

## SPEAKING NOTES REMKO BOS

### WFER PLENARY SESSION REGULATION & SUSTAINABILITY

World Forum Energy Regulation, Istanbul, Turkey, 26<sup>th</sup> May 2015

---

#### **<slide1>**

First of all, I would like to thank the Turkish regulator EMRA and the organization of the World Forum on Energy Regulation for organizing this meeting.

I am very pleased that so many of you are here with us today to discuss issues on regulation and sustainability.

My name is Remko Bos, I am Director of the Energy Department of the Netherlands Authority for Consumers and Markets and Vice President of the Council of European Energy Regulators.

In my contribution I will

- Briefly introduce myself and my organization to you.
- Subsequently, I will try to create some clarity on what regulators in Europe contribute to in tackling climate change, and.
- Finally, I will go into some specific relevant examples.

#### **<slide 2>**

Both at CEER and at ACM, we focus in all of our work on improving consumer welfare.

ACM is a relatively new multidisciplinary and multipurpose authority and it enforces compliance with the rules on consumer protection, antitrust, and sector-specific regulation. ACM therefore regulates the

energy markets not only from the perspective of a sector-specific regulator, but also from the perspective of promoting competition and protecting the consumer.

Why do we choose to place *consumers at the core of our activities*?

It helps to remain focused on what our added value is for the citizens we serve. What do our actions really mean for the households in the Netherlands? How much will they save on energy when we do a specific activity? How does it contribute to the three public interests: affordability, clean energy and security of supply? These questions help us to prioritize our activities.

### **<slide 3>**

As a regulator, you can use your traditional tools, but you can also wonder which other instruments could prove to be even more effective. I want to share with you one of our campaigns which I am particularly proud of.

How do we increase the competition for energy supply, demand response and energy saving? How does one engage households and small business in choosing the best energy provider?

At ACM we believe that competitive markets, *both one a wholesale and retail level*, deliver choices and opportunities for consumers. But we also see that consumers are not really involved. They often do not take the benefits that are offered by the market. What can we as a regulator do in this case?

We think consumer involvement is key.

Therefore, we launched our *“if you snooze, you lose campaign”* .

In 2014, we launched a website and social media campaign to raise awareness of the choices households and small business have when it comes to choosing energy suppliers. We created awareness in and empowerment of people by providing insight how to compare offers from energy providers. We used this slogan, based on the behavioral bias that people are triggered by feelings of loss instead of gain.

In 2015, we were proud to report that the Dutch switch rate for energy suppliers was twice as high as the average in Europe. The average Dutch household saved up to 420 Euros per year!

#### **<slide4>**

In Europe “regulation and sustainability” is a hot topic. Recently the European Commission developed a strategy for a resilient Energy Union combined with an ambitious climate policy.

This is not only relevant for policy departments in Member States, but it very much dictates the agendas of regulators in Europe. This strategy has re-emphasized the importance of the completion of the internal energy market, of security of supply in Europe. It has also provided focus on how to decarbonize the economy.

#### **<slide5>**

We see that the transition to a low carbon economy entails new challenges. It sometimes seems as if we are playing a whole new ball game. Since long Europe has had a focus on the internal energy market, but the rapid integration of renewable energy has introduced new dynamics and issues.

National policies can distort the functioning of the internal market significantly. Furthermore, security of supply issues became more visible. Low marginal costs of wind and solar impacted the business model of power plants all over Europe, causing security of supply issues. Especially gas-fired electricity plants were too expensive to remain in business, but also highly needed as back-up for the intermittent green production.

You might wonder why this impacts our agenda so significantly? ACM has seen a tremendous shift in workload. Ten years ago, the majority of our work was on a national level. Nowadays the majority of our work has a European or regional component. The level of detail on which we need to coordinate and work together with other countries or European institutions has enormously increased.

### **<slide6>**

To be a bit more specific on how we as European regulators contribute to actually delivering the benefits of the Energy Union to consumers, I've identified three main elements. I will give some examples of the work we do.

### **\Monitoring/ oversight (1<sup>st</sup> element)**

In Europe regulators have an important role in monitoring the integrity of the internal energy market. On a national level, regulators uphold the regulation market integrity and transparency. We monitor transactions and liaise with ACER, who has a European responsibility in this matter. This legislation helps to build consumer confidence. We also monitor and report on the liquidity of the wholesale markets and contribute to ACER's report on the state of play of the internal energy market.

### **Coordination (2<sup>nd</sup> element)**

We work together with other regulators, system operators and sometimes Member States in regional initiatives. These initiatives boost early implementation of new legislation, security of supply and develop pilot projects which can be the inspiration for new policy.

The topics are often hands-on. A lot of technical solutions and legal harmonization is driven by regulators. All with the purpose of integrating national markets into the internal energy market and security of supply. This cooperation is mainly driven by the vast potential of cost savings to be achieved by better using the existing infrastructure connections and using the potential of neighboring countries for security of supply, increasing market liquidity and establishing competitive wholesale market prices.

### **Guidance (3<sup>rd</sup> element)**

In Europe, the European Commission, European Parliament and

member states use the input from ACER, regulators and system operators. Within ACER, regulators for instance draft Framework Guidelines which are used by the system operators who write proposals for the actual Network Codes. These Network Codes are the backbone of the internal European energy market. These market rules facilitate the well needed cross border harmonization, And last but not least, we produce vision documents on current and future energy policy.

I will go into two recent vision papers of the European regulators on gas issues. *Why talk about gas in a panel on sustainability?*

#### **<slide 7>**

Gas is often earmarked as the transition fuel, a reliable back-up for intermittent green energy. The European gas has changed fundamentally. This requires a new mind-set in order to adopt the correct regulatory approach when looking forward to the next decade.

First I will tell you more about the gas target model. After that I will also elaborate a little on the CEER vision on security of supply

#### **<Slide 8>**

To start with the gas target model. I will briefly address the four building blocks.

#### **Well-functioning markets**

The core principles that underpin our vision for European gas

markets will remain the same today as when the GTM was first published. This vision is of a competitive European gas market, comprising regional entry-exit zones with liquid virtual trading points, where market integration is served by appropriate levels of infrastructure, which is used efficiently and enables gas to move between market areas.

The Network Codes will bring Europe closer to this vision. Implementing them in full and on schedule is the right priority and the focus for regulators and other stakeholders today. However, other important factors need to be considered as well.

**For instance, self-assessment of the wholesale liquidity**

We promote the importance of a liquid wholesale forward and futures market. A new entrant must be able to manage risks. If he needs to sell a fixed-price contract to a consumer for delivery of gas in a year's period, he should be able to purchase the required gas at a fixed price in the wholesale gas market. Currently, this is not yet the case in the whole of Europe. We developed a self-assessment tool for member states and recommend that they assess their national markets and take structural market reforms if they are not certain that they will be able to create this kind of liquidity by the end of 2017.

Another building block in the gas target model is the role of gas in complementing RES generation.

## **The role of gas in complementing RES generation**

In the gas target model we predict that significant gas-fired generating capacity is likely to be needed to provide clean and flexible back up to renewable energy sources (RES). These plants are currently running at a far lower load factor than was previously the case. This endangers their availability. We recommend legal obligations for electricity and gas TSO's to improve their cooperation. The last building block of the model refers to:

## **New developments in the gas supply chain**

As regulators, it is important that we facilitate the emergence of these new uses of gas through appropriate and limited interventions only. We foresee several new developments, which include e.g.:

- (i) gas use in the transportation sector (in both liquefied (LNG) and compressed natural gas (CNG) forms);
- (ii) small-scale applications of LNG and CNG, including alternative means of distribution such as virtual pipelines; and,
- (iii) pioneering technologies that facilitate the storage of electricity in the form of hydrogen or synthetic gas ("power to gas" or P2G).

*What could be the possible role of regulators in this field?*

- Clarification as to which of these activities require regulatory intervention

- Facilitating a level playing field between piped and non-piped supplies
- Decisions on the pricing regimes, and possible integration of gas in the electricity system.

### <slide9>

Also in 2015, European energy regulators have published their vision on the *Security of Supply (SoS) concept*.

Well functioning wholesale markets for gas ensure security of supply. Security of Supply and competition work in concert; the more pluralistic upstream supply is in Europe, the less we will depend on any one source of supply that may be subject to either physical restrictions or political interference.

In our belief, security of supply should be market-driven: non-market based measures – such as storage obligations – should only be introduced when proven necessary. SoS objectives should be transparent and clear for the market, while a clear incentive should exist that triggers market participants to fulfil their responsibility. In this way, interests of the consumer are served at the best level.

Security of Supply can no longer be seen as a solely national responsibility. Market areas within Europe should be the preferred reference point. This will increase the importance of good regional cooperation.

## <Slide 10>

To work towards the conclusion of my presentation I would like to talk about a recent Dutch development. Earthquakes in the Groningen region have increased in strength and frequency over the past three years. Up to a point now that the Dutch government is seriously considering to apply cuts in our domestic gas production, impacting not only household heating in the Netherlands, but also households in neighbouring countries.

This poses (new) questions on security of supply. How to supply heat to household consumers as our national source of low-calorific gas diminishes? What will be the role of imported high-calorific gas in this scenario? Is it cost-effective to build nitrogen facilities to convert imported high calorific gas to low-calorific gas? How does reduction of CO<sub>2</sub> emissions feed into this question? Should the focus, rather than on gas, be on alternative, renewable energy sources? These are no longer questions which concern the long run, but they are actually on the table in the Netherlands.

Our role in this transition should focus on three aspects:

- (i) Which choices and opportunities does this problem bring for consumers and businesses?
- (ii) who pays for this and how can the costs of the eventual solution be contained as much as possible?
- (iii) And: how can market liquidity be best preserved?

ACM feels that it is important to promote that consumers have actual choices in this process and that opportunities to cost-effectively transfer to a low carbon economy are well considered. It impacts our decisions, for instance on depreciation periods regarding investments in networks and nitrogen facilities, replacement investments and starts new thoughts on the future market model in the Netherlands. Furthermore, we monitor and report on the liquidity of the wholesale market and share this knowledge.

**<slide 11>**

As my concluding remarks I would like to highlight:

1. I would like to reconfirm the importance of a well-functioning internal energy market and highlights the importance of liquid spot and forward markets;
2. I strongly believe security of supply measures should be market based and highlights the importance of regional coordination; this is also the focus of the CEER vision document on Security of Supply
3. Monitoring of energy markets puts NRA's in a good position to advice in periods of transition (e.g. transition towards a green economy);
4. Our focus on delivering *value to consumers* helps to develop cost effective policies that deliver real value for consumers and businesses.

Thank you for your attention!