CEER Citizens' Q&A

Report on Regulatory Frameworks of European Energy Networks

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1 What's in this Report?

This report provides a general overview of the regulatory systems of electricity and gas networks in most individual EU Member States plus Iceland and Norway. A major focus is placed on the calculation of a rate of return, the determination of the regulatory asset base and the depreciation of assets in the different regulatory regimes. The report also provides an overview of various regulatory components and instruments used in the countries surveyed.

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 for the sector. 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) are natural and (often) legalised monopolies and have no natural incentive to produce against conditions that are normal in competitive markets. Therefore, these network operators are regulated by national regulatory authorities. Regulators examine the network operators' costs, determine the allowed revenues and thereby indirect the network tariffs.

Furthermore, a proper regulatory environment is fundamental for a sound investment climate, which, in itself, is a pre-requisite for an adequate flow of investments needed to develop secure, competitive and sustainable energy infrastructure and markets. Transparent 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 the network operator is allowed to earn is determined by the regulators based on the network operators´ cost and structural situation. Furthermore, a specific interest rate on the used equity and debt is included in the revenue.

4 What is the benefit of the report for energy customers?

The report shows that network operators as natural monopolies are regulated. For every country surveyed, it is shown how this regulatory regime works and which regulatory components and instruments are used by the regulators. Energy customers may also compare the regulatory regime of their own country with other possible regimes.

Energy customers ultimately pay for grid investments through network charges. Low network charges or at least, charges that are not excessive are generally of interest to energy customers as this would limit their energy bill. On the other side, the network charge should cover the costs that are needed to maintain the network infrastructure. This makes it relevant how capital costs are calculated. Finally, this report also explains how each country remunerates network operators for their required network infrastructure investments.