



What is the role of regulators in balancing consumer protection and energy infrastructure needs?

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General regulatory attitude in most national markets

- Belief of Regulators; the functioning, competitive wholesale and retail markets (efficient competition) could „control“;
 - energy component of end-user prices,
 - quality of supply
- Some circumstances hinder efficient competition today:
 - concentrated relevant markets,
 - fragmented national markets,
 - lack of efficient incentives on network development,
 - regulated end-user prices [in 2008 16 EU member states – out of 27 – had end-user price control for households/(13 member states for non-households)]

General regulatory attitude in most national markets

- Some additional circumstances can hinder efficient wholesale competition in the future:
 - renewables with increasing ratio could be exempted from wholesale competition (feed-in tariff system)
 - CHP generators (under the new energy efficiency regulation) could be preferred (must run)
 - new nuclear units foreseen to be invested under long term PPAs
 - part of flexible gas fired units taking part in system regulation (compensating weather dependent renewable generation) contracted by system operators
 - possible new capacity payment

Other circumstances influencing market conditions and end-user prices

- Unpredictable incidents and (political) interference (like Japan nuclear accident, German nuclear moratorium)
- Hard to predict CO₂ regulation
- During economic and financial crisis the medium and large end-users are very sensitive to energy prices (some of them are close to bankruptcy) → end-user prices (energy + system use) could strongly influence the national economy
- During these years of cutting (reducing) social safety-net the households are also very sensitive to end-user energy prices → social welfare

Among these circumstances **how could we convince** politicians not to interfere (distort) network price regulation and allow market based energy prices;

- In countries, where the belief in the market has less tradition?
- Where the wholesale and retail markets are not functioning well?
- Where the end-users (industry) are not competitive with higher energy prices?
- In countries, where the social welfare is already on very low level with present energy prices?
- The non-economic (non-price) support schemes for vulnerable customers should be enough?
- The political interaction into price regulation has medium/long term effects which could be in contradiction with other political goals (climate change measures)!

Public service obligation of EU Directives → different approaches of countries;

- In countries with long tradition in market economy and with functioning markets → public service means;
 - identifying vulnerable customers (disabled or chronically sick, pensionable age, low income, end-users in rural areas),
 - advising customers,
 - assisting customers threatened with disconnection and/or disconnected
 - assisting eliminate fuel/power poverty,
 - assisting gas network connection (to fuel poor households)
 - measuring customer expectation/satisfaction
 - monitoring and analysing consumers' behaviour on energy use and payment methods → possibility to give advice on bill reduction

Public service (2)

- advising (requiring) suppliers how to handle vulnerable consumers with debt
- creating system of supplier of last resort
- social tariff for vulnerable consumers
- Countries where energy (end-user) price regulation has long tradition and/or competition on retail market cannot function well (cannot „regulate/control” prices)+ the national economy is not in good shape + the social welfare needs substantial development; the **affordability** issue is very serious → public service obligation has regulated price element in addition to (or instead of) the above mentioned support possibilities;
 - regulated end-user tariff for households (not for vulnerable consumers „only”)
 - Universal Service Supply (regulated tariff) for households + different institutions (schools, hospitals, ministries,) + small enterprises

Potential Consequences of the disturbances in regulation

- Price cap on end-user prices (not market based);
 - Expenditures on operation, maintenance and development of networks fail (reduced)
 - Poor service quality
 - Re-scheduled introduction of climate change measures (smart grid, smart meter rollout, energy efficiency assistance)
 - Lack of adequate renewable support schemes → slowed down investment
- Financial support for end-users (outside of vulnerable consumer circle);
 - Lack of energy saving incentives
 - Cross subsidy
 - Hindered competitiveness of the industry (large end-users)
- Reduced competences of regulators;
 - Political/regulatory risk premium
 - Slowed down new investments (generation, network)

What Regulators could do?

- Force efficient competition (ex ante)
- Require transparency
- Monitor switching process (and force simplification)
- Assist customers in deciding to choose supplier (price comparison)
- Give incentives for rollout of smart meters
- Measure continuity of supply (quality of service) parameters and enforce requirements
- Create incentives for more efficient network and system operation
- Create incentives for new development
- Force efficient congestion management rules and practice

Thank you for your attention!

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