



**7th EU-US Energy Regulators Roundtable
New Orleans, Louisiana
November 14-16 2008**

Closing Statement

The 7th EU-US Energy Regulators Round Table was held on November 14-16, 2008 in New Orleans, Louisiana, hosted by the National Association of Regulatory Utility Commissioners (NARUC). Since 2000, U.S. and EU Regulators have held informal dialogues where energy regulators exchange views and experiences on selected topics of mutual interest in the electricity and gas markets, compare regulatory approaches, and discuss international developments and cooperation. Regulators attending the meeting included members of the Council of European Energy Regulators (CEER), the Federal Energy Regulatory Commission (FERC), and the National Association of Regulatory Utilities Commissioners (NARUC). The Chairman of the Energy Regulators Regional Association (ERRA), whose members come from Central European and Eurasian countries, also attended.

The roundtable focused on five major themes: recent regulatory developments in the U.S. and the EU; market monitoring, oversight, and abuse; the link between energy and financial markets; climate change; and meeting natural gas demand. In addition, participants discussed the preparations for the 4th World Forum on Energy Regulation (WFER IV). During the sessions held for each theme, a number of critical issues emerged, as discussed below.

With regard to recent regulatory developments, European regulators presented the latest state of play in the intense negotiations within the European Union for legislation to reform its current regulatory framework. Among the provisions being discussed in the 3rd energy liberalization legislative package (or '3rd package') are increased national regulatory authority independence and powers; deeper separation (unbundling) of natural monopoly activities (transmission and distribution networks) from competitive elements (generation and supply) of energy markets and the establishment of an EU-level Agency for the Cooperation of Energy Regulators (ACER). Furthermore, enhanced regional cooperation is reflected in the new legislation. Here U.S. experience on regional cooperation is very useful.

At the State level, NARUC members discussed the importance of regulatory independence. Climate change has become an increasingly significant issue and several State commissions discussed their regional programs to promote integrated resource planning, demand response, energy efficiency, and smart grid initiatives. State commissioners discussed the status of electricity restructuring and organized markets. Given the volatility in electricity and gas prices as well as the current economic crisis, regulators are increasing programs for low income customers. State commissioners also discussed the significant investment needed in the U.S. electricity system.

At the Federal level in the U.S., FERC outlined its most recent rule changes that are designed to strengthen and improve the competitiveness of wholesale power markets. Another priority presented are efforts underway to spur development of adequate infrastructure including providing incentive rates for transmission projects to approving projects for importing liquefied natural gas, and establishment of a simplified process for licensing hydrokinetic energy pilot projects. FERC also described the status of worldwide demand for natural gas and the factors affecting world gas supply.

FERC detailed its most recent advanced rules for market enforcement and oversight and emphasized the importance of strong, independent market monitors. A timely discussion of regulating financial energy markets focused on regulatory challenges and the need to ensure transparency while requiring accountability. Finally, FERC outlined the challenges faced in the U.S. in the policy debate surrounding climate change and assessed some of the regulatory, jurisdictional, and operational challenges involved in that debate.

The energy markets are changing and regulation is evolving. Therefore, both EU and U.S. regulators are interested in the experiences and practices each has acquired, as well as any innovations and new developments. In particular, participants examined parallels between the U.S. and EU experiences, especially in areas of regional harmonization and market integration efforts. It was recognized that very small and less developed energy markets may need special regulatory attention that adequately responds to the challenges they face.

Both sides share a tradition of an umbrella framework (EU legislation/U.S. federal government) working in parallel with national (EU) or state (U.S.) authorities and policies. Coordinating cross-border trade and supply in this context, while respecting the specificities of each level, is a key issue.

Similarly, monitoring the market in subdivided and 'sovereign' systems represents a challenge and central task in order to ensure security of supply and energy security. Following several years' experience with liberalization and wholesale markets, it seems timely to examine the extent to which they are functioning and how the market rules can be further improved; for example, interregional planning, coordination, dispatch, demand-side measures and rate designs. In an attempt to answer the question of what is the appropriate balance between market oversight, transparency, enforcement and free markets, the U.S. has created an innovative structural mechanism known as the market monitor. The monitor is intended to work hand-in-glove with regulators and enforcement agencies concerned with market abuse while providing critical review of market design, in particular within the context of regional (generally multistate) wholesale electricity markets.

Regulators considered the impact of the economic and financial crises that have spread around the globe. Energy companies are not immune from the higher costs of capital that have resulted from the current uncertainty nor from the difficult liquidity situation many countries face. Moreover, the close link between energy and financial markets will receive closer examination as network energy markets develop and trading becomes widespread. With the emergence of liberalized markets and cross-border trading, a variety of energy products and services (derivatives) are being developed which require effective and more complex regulatory oversight in order to secure energy markets' integrity. In this context, energy regulators must consider the regulatory challenges that emerge from a convergence

of energy and financial markets. The importance of this issue has become increasingly visible as traditional financial markets across the globe face a crisis, which many have linked to insufficient regulatory control. Policies specific to energy markets are needed to adequately address their distinct nature (a value chain combining natural monopolies with competitive activities), for example for insider dealing and market manipulation in energy trading as well as a clear delineation of responsibilities and cooperation between energy and financial regulators.

Furthermore, all sectors are facing the growing challenge of climate change. Energy regulators will have a key role in facilitating the integration of climate-friendly measures in the overall energy market structure, whilst recognizing that consumers' interests and competition are appropriately taken into account. The exchange of experiences on both sides of the Atlantic, including the EU "green package" proposals under discussion, with alternative support schemes, their efficiency to achieve the targets for the deployment of renewables, the implications to network investment, the market and the costs for consumers are particularly timely, given the political priority given to 'green' targets. In addition, demand-side response programs could contribute significantly to achieving these greenhouse gas reduction targets. Regulatory involvement will therefore be important in the deployment of smart grids and smart meters that will enable real-time pricing and lead to improved system operation and quality of service, as well as providing price signals to consumers with the hope of encouraging behavioral changes in consumption.

Finally, regulators addressed the question of meeting natural gas demand in a context of limited sources of natural gas and ever-increasing consumption. Both the U.S. and the EU produce their own natural gas and both are facing a steadily increasing need for imports and for sources of natural gas. Liquid natural gas (LNG) offers the possibility of transporting natural gas long distances and is changing the landscape for this resource, which was traditionally limited to expensive and inflexible pipeline flows. The new mobility stemming from LNG will also lead to increased competition to acquire the limited supplies available but is also a means to address security of supply in a global context. Another way of dealing with the increasing demand for gas, which is being applied in some markets, is the development of aggressive demand response programs for both natural gas and electricity end-users, in an effort to reduce supply strain on the resource.

The participants reaffirmed their commitment to continued cooperation between energy regulators from the EU and U.S. and acknowledged the contribution of the EU-US Roundtable in this respect. This trans-Atlantic dialogue allows for the exchange of mutually beneficial information, including an increased awareness of trends in market designs, regulatory models, sustainability and security of supply.

Part of this continuing dialogue involves sharing experiences with regulators from across the globe. The World Forum on Energy Regulation (WFER), now in its fourth installment, offers the unique opportunity for developed and developing countries to gather to discuss both technical and policy issues of energy regulation. The Regulatory Authority for Energy of Greece (RAE) and CEER will host the WFER in Athens, 18-21 October 2009 and this is in close collaboration with NARUC, FERC and others in planning a balanced and international program.