

CEER Citizens' Q&A

Report on Regulatory Frameworks of European Energy Networks

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1 What Is In This Report?

This report provides a general overview of the regulatory systems of electricity and gas networks in most individual EU Member States, Iceland and Norway. A major focus is placed on the calculation of a classic and adequate rate of return, the determination of the regulatory asset base (RAB) and the depreciation of assets in the different regulatory regimes.

The report also gives an overview on different possible regulatory components and instruments which are already used in the examined countries.

Robust regulatory frameworks are essential for the development of energy markets. They promote confidence in market mechanisms and are central in ensuring a level-playing field with sound investment signals. Therefore, the report also shows the conditions for investments in electricity and gas networks.

2 Why And How Are Network Operators Regulated?

Energy networks (electricity and gas) as well as networks of other infrastructural sectors are identified as natural monopolies which do not have to fear upcoming competitors and which are able to use their market power for setting higher network tariffs as necessary. Therefore, these networks operators have to be regulated by National Regulatory Authorities (NRAs). NRAs examine the network operators' costs, determine the allowed revenues and thereby indirect the network tariffs.

Furthermore, a stable regulatory environment is fundamental for a sound investment climate, which, in itself, is a pre-requisite for an adequate flow of the new investments needed to develop secure, competitive and sustainable energy infrastructure and markets. Predictable independent regulation also helps to reduce regulatory and legal risks for investors, and hence lowers the cost of capital.

3 How Are Network Tariffs Determined?

In most regulatory regimes, the revenue which the network operator is allowed to earn is determined by the NRAs. For the determination of allowed revenue, the NRAs also analyse the network operators' cost and structural situation. Furthermore a specific interest rate on the used equity and debt is included at the revenue. With the given revenue value and the expected transported energy, the network operator should be able to calculate the network tariffs each end customer has to pay.

4 What Is The Benefit Of The Report For Energy Customers?

The report gives the reader an impression that network operators as natural monopolies have to be regulated. For every examined country it is shown how this regulatory regime works and which regulatory components and instruments are used by the respective NRAs. Through this report, the energy customer is informed how NRAs, which are financed by the paid taxes, are operating. Energy customers may also compare the regulatory regime of the own country with other possible regimes in the other countries studied.

Besides financing the NRA through taxes, the energy customers ultimately pay for grid investments through network charges. Low network charges or at least charges which are not excessive are generally of interest to energy consumers as this would limit their energy bill, however in order to have efficient investment, the network charge should cover the costs that are needed to maintain the network infrastructure. Thus, it is important to make clear how such capital costs are calculated. Finally, this report also explains how each country remunerates network operators for their required network infrastructure investments.