

## 7th ARIAE-CEER Meeting

### Conclusions of the VII meeting

9 May 2019

The Energy Transition is driving major changes in our energy systems, with impact on the design of our markets and the relationships between all actors, including consumers.

CEER's 3D strategy – Digitalisation, Decarbonisation and Dynamic Regulation – aims at framing the regulatory response to enable the energy transition.

The challenge of decarbonisation is to go through this process “at least cost”. The EU's “efficiency first” principle is key to putting decarbonisation into practice.

As regulators, we must strive to eliminate barriers, facilitate participation and remain fair for all interested actors, whilst guaranteeing consumer rights and protection.

During the meeting, energy regulators from CEER and ARIAE exchanged best practices and experiences regarding key developments and challenges facing both the energy sector and regulators, under five themes:

- Decarbonisation at least cost: planning and targets;
- Smart Grids Regulation
- Renewables: Auctions, Self-consumption and Integration in the network
- Customer Protection and Empowerment;
- Regulatory Institutions - Roles and Powers

These themes included the energy transition plans and policies being applied in ARIAE and CEER countries in the context of the Paris Agreement. In the EU, regulators are preparing to implement a suite of new legislative measures from the “Clean Energy for All Europeans Package”, which has nearly been finalised by the EU Institutions. The five themes from the meeting are discussed in more detail below, including recommended regulatory policies and tools.

#### **Decarbonisation at least cost: planning and targets**

Consumers must be at the heart of our work, and international cooperation is a key factor. It was mentioned that CEER's 3D Strategy establishes a new strategic vision for regulators. Decarbonisation at least cost is a great challenge for both climate policies and consumers. Dynamic regulation will help ensure concrete benefits can be delivered to consumers.

In this context, renewable electricity is playing a major role in the energy transition of both regions, Latin America and Europe, helping to achieve global access to cheaper and cleaner technology.

In order to achieve the long-term goal of greenhouse gas reduction, the new Clean Energy for All Europeans package establishes a robust governance system for the European Union, and each Member State is now required to draw up integrated national energy and climate for 2021 to 2030, outlining how they will achieve these goals and their respective targets.

Recently, the European Commission presented its strategic long-term vision for a prosperous modern, competitive and climate-neutral economy by 2050 – A Clean Planet for All. This plan aims at developing a power sector in the European Union, which is adapted to the new realities of disruptive technology, allowing consumers to be at the centre of the energy transition process.

Consumer empowerment would progress even further, with consumers enjoying more rights under a system that would allow everyone to participate in the transition by producing their own renewable energies with direct access to electricity grids.

It is understood that facilitating grid access with a fair price signal will benefit competition, driving the investments necessary to provide security of supply, whilst decarbonising the energy system.

Climate change and security of supply are the most important threats to Ibero-American countries from an energy perspective, because they have a direct impact on the local environment and the hydroelectricity sector.

Ibero-America is the most renewable-intensive region of the planet at 64% of electricity demand in 2014. One of the countries on the forefront of renewable electricity usage in Latin America is Costa Rica, which has a nearly-100% renewable power matrix, as was presented at the conference.

Costa Rica, over the past seven years, has invested US\$1.7 billion in renewable solar, wind and hydropower projects. Renewable energies are expected to become stable energy resources in this country, due to, among other aspects, the abundance of tropical rainfall and the extensive network of watersheds that supply hydroelectric plants.

Discussions also considered some policy decisions taken by Europe regarding decarbonisation. European policy debates are ambitious and bring together market, legislative and infrastructure aspects. Regulators in Europe have the challenge of responding to all these goals to make sure consumers are treated fairly, without discrimination between consumers and prosumers. Opportunities include achieving significant environmental benefits, taking advantage of technological progress and implementing more-advanced policy frameworks. Themes related to the future role of gas, and technological solutions linked to the decarbonisation process were also discussed.

A representative from Costa Rica reviewed the National Plan of Decarbonisation in this country. A challenge would be moving towards a cultural transformation regarding the needs of decarbonisation. Some transversal strategies were identified: educational policies, digitalisation, institutional changes, financing and social aspects.

Some challenges include managing fossil fuels in public transport in order to change the energy matrix in Costa Rica towards a scenario of greater use of clean and renewable energy.

Some strategic activities carried out by Costa Rica include: replacing the use of fossil fuels with alternative clean sources; finding carbon-free alternatives for transport; and seeking financial and political support from multilateral banks (Inter-American Development Bank (IDB) and World Bank).

One challenge is developing public policies aimed at this transformation. Sustainable development is an integrated process of social, political and economic transformation, which demands great changes in the transformation of the country's general mindset.

A final point raised about the decarbonisation process is related to the fact that each country goes through a different process of energy transition, with different challenges, different sources and political backgrounds.

### **Smart Grids Regulation**

In order to realise decarbonisation, we must work to facilitate access to electrical networks.

Smart Grids aim at making networks more flexible and allowing greater efficiency in the operation.

Colombia noted that it must deal with the energy trilemma that aims at balancing reliability, affordable costs and mitigating the environmental impact. The main aspects dealt with were the adaptation of the distribution systems with intelligent meters, the management of user data, cybersecurity and transformations of new microgrids with the entry of new clients.

Portugal explained that CEER started its energy transition from a 3Ds perspective: Digitalisation for the consumer, Decarbonisation at least cost and Dynamic Regulation. Improving Smart Grids is necessary to develop a tariff regulation to allow investments (CAPEX-based) that would, in theory, raise tariffs for consumers, but over time it would be balanced by a reduction in operating costs.

### **Renewables: Auctions, Self-Consumption and Integration in the Network**

The results of renewable energy auctions in Ibero-American countries have had great results. The exponential advance of self-consumption has allowed consumers to become participants in the electricity sector.

Cases from Peru were presented and discussed. There is a trend of declining prices in auctions of renewable energies in Peru. Another aspect raised was related to the challenge of ensuring access to renewable energies in distant areas, especially rural ones.

Self-consumption in Peru is an issue of great concern to the regulatory authority. Peru is also elaborating a national plan for handling renewable sources. Challenges are related to the great potential for mobility based on electric sources.

Regarding Spain, self-consumption and integration of renewables in the network were objects of discussion. A great evolution of distributed generation was observed from 2004 to 2019. Some installed capacity is based on renewable and non-conventional sources. Regarding technical regulation, making forecasts of generation and planning for them is a challenge, as well as developing the forecasting tools themselves. Aspects regarding a robust and meshed transmission network in Spain were also presented. Regarding economic regulation, the concept of reasonable profit was discussed, defined as profitability of the project before taxes, which in Spain shall be equal to the yield in the secondary market of the obligations of the state to ten years, which is considered a suitable differential. As for self-consumption regulation, two types in Spain were identified: supply with surplus and without surplus.

### **Customer Protection and Empowerment**

Consumers are under the spotlight when it comes to energy consumption.

In addition to consumers being able to manage their demand, the new European regulations enhance the role of the consumer as an electricity trader.

Changes in technology have changed the behaviour of consumers, generating new and more complex social demands. This is particularly related to greater demand for quick and uncomplicated attention, elimination of unnecessary bureaucratic steps for consumers, less telephone waiting time and easier contact channels with the energy company.

From the European perspective, consumers are at the heart of regulators' work. Regulatory authorities work to defend consumer rights as encapsulated in CEER publications, as well as monitor retail market functioning and consumer protection. CEER has a process called the "Roadmap to 2025 Well-Functioning Retail Energy Markets" to improve those markets in its Member countries. As part of this process, Members compile national gap analyses on retail market performance.

As mentioned above, additional EU legislation will soon come into force, but still retail markets are still mainly national in Europe. Price regulation still exists in some countries but the methods vary. Concentration levels in some countries indicate low levels of competitive pressure and consumers in Europe are "sticky" in relation to their suppliers.

Energy poverty is a critical issue that affects about 50 million European households.

Consumers are becoming producers (prosumers) but still need to be protected. Markets are becoming more intertwined and bundled products are becoming more common in Europe, particularly bundling of energy products with non-energy products.

Bundled products may result in economies of scope (supply side) and transaction cost savings (demand side), but also bring challenges and uncertainty in terms of consumers' complaints. CEER is in the process of compiling stakeholder's views from a public consultation and will issue a guidance paper on bundled products by mid-2019.

Consumers in Europe perceive the energy market as complex but also boring. It is important is to reduce complexity and enable a faster connection between consumers and suppliers, along with better market access for consumers.

In Argentina, protections regarding consumer rights entail delivering full and actual information on energy services, as well as guarantees that eventual juridical conflicts will be solved between customers and energy suppliers. The regulator's role is to find a balance in this relationship according to actual needs of consumers. New information and communication technologies will enhance this framework.

Argentine representatives presented some challenges related to tariffs at the provincial level. It was also noted that costs are not the only way the approach customer satisfaction. Quality in energy delivery is also a key factor.

Energy customer empowerment in Latin America is a process still in development. Some tools can definitely result in better experiences between citizens and energy companies, by reducing time, costs and energy in the streamline.

### **Regulatory Institutions - Roles and Powers**

From the perspective of the Organisation for Economic Co-operation and Development (OECD), principles of good practice according to the general framework of the institution's assessment of regulators entail the evaluation of the following aspects: transparency; decision-making process; prevention of external intervention over regulators; fostering participation of stakeholders; financing mechanisms.

Mechanisms to review the sector's performance include evaluating the regulator's role in regard to ensuring transparency and autonomy, in collaboration with the stakeholders, and allowing a discerning and straightforward approach towards society by regulatory agencies.

The OECD gives great importance to the autonomy of regulators. Independence is not an easy goal to achieve in many countries. Many consumers often do not care about these aspects, perceiving tariffs and energy delivery as more important.

The OECD has an improved methodology to guide countries to create and strengthen new regulators.

From the European perspective, competences of Spanish regulator CNMC in regard to the Royal Decree-Law of 2019 were discussed. In Spain, the CNMC took 10 years to have the competence to be able to regulate the operating procedure and access tariffs. Background on this issue was first presented. Harmonisation of the competences of National Regulatory Authorities was regulated by the 3<sup>rd</sup> Package (Directives 2009/72 and 2009/73).

By the Royal Decree-Law 1/2019, Spain's government attributes competencies of the directives established in 2009 to CNMC on urgent measures for development, competitiveness and efficiency (concerning the economic regime for natural gas).

As for the functions of CNMC itself, this authority controls the economic regime of the electricity and natural gas transmission and distribution systems. It entails approval of the tariff methodology, specific values of tariffs, remuneration parameters for transmission and distribution and annual remuneration for these activities. Also, CNMC handles approval of the financial remuneration rate, which may not exceed the limits set forth by law in this regard. Finally, the role of approving the remuneration for the Electricity System Operator and Technical Manager of the Gas Systems was highlighted. The CNMC Action Plan for 2019 is to approve 13 legal circulars with the new tariff methodology.

### **Next Steps**

In sharing their insights and practices, energy regulators recognised that the issues discussed at this roundtable are common challenges worldwide – the energy transition, the integration of renewables, smarter grids and consumers. CEER and ARIAE undertook to continue their structured dialogue on regulatory developments, practices, and future challenges both bilaterally and under the framework of the International Confederation of Energy Regulators (ICER).