements and needs in order to facilitate adequate economic and commercially viable investments to meet countries' needs for energy infrastructure upgrades, modernization and development;
  - ensuring that the activities of NRAs are predictable, transparent and accountable in order to maintain a favorable climate for the necessary investments to be made and to enable investors to deploy new and best available technologies;
  - streamlining NRAs' part of approval procedures relating to the construction of energy infrastructure and seek compatible regulatory approaches in order to enhance energy markets and ensure technological development;
  - providing, where appropriate, regulatory incentives to encourage investments and deployment of new energy infrastructure which are economically prudent, beneficial and minimize environmental impacts.
- c) improve energy markets functioning by:
- deeply involving regulators on a continuous basis in improving established and developing energy markets to meet future needs which should take into account the differences in market structure, capacity situation, cross-border trade possibilities as well as preparedness and qualification of market participants;
  - providing a level playing field for all market participants, including new entrants;
  - setting non-discriminatory, transparent and sound rules for access to essential facilities such as networks, and for their development and ensuring that tariff systems are fair, reasonable and consistent and supportive of necessary network development;
  - enforcing the operation of the rules;
  - encouraging transparency in market operation whilst enforcing the effective and independent monitoring of market functioning.
- d) protecting public and consumers interests by:
- regulatory measures, including those relating to infrastructure investments, which should be applied with careful consideration of their impact on current and future consumers including sufficient protection of captive and vulnerable customers whilst not hindering efficient network development;
  - providing a sound regulatory framework to enable resource adequacy through the deployment of new efficient, and cleaner generation facilities as well as through specific energy efficiency measures and demand side participation in the market;
  - investments, which will not only improve energy services and create new ones, but will also enable energy consumers to play a more active role in energy markets (which could assist them to mitigate their market risk and reduce their energy bills while supporting system flexibility);



- energy infrastructure development also aimed at fulfilling consumer rights with regard to universal access to energy, including through the specific targeting at increasing the electrification ratio in lagging regions and countries;
  - increasing the number of eligible market players by promoting adequate consumer awareness (education, information and assistance) to promote consumer choice thereby promoting the efficiency of energy market functioning where markets are still developing.
- e) advance NRAs development through:
- improving regulatory capacity in particular through the establishment of effective smart information and analytical systems which enable regulators to process massive data flows as well as to make sound decisions based on rigorous analysis;
  - achieving professional excellence through targeted training and education;
  - making available, as appropriate, information and expert analysis in support of the energy and energy related policy decision making process.
- f) establish effective interaction among the relevant authorities by:
- having clearly defined legal boundaries, roles and responsibilities of the energy regulators and other relevant oversight authorities (e.g. competition agencies, consumer and environmental protection bodies);
  - improving energy regulators' cooperation with national competition, technical, consumer, environment, financial regulators and other relevant authorities to achieve comprehensive approach and synergy effect;
  - facilitating cooperation at regional and international levels including to facilitate trade flows, thus promoting the efficient use of resources and/or mitigating market distortions;
  - enabling and promoting institutional cooperation among NRAs in order to share experiences and good practices both regionally and internationally, in particular, by improving existing cooperation mechanisms (e.g. regional associations, World Forum of Energy Regulation, ICER, joint conferences and workshops, bilateral collaborations, initiatives for financing coordination of training as well as dedicated information exchange and education actions).

**Energy Regulators are committed, through their regulatory actions, to helping to address the challenges faced by global energy markets. In recognition of this, regulators:**

- Invite international organizations such as OECD, IEA, ICER, OLADE, UNFCCC and others, to collaborate in order to: promote and share good regulatory practices, including on the areas referred to in this document; to enhance the climate for investment in energy infrastructure including in developing economies; and to examine and empower the role of regulators and the regulatory framework in facilitating efficient investments in energy infrastructure which are essential for ensuring secure and universal supplies of energy whilst meeting the challenge of climate change at competitive prices;
- Invite the Federal Tariff Service of Russia to present this Statement to the appropriate G20 institutions in 2013. The Regulators also consider it important that outcome of this work is reported to proper forums within the framework of the next year's G20 activities.