

Enhancing Security of Supply and Market Integration/Update on IERN

Carlo Crea

CEER Vice-President & Chair of the ICER VWG on SoS

III ARIAE-CEER meeting, Madrid, 23 March 2011

Key issues

- EU Security of Supply Regulation
- Security of Supply and Market Integration (new EC strategy)
- ICER (International Confederation of Energy Regulators) VWG on Security of Supply
- IERN update (International Energy Regulatory Network)

EU Security of Supply Regulation (1/2)

The new **EU Regulation No 994/2010** concerning measures to safeguard security of gas supply and repealing Directive 2004/67/EC:

- entered into force on 2 December 2010 with the main objective of strengthening the prevention and crisis response mechanisms
- provides for a clearer definition of responsibilities and coordination of responses at national and European levels to possible supply disruptions
- foresees to implement relevant changes in regulators' role in securing natural gas supplies
- attributes different competences to the EC, to the Agency for the Cooperation of Energy Regulators (ACER), to Member States, National Regulatory Authorities (NRAs) and in particular to Competent Authorities

EU Security of Supply Regulation (2/2)

- NRA must be consulted when the **Preventive Action Plan** and the **Emergency Plan** are established (Art. 4.1)
- When fixing or approving the **tariffs or methodologies** (in accordance with Directive 2009/73/EC and Regulation 715/2009) NRAs shall take into account the efficiently incurred costs of fulfilling the obligations set out by SoS Regulation (Art. 6.8)
- If so provided by Member States, TSO shall (not later than 3 March 2012) submit to NRAs a **proposal for reverse flow capacity** and a request for an **exemption** from the obligation to enable bi-directional capacity (Art.7.1)
- NRA and the Competent Authority shall cooperate in the **risk assessment** (Art 9.3)
- The national and joint Emergency Plan shall define the role and responsibilities of natural gas undertaking and industrial gas customers, including their interaction with NRAs at each of the crisis levels defined in the Regulation (Art. 10.1 b)

SoS and Market Integration

Recently the EC has adopted several documents which aim at facilitating, among others, the achievement of the Security of Supply objectives and the integration at European level of national energy markets. In particular:

- Communication “Energy 2020 – A strategy for competitive, sustainable and secure energy”
- Communication “The future Role of Regional Initiatives”
- Communication “Energy infrastructure priorities for 2020 and beyond – A Blueprint for an integrated European energy network”
- Public consultation on the external dimension of the EU energy policy
- Proposal for a Regulation of the European Parliament and of the Council on energy market integrity and transparency (REMIT)

Energy Strategy 2020

- On **10 November 2010**, the European Commission has adopted the Communication “Energy 2020 – A strategy for competitive, sustainable and secure energy”
- The Communication defines the **energy priorities for the next ten years** and sets the actions to be taken in order to tackle the challenges of saving energy, achieving a market with competitive prizes and secure supplies, boosting technological leadership, and effectively negotiate with our international partners
- On the basis of these priorities and the action presented, the Commission will come forward with **concrete legislative initiatives** and proposals within the next 18 months

Regional Initiatives

- On **7 December 2010**, the European Commission adopted the Communication “The future Role of Regional Initiatives” with the aim of **reinforcing regional cooperation** to deliver lower prices and higher security of supply
- According to EC Communication, RIs should concentrate on:
 - accelerating the **implementation of the 2nd and 3rd legislative energy package**, including network codes
 - ensuring competitiveness through **market coupling** allowing lower price for cross-border energy
 - launching **pilot testing** to experiment new ideas which could then be used at the EU scale (for example on Smart Grids)
 - identifying **regional infrastructure priorities** and coordinate cross-border investments to ensure security of supply and help cope with possible gas crisis
 - promoting development of **renewable energy**

Energy Infrastructures Package

- On **17 November 2010**, the EC adopted the Communication “Energy infrastructure priorities for 2020 and beyond – A Blueprint for an integrated European energy network”
- The Communication defines a limited number of **EU priority corridors** which will be the basis for the identification in 2012 of “European interest Projects”. These projects should benefit from financing and faster building permits, including a time limit for final decision while ensuring full respect of environmental legislation and public participation
- Developing EU energy infrastructure will
 - create a properly functioning internal energy market
 - enhance security of supply
 - promote the integration of renewable energy sources
 - increase energy efficiency
 - enable consumers to benefit from new technologies and intelligent energy use

EU External Dimension (1/2)

- On **21 December 2010** the EC published the Consultation Document “The external dimension of the EU energy policy” to collect views on possible priorities and possible new initiatives in the field of external energy policy
- The **evolution of the energy scene beyond EU borders** should be taken into account in order to achieve the **goals of EU energy policy** set out by Art. 194 of the Treaty on the Functioning of the EU and improve a spirit of solidarity among Member States
- Many stakeholders sent their answers to the consultation, including ICER (International Confederation of Energy regulators)

EU External Dimension (2/2)

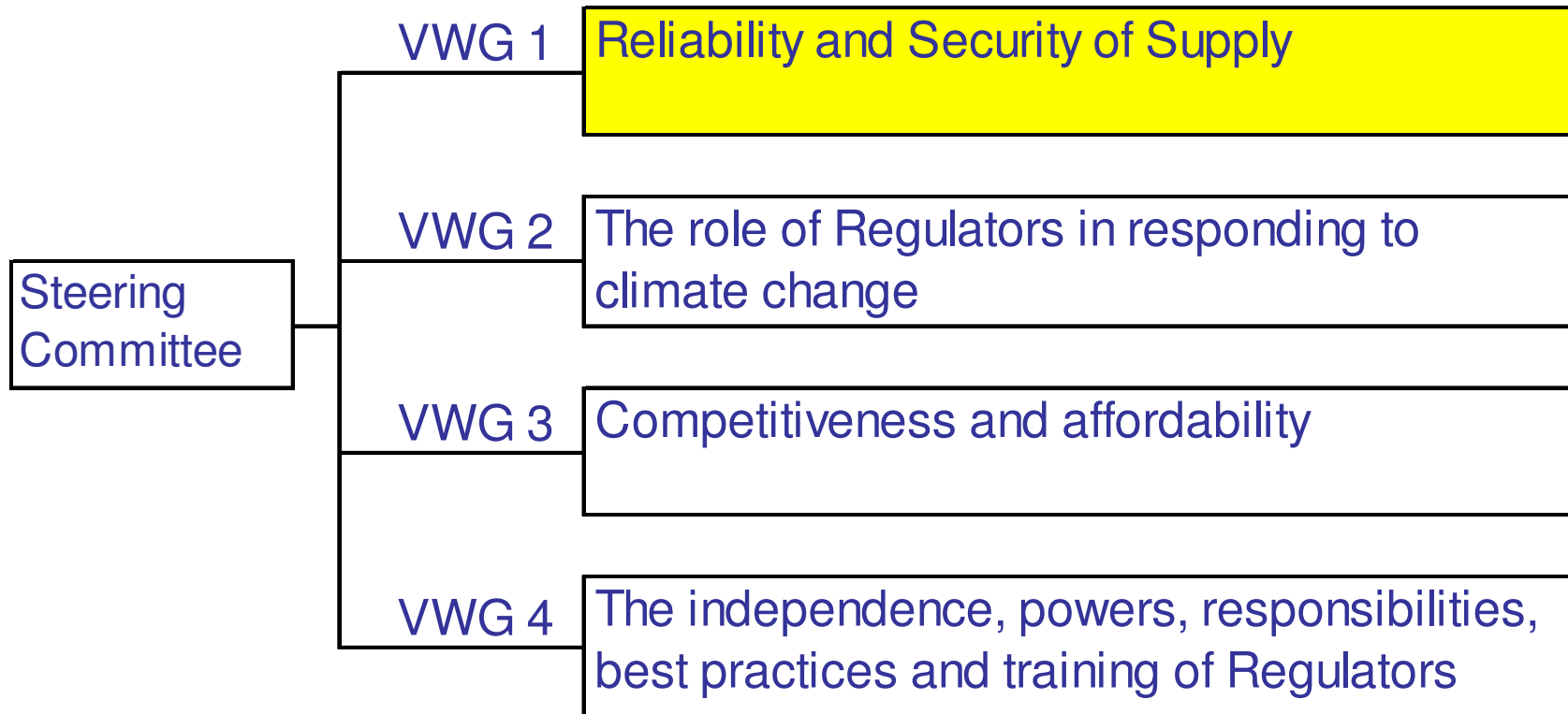
In its position paper, ICER recognizes that:

- energy infrastructure development is pivotal to foster market growth, security and longevity
- in a context of cross-border markets, harmonization of procedures and regulatory practices can have a significant impact on the development of physical interconnections
- a profound understanding, through an **exchange platform** (like that of **ICER and IERN**) available to the various stakeholders and able to disseminate information about different regulatory procedures and initiatives can greatly facilitate the identification of common trends and possible regulatory standards able to trace a road map for convergence
- **harmonized and stable rules** based on strong and independent regulation can certainly facilitate the investment climate in infrastructure that is currently much needed and that will be necessary in the very near future in many countries

REMIT

- On **8 December 2010**, the Commission adopted its Proposal for a Regulation of the European Parliament and of the Council on energy market integrity and transparency (COM(2010) 726 final - REMIT), which is currently under discussion
- REMIT consists of four main pillars:
 - It defines abusive and thus illegal practices in **wholesale energy markets** with regard to **market abuse** (insider trading and market manipulation)
 - It obliges market participants to report details on their wholesale market transactions to the Agency for the Cooperation of Energy Regulators (ACER)
 - It tasks ACER and the national energy regulators to monitor the wholesale market, and to ensure the needed cooperation amongst energy regulators and with financial regulators
 - It mandates Member States to provide for sanctions in cases of identified misconduct on a national level
- The REMIT will contribute **to the harmonization of wholesale energy markets regulatory framework at European level**

ICER – Organisation and WGs



Virtual Working Group 1 (1/2)

Programme of activities and deliverables

- **Phase I** => Effectiveness of national and local energy policy and regulation in addressing security of supply issues: regulatory practices in promoting investments
- **Phase II** => Scope and powers of Regional bodies and Regulatory associations in achieving national and regional security of supply
- **Phase III** => Role of energy Regulators in promoting security of supply on a global scale

Enhanced relations with international institutions

- Energy Charter
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank (IADB)
- International Energy Agency (IEA)
- United Nations-Economic Commission for Europe (UN-ECE)
- World Bank

Virtual Working Group 1 (2/2)

Phase I working method:

- A learning stage dedicated to achieving an adequate understanding of SoS issues and their solution at the national and local levels
- Key information obtained basically by IERN database as well as through the use of a questionnaire circulated by the participating regional regulatory associations (RRAs) to each of its members

Key issues examined:

- Improving market integration and operation
- Reducing the risk of market failure
- Amplifying infrastructure capacity through investments
- Increasing reliability safety and efficiency of energy operations and supplies
- Contributing to technology development including incentives for R.&D.
- Reducing the reliance on wood fuels in countries where security of supply depends more on the availability of local fuels than on electricity, oil and gas

What is WWW.IERN.net (1/2)

Hits

January-November 2010 1.222.838

Planned Activities for 2011

- a. Update of the study on European regulatory framework in energy transport and extension to other European and non European countries
- b. Extension of the members' base of the basic and preparation of the Gas Regulators Survey
- c. Development of the Regulatory Wikipedia project (eKikipedia). A Worldwide regulatory knowledge database
- d. ICER support and web platforms administration

What is WWW.IERN.net (2/2)

Tasks

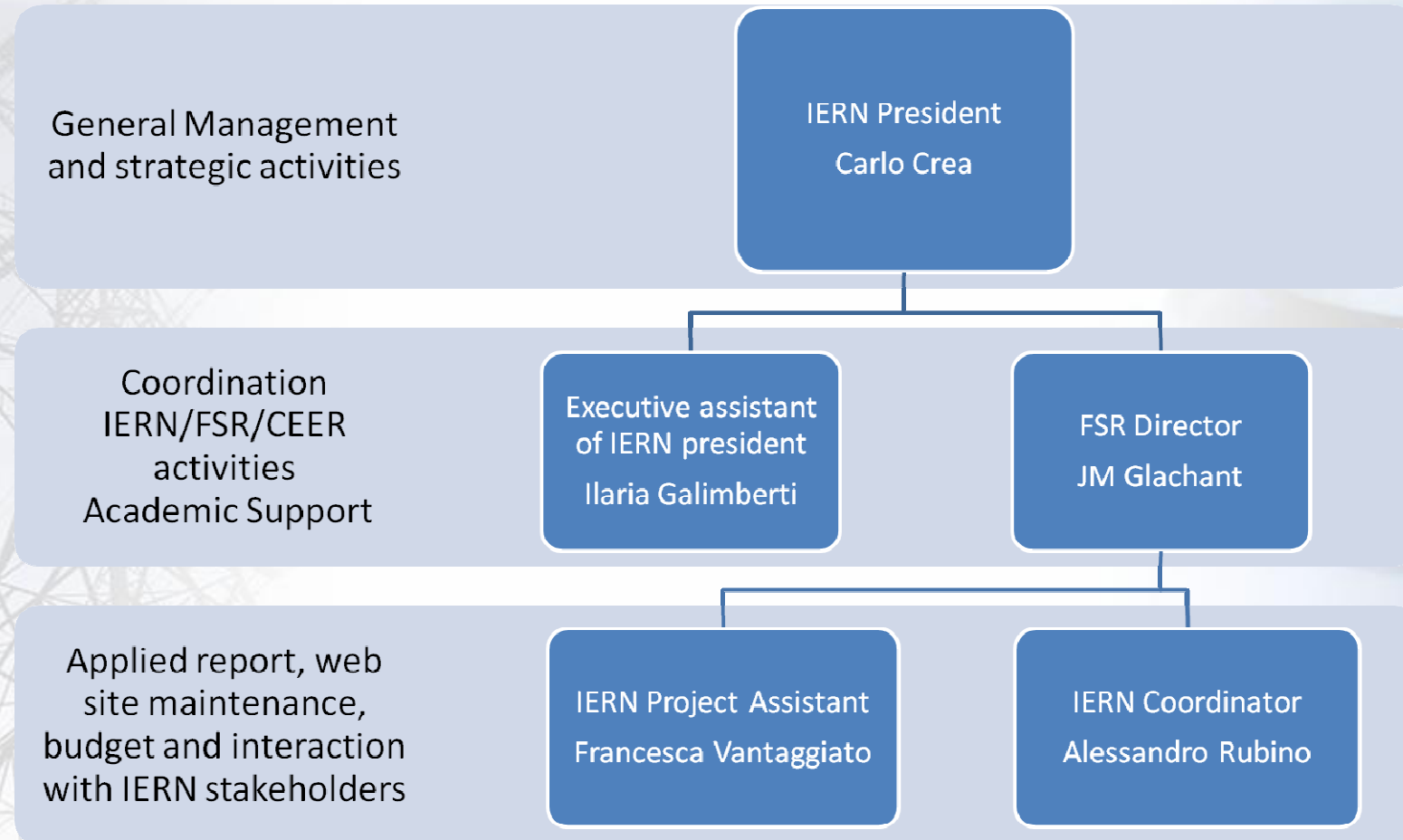
Networking between:

1. Regulators
2. Other interested stakeholders
3. Sector /Industry/Consumer associations

Mission

- I. Provide a platform for data exchange
- II. Collect and disseminate valuable information
- III. Connect solid academic background to regulatory impact analysis
- IV. Provide working level connection with the single NRAs worldwide

Current Organisation



The role of Regulation (1/2)

Regulation can play a role in mature as well as in emerging or in not completely developed energy markets

Regulation is beneficial for:

- guaranteeing free access to the Network (no exclusive rights for Network use: TPA, common carrier, unbundling rules, etc.)
- providing network codes also to guarantee interoperability at regional level: balancing, capacity allocation, connection, congestion management
- establishing standards of quality service (e.g. distribution networks, optimisation of gas storage services, etc.)
- setting-up transparent tariffs based on a long-term plan (less risky investment plans / more reliable plans for investors), if necessary overcoming regulatory period
- monitoring market players (need for independent regulators)

The role of Regulation (2/2)

Main **objectives** of regulation:

- guaranteeing transport capacity through adequate infrastructures
- fostering competition (overcapacity prevents risks of market distortions)
- introducing incentives for infrastructure investments, especially in less developed energy markets

National Regulatory Authorities can no longer act as separate self-sufficient bodies: it is time for action and cooperation at regional level, as energy markets are now developing globally.

The background of the slide is a composite image. On the left, there is a faint, grey silhouette of a high-voltage electricity pylon. On the right, there is a close-up, slightly blurred image of a gas stove burner with blue flames. The overall background has a light blue and white gradient.

Thank you for your attention!

www.energy-regulators.eu