



Regulatory Framework for Coordination and Facilitation of Investments in Cross-border Energy Infrastructure in the European Union

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Fostering energy markets,
empowering **consumers**.

Introduction

Outline:

- Energy Market Design in EU
- EU Institutional Structure
- Role of Independent National Regulatory Authorities
- Investment Decision Making
- Trans-European Energy Infrastructure
- Funding of Projects of Common Interest

On behalf of:

The **Council of European Energy Regulators (CEER)** is the voice of Europe's national regulators of electricity and gas at EU and international level. CEER's members and observers (from 33 European countries) are the statutory bodies responsible for energy regulation at national level. One of CEER's key objectives is to facilitate the creation of a single, competitive, efficient and sustainable EU internal energy market that works in the public interest. www.ceer.eu

The **International Confederation of Energy Regulators (ICER)** is a voluntary framework for cooperation between energy regulators from around the globe. Its aim is to improve 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. www.icer-regulators.net

Presentation for discussion purposes only.

Energy Market Design in EU

- EU target => competitive and sustainable energy union
- Unbundling of energy companies: trading vs transmission
 - ▶ Energy trading: competition between companies (market forces)
 - ▶ Energy transmission: regulated activity (National Regulatory Authorities – NRAs)
- Regulated ‘third party access’ and regulated transmission tariffs
 - ▶ Transmission System Operators (TSO): capacity sales according to regulation
 - ▶ Certification of TSO: ownership unbundling is envisaged
- Cross-border coordination and cooperation (current process)
 - ▶ Network Codes on EU-level (e.g. capacity allocation, network balancing, etc.)
 - ▶ MS ‘Network Development Plan’ as well as EU ‘Network Development Plan’
 - ▶ Solving cross-border investment issues between Member States (MS)
 - ▶ Towards an interconnected and effective internal EU energy market

EU Institutional Structure

- EU market regulation => consultation of stakeholders and shared responsibilities
- European Commission: EU legislation
 - ▶ EU Regulation: directly applicable in each MS (EU harmonisation)
 - ▶ EU Directives: transposition in national legislation (subsidiarity – no ‘1 size fits all’ issues)
 - ▶ Energy Packages => 3rd revision in 2009
 - ▶ Related legislative packages: European Infrastructure Package, Security of Supply Package, etc.
- National Regulatory Authority (NRA) and CEER
 - ▶ Independent NRA in each MS
 - ▶ Implementation of market regulation and legislation: focus on 3rd party access and network tariffs
 - ▶ Guardian of market-functioning and competition => intervention in market organisation if necessary
- Agency for the Cooperation of Energy Regulators (ACER)
 - ▶ 3rd Energy Package established ACER (fully operational since March 2011)
 - ▶ Specific responsibilities from the 3rd Energy Package => cross-border cooperation and coordination
 - ▶ E.g. if no agreement can be achieved about a cross-border investment, ACER may take a binding decision
- Transmission System Operators (TSO) and ENTSO for Electricity and Gas
 - ▶ Operators of transmission networks: responsible for network performance and reinforcements
 - ▶ Application of regulation and legislation and monitoring by NRAs
 - ▶ European Network of Transmission System Operators (ENTSO) for Electricity and Gas
 - ▶ ENTSO E/G => specific responsibilities according to EU legislation (e.g. EU Network Development Plan)

Role of Independent National Regulatory Authorities

- National regulators (NRAs) and cooperation of regulators (CEER)
 - ▶ Level playing field and non-discriminatory access to networks => CEER sharing of common practice
 - ▶ Develop secure, competitive and sustainable energy infrastructure => coherent implementation
 - ▶ Reduce regulatory and legal risks for investors => create market confidence and visibility
 - ▶ Predictable independent regulation => lowers cost of capital, attracts investments
 - ▶ Common approach to regulatory issues => same market rules, level-playing field
 - ▶ Rule-setting (e.g. Network Codes) as well as the implementation is characterised by intensive consultation => creating market support and acceptance
 - ▶ All market players are involved, including energy traders, suppliers producers as well as consumer organisations
 - ▶ Monitoring of the implementation of market design and rules is key for adaptations, if necessary
- ⇒ stable regulatory environment and assuring a fair rate of return on investments needed for continuity of energy supplies as well as for market integration and sustainability
- ⇒ energy transition is a major issue where synergy between electricity infrastructure and gas infrastructure should serve the same objectives of sustainability and energy affordability

Investment Decision Making

- Regulated access to cross-border capacity (3rd EU Energy Package)
 - ▶ Facilitating buying, selling and using of transmission capacity => optimal network use
 - ▶ Boosting international trading, competition, liquidity => convergence to internal energy market
 - ▶ EU legislation and regulation in place => facilitation of the process: greater economic efficiency and consumers benefits
- Investment planning MS-level and EU-level
 - ▶ National Development Plan (NDP) => TSO
 - ▶ European Development Plan (TYNDP*) => ENTSO** for electricity/gas
 - ▶ Consistency of investments NDP~TYNDP=> cross-border coordination and cooperation
 - ▶ Legal nature of NDP (indicative, mandatory) => country-specific, varies across MS
- Final investment decision (FID)
 - ▶ Principle: TSO/project promotor takes final investment decision
 - ▶ Outcome of market test / cost-benefit analysis (CBA, including externalities)
 - ▶ Involvement of NRA => cost recovery and tariff setting
- Investment cost recovery
 - ▶ Transmission tariffs and methodology => upon NRA approval
 - ▶ Coordination and cooperation cross-border investment => TSOs and NRAs

**Ten Year Network Development Plan, update every 2 years*

***European Network of Transmission System Operators*



Trans-European Energy Infrastructure

- **TEN-E Regulation No 347/2013**
 - ▶ Sets the scene for energy corridors and lifts 'isolated MS' into an interconnected energy network
 - ▶ Identification of (future) EU infrastructure gaps => CBA including externalities
 - ▶ Prepare the infrastructure for the energy transition (decarbonisation of the economy)
- **Project of Common Interest (PCI)**
 - ▶ Identification of European energy corridors => role of NRAs
 - ▶ Projects which impact more MSs
 - ▶ Framework for cross-border coordination, cooperation and, if necessary, financial compensations
 - ▶ PCI status to facilitate:
 - permitting ('one-stop-shop' in MS)
 - regulatory conditions
 - project financing



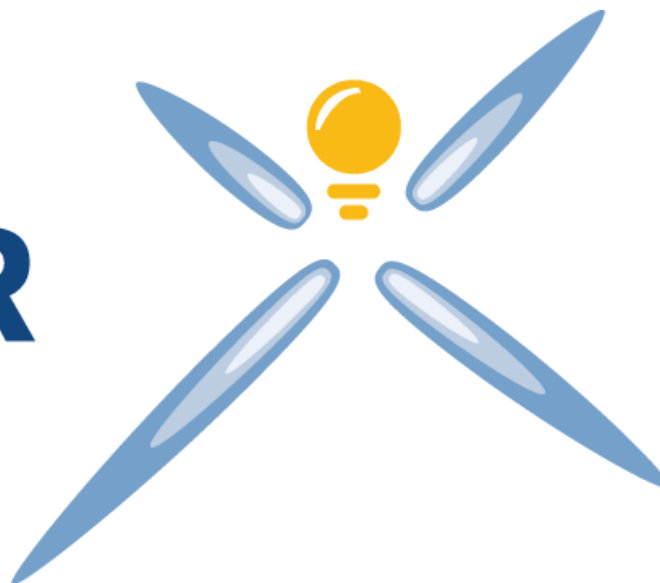
Funding of PCIs

- **Cost-benefit analysis (CBA)**
 - ▶ Project economics: costs and returns
 - ▶ Project externalities: market integration, competition, security of supply, sustainability
 - ▶ Economic valuation of externalities and net-benefits (=>input for CBCA=>NRA)
- **Cross-border cost allocation (CBCA=>NRA decision)**
 - ▶ Regulatory tool for regional infrastructure development
 - ▶ Countries gaining net-benefits may be requested to co-finance accordingly in order to create a viable business case
 - ▶ Regulatory framework for investment cost sharing between MSs
 - ▶ In case of no agreement between MS => ACER decision for binding CBCA
- **Funding the remaining 'financial gap' if the project economics are not sufficient**
 - ▶ European Investment Bank (EIB) => financial instruments (loans, bonds,...)
 - ▶ Connecting European Facility (CEF) => grants for works may be allocated

Thank you for your attention!

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