



National
Association of
Regulatory
Utility
Commissioners

**10th EU-US Energy Regulators Roundtable
8-9 April 2013
The Hague & Amsterdam, the Netherlands**

Closing Statement

The EU/US Roundtable is held every 12-18 months to provide a platform in which senior regulators from the US and Europe can exchange views and experiences on the common challenges they face.

This latest meeting focused on issues which have resulted from the increasing pace of change and the consequences for energy regulation, including managing increasing uncertainty faced by investors in energy infrastructure, the development of greater interconnection between jurisdictions, changing industry structures, the growing role of consumers in the market, and growing requirements to monitor traded markets. The meeting discussed horizon issues which regulators could face in the coming two or three years.

The meeting confirmed that the independence of regulators remains a fundamental factor if regulators are to continue to play a central role in tackling these challenges.

A **longer term view of issues** that regulators are likely to face identified a series of challenges on the horizon. **Cyber security** and the protection of critical assets is a growing concern in the US and also increasingly in Europe. The growing dependence for our network security of smart grid technologies increases the exposure of networks to cyber-attacks which are growing in both the levels of intensity and sophistication. The introduction of smart grids will pose a growing challenge of **data management** if network operators are to maximise the value of huge data volumes which flow from smart grid technologies. Technological innovation is already facilitating **greater participation of the demand side** in the wholesale energy market which will impact on the operation of the transmission and distribution grids as well as on the need for new investment, although the extent of this future impact is hard to predict at this stage. The development of high tech manufacturing is resulting in a **growing economic dependence on high quality electricity supplies** which can be provided only at higher cost. These changes are happening at a time when the average age of the skilled workforce is increasing and as the individuals approach retirement there is a risk that a **skills shortage** will emerge. There remains the threat that **global events** will have further major (and perhaps unforeseeable) impacts on energy markets. The

regulatory framework must be able to adapt to meet these potential and actual challenges in order to ensure that the regulated companies and the market provide the best solutions in the interests of energy customers.

The trend towards greater cross-border trade in energy is leading to the development of regional markets. The development of regional markets must be underpinned by adequate **cross-border network interconnection capacity**. In the EU, the 3rd Energy Package of legislation and the Energy Infrastructure Package contain provisions for a comprehensive cross-border regulatory framework for the development of a fully interconnected electricity and gas grid system across Europe in which regulators have a central role to play. In the US, FERC Order 1000 requires every public electricity utility provider to participate in a regional transmission planning process and in a regional cross-border cost allocation methodology. The meeting examined these two parallel approaches and the experience gained so far in their implementation. The meeting also discussed the impact on cross-border energy trade resulting from the development of shale gas in the US and its potential for development in other countries.

The financial crisis has resulted in policy makers examining the robustness of the regulation of traded markets beyond the banking sector. In the EU, stricter legislation has been introduced (REMIT) to monitor trading in energy markets and regulators have a central role in its operation. As REMIT is in the process of being implemented, the meeting discussed progress and the challenges which remain to be overcome. The meeting compared the implementation of REMIT in Europe with the operation of **market monitoring** in the US by FERC. The meeting confirmed the importance of ensuring that the responsibilities of energy regulators and financial regulators are clear. The meeting also noted the challenge of ensuring effective data management in analysing market behaviour.

Incentive regulation of network operators has been successfully applied in a number of markets. Financial rewards and penalties can be applied in order to ensure that monopoly network operators are focused on managing their operations in the interests of consumers as well as their shareholders. As the pace of change increases, the level of uncertainty about the future development of networks also increases, as do the demands on network operators to make sound investment decisions. This is important when, in many countries, the requirement to meet climate change targets is resulting in a major shift to new renewable generation; smart grid technologies are helping to change the capabilities of distribution networks; concerns in some countries about reliance on nuclear power are leading to a demand for different forms of generation; and the economics of shale gas and LNG are changing the role of gas as a fuel for thermal generation plant. Considerations such as these have prompted some regulators to develop new forms of regulation aimed at incentivising network operators to manage these uncertainties much more effectively. OFGEM, the British regulator, presented its RIIO framework at the meeting and the US presented approaches used to encourage investments in smart grids.

The essential role of monopoly network operators in the operation of the energy markets and in the achievement of key public policy targets has resulted in them being a major focus of regulatory attention. One of the major issues in **the treatment of transmission operators is whether they should be unbundled by being separated from participation in the**

competitive parts of the market such as generation and supply, or if they should be allowed to remain vertically integrated. The US and EU have taken different regulatory paths on this issue. In the EU, the 3rd Energy Package laws required unbundling to be applied to transmission network operators in one of three different forms, whilst in the US vertical integration and restructured markets provide a hybrid approach to market structure. The meeting discussed the theoretical arguments for unbundling and vertical integration, as well as the practical experience of the different approaches gained in the US.

The development of energy markets and technological innovation (notably smart meters and smart grids) are increasing the potential **involvement of small and medium-sized consumers into the energy wholesale markets**. This is particularly marked in the case of electricity. The ability of consumers to choose when to consume energy on the basis of clear pricing information on the cost of energy through the day could have significant implications. Any regular reduction in consumption at peak times will reduce the need for investment in network infrastructure. We can also expect to see new and innovative services offered to consumers as a result of their new position in the wholesale markets and as a result of the capabilities of the new technologies. The meeting discussed the regulatory challenges posed by these changes and the experience gained so far.

The issues discussed in this two-day event are similar to those faced by energy regulators around the world. They are also being discussed in larger regulatory circles, including the working groups of the **International Confederation of Energy Regulators (ICER)** and at the upcoming **World Forum on Energy Regulation VI to be held in Istanbul in 2015**. The roundtable participants confirmed their commitment to sharing and disseminating best practices and improving regulatory decision making through on-going communication and coordination.

Notes to Editors:

1. On 8-9 April, 2013, the [10th EU-US Energy Regulators Roundtable](#) was held in The Hague and Amsterdam in The Netherlands. Since 2000, U.S. and EU regulators have maintained an informal dialogue where energy regulators exchange views and experience on selected topics of mutual interest in the electricity and gas markets, compare regulatory approaches, and discuss international developments and cooperation. With the involvement of the regulators from the Council of European Energy Regulators ([CEER](#)) and the National Association of Regulatory Utility Commissioners ([NARUC](#)), the roundtable convened to discuss energy and regulatory developments and challenges. The meeting was also attended by the Federal Energy Regulatory Commission ([FERC](#)), the Agency for the Cooperation of Energy Regulators (ACER) and the Energy Regulators Regional Association (ERRA), whose members come from Central European and Eurasian countries.
2. ICER brings together in a formal and structured dialogue the energy regulatory authorities from across 6 continents and over 200 regulatory agencies, including both the most developed markets and those which are still taking shape. It is composed of 11 regional regulatory associations as well as the regulatory authority for Australia. ICER's goal is to serve as an effective tool to help improve, worldwide, public and policy-maker awareness and understanding of energy regulation and its role in addressing a wide spectrum of socio-economic, environmental and market issues. More information and publications by ICER are available at www.icer-regulators.net.
3. The EU-US Roundtable is jointly organised by CEER and NARUC, with the involvement of other U.S. and EU regulatory organisations. Established in 2000, the Council of European Energy Regulators (CEER) is a not-for-profit association in which Europe's independent national regulators of electricity and gas voluntarily cooperate to protect consumers' interests and to facilitate the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe (www.energy-regulators.eu). Founded in 1889, the National Association of Regulatory Utility Commissioners (NARUC) is a non-profit organisation dedicated to representing the State public service commissions who regulate the utilities that provide essential services such as energy, telecommunications, water, and transportation (www.naruc.org).