
Report on the Bergen SESSA-Conference: WP 6: *Harmonising Effective Regulation*

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Venue and programme

- Venue: Norwegian School of Economics and Business Administration (NHH). 3-4 March 05. Organised jointly with NEMIEC.
 - 3 March: Academic Workshop. 4 March: Stakeholder Conference. Consensus report
 - Attendance: Around 100 participants/delegates
 - Consensus Report and Press Release WP 6
 - Papers by experts, PP presentations, Consensus Report and Press Release on the SESSA Website
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Conference objectives

■ Academic workshop

- Aspects of regulatory design and properties of regulatory mechanisms and models
 - Relationship between regulatory design, network organisation and market functioning
 - Need for harmonising rules and regulations across energy networks and countries of the European electric power market
 - Measurement and regulation of reliability of supply
 - Benchmarking standards for regulatory practice
 - Relationship between sector-specific and competition policy regulation
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Conference objectives

- Stakeholder Conference
 - Identifying relevant issues wrt to regulation
 - Ranking workable solutions
 - Defining best practices
 - Suggesting timetable for implementing harmonisation of regulation at the European level and the regional (Nordic) level
 - Integration of regulatory and competition policy functions; cooperation between regulatory authorities
 - Benchmarks for market and regulatory design, implementation and performance
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Motivation for harmonisation of regulation

- Transition of the electricity industry to a market based system; implications for regulation:
 - Competitive market-driven generation
 - Regulated transmission and distribution networks
 - Open and non-discriminatory access to networks that promotes least-cost, reliable, secure and environmentally responsible operation and future development of the electricity industry across Europe
 - Regulatory approaches and regimes vary considerably across countries: Need for harmonisation
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Prerequisites for efficient network regulation

- Independent and competent regulator.
 - Expert paper by Anders Larsen et al: *Independent Regulatory Authorities in Europe*. In most countries: Sector-specific regulators. Great differences between those regulators wrt organisation, competencies, and practice
 - Independence of the transmission system operators as facilitators of competition in electricity markets. Should be emphasised more
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Design of regulatory regimes

- Properties of regulatory mechanisms (price-cap, revenue cap, rate of return, etc)
 - Regulatory commitment and stability in regulatory regimes: long-term investment
 - Potential conflicts between incentive-based regulation to secure cost efficiency and efficient reliability and quality of service?
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Benchmarking in transmission and distribution

- Benchmarking methods, models and practice: Expert paper by Massimo Filippini et al: *Benchmarking Analysis in Transmission and Distribution*. A lot of data and information on benchmarking exist on electricity networks etc. in Europe
 - Empirical results on benchmarking should be used with care. Should support rather than dictate the design and implementation of the regulatory regime to improve performance
 - Regulatory discretion and commitment are important in the process
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Regulating reliability of supply

- Public good aspects of reliability of supply (RS)
- Various definitions and approaches to secure RS
- Designing an effective reliability mechanism
 - Clear definition of reliability measures
 - A benchmark against which RS can be compared
 - An incentive mechanism that promotes RS
 - Minimum standards to avoid large differences in service quality across different consumers
- Handling of RS in interconnected systems
 - Effective cross border coordination and cooperation among system operators
 - Harmonisation of reliability rules, standards and procedures

Regulation, self-regulation and contracts

- Various approaches to regulation (auctioning the rights to monopoly activities, regulatory mechanisms, regulation *ex ante* versus control *ex post*, self-regulation and voluntary contracts)
 - A Coasian perspective on regulation: defining rights and responsibilities. How far can contracts be applied? What is the natural monopoly "core" that needs to be regulated? (von der Fehr et al)
 - Voluntary agreements in network regulation, operation and harmonisation of rules and standards: e.g. the Nordic transmission system (Nordel) for the integrated Nordic power market
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Regulatory and competition policies

- The need for integrating and harmonising regulatory and competition policies: the electricity transmission system as a "market"
 - Various models for the institutional set-up of regulatory bodies and the division of labour and responsibility between sector-specific regulation and competition policy regulation
 - The Dutch model of organisation of sector-specific regulation as divisions within the competition authority, as a "benchmark"?
 - Will sector-specific regulation be "rolled back" to competition regulation?
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The Nordic power market model as a benchmark?

- Are some benchmark structures crystallising from the diversity of approaches, organisational forms and practices from the experience with regulation?
 - In particular, can the Nordic market and regulatory model serve as a benchmark?
 - The performance of the Nordic model in terms of efficiency, price formation, network regulation, etc
 - Market integration; harmonisation of rules and regulations
 - Cooperation between system operators and transmission companies. Nordel
 - "Neutral" ownership model: public and private ownership
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Stakeholder conference issues

- Harmonisation of regulatory principles and regimes (CEER and NVE)
 - Network planning and operation: The role of TSOs in integrated electricity markets (ETSO and Statnett)
 - Reliability of supply in competitive electricity markets (IEA and CEER)
 - Integration of regulatory and competition policy functions (EU Competition Directorate and the Norwegian Competition Authority)
 - Discussion on consensus issues and report
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