Role and functions of the regulator III: The changing role of regulators

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ERRA
The changing role of regulators – Table of Contents

Changing role of regulators, due to different reasons:

1. New entrants (players) in the supply chain with effective Third Party Access (TPA) to networks/ systems
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (Regulator’s role regarding „The new electricity market arrangements in Cyprus“)
3. Supporting energy transition (based on new Climate and Energy Policies) and regulate/ oversight/ monitor the new players (storage, aggregator, new services, ...)
4. Moving from national to regional and EU-wide regulation

The different reasons initiate different changes in the regulators’ role!

Discussing specificities of the Cypriot market structure, geographical situation and regulatory practice
New entrants (players) in the supply chain require effective Third Party Access rules and practices to networks/electricity systems. The Regulators’ role – among others – could be the following:

- Proposing (or preparing/setting) detailed regulation on transparent and clear unbundling rules

  *Is the present (proposed[?]) ISO model could work properly?*

  *DSO/Supply unbundling?*

  *The NRA could rely on the proposals of the TSO, if it is really independent from market/trading interest!*
1. Changing role of regulators - TPA related changes (2)

The Regulators role – among others – could be the following:

- Requiring detailed rules of regulated access to the networks (TSO and DSO) and to the system services; prepared by the network operators and approved by the NRA.

  *The Grid Code and Distribution Code should be in harmony with the EU Network Codes and Guidelines.*

  *The Regulator requires the effective work of the Code Committees representing the interest of all Stakeholders!*

  *Regulatory (conditional) approval should take into consideration the different opinion of Committee members!*
1. Changing role of regulators - TPA related changes (3)

The **Regulators role** – among others – could be the following:

- Requiring transparent and market based procedures on acquisition of different **system services** (reserves, ...) to be introduced by TSO.

  *Acquiring of system services the guiding principles should be: transparency, objective, market based (preferably: tender). In case of limited offers the methodology of cost-benefit analysis should be prepared by NRA (until that: strict cost review).*

  *The opinion/aspect of both; generation and demand side should take into consideration during approval.*

  *The demand side involvement require special conditions.*
1. Changing role of regulators - TPA related changes (4)

The Regulators role – among others – could be the following:

- Requiring transparent and market based procedures on cross-border capacity allocation and congestion management to be prepared and introduced by TSO and approved by Regulator.

  These rules are equally important for existing lines and for the planned new network elements.

  Handling existing export-import contracts is important, because they could “block” part of the cross-border capacity; could be an entry barrier for new entrants.

  Before approving the rules the NRA should consult with incumbent and new potential traders as well.
1. Changing role of regulators - TPA related changes (5)

The **Regulators role** – among others – could be the following:

- Regulator should set or approve **network/system access tariff elements**. Doing this activity there should be a clear separation/allocation of activities between network/system operation and supply/trade/generation activities.

  **Clear unbundling concept assists the separation of cost elements.**

  **Detailed cost analysis and allocation of the items to different Voltage levels is important.**

  **Setting/approving the tariff level of system services the TSO and the NRA could have strong debate. The Regulator (Government) should have clear picture on the targeted reliability level (LoLP).**
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (1)

The Regulators role – among others – could be the following:

- The Electricity Directives require Regulators supporting efficient competition. The Regulator could set *Ex Ante rules*, while Competition Authority could perform *Ex Post* investigation and penalise.

- There are different possibilities pushing competition:
  - Proposing market structure changes (less concentrated)
  - Discovering and reducing entry barriers (consult with EFET!)
  - Set medium/long term goals in the regulatory approvals and give grace period reaching these targets.
  - Set license conditions for TSO requiring tendering process and transparency re. reliability data of network elements and generation units

_Regulator’s role regarding establishment of „The new electricity market arrangements in Cyprus”_
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (2)

The Regulators role – among others – could be the following:

Discovering and reducing entry barriers:
- Preparing clear definition of wholesale traders (traders without end-users) (Differentiation between trade and wholesale trade)
- Create simplified and transparent licensing process;
  - Application form
  - Application and document format required (hard copy, electronic,..) (Guidance for the applicants)
  - Documents attached to the application (less info request - [ERRA prepared a suggested list of required documents])
  - Timing of regulatory supervision
  - License application fee
  - Who can apply for license? (Registration in where?)
  - Annual license (supervision/ oversight) fee

CERA’s role regarding licensing wholesale traders under „The new electricity market arrangements in Cyprus“
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market \(^{(3)}\)

The **Regulators role** – among others – could be the following:

Discovering and reducing **entry barriers** (cont.):

- **New entrant suppliers** could be supported entering to the retail market by less strict requirements:
  
  - Transparent license application procedure
  - Requiring less customer centres compared to the status quo of incumbent
  - Allowing new type of communication channels and forms with customers
  - Give freedom to suppliers offering different supply packages and conditions to end-users purchasing power on the free (not regulated) market segment (consumer safeguard still important, but competition could help maintaining quality).
  - License application fee and annual license (supervision/oversight) fee should be adjusted to the traded volume (market share)
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (4)

The Regulators role – among others – could be the following:

Discovering and reducing entry barriers (cont.):

- New entrant suppliers could be supported entering to the retail market by “ensuring” available capacity and power for them on the wholesale market:
  - The Dominant Participant (EAC) should have capacity/power release (auction) programs (transparent, predictable, reasonably sized and approved, monitored by NRA)
  - The cross-border capacity cannot be blocked by one (limited) players – allow new players to import/export
  - Special regulation of Dominant Participant (e.g.: Significant Market Power regulation in Hungary)

CERA role regarding market liquidity during the establishment of „The new electricity market arrangements in Cyprus“
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market \(^{(5)}\)
The Regulators role – among others – could be the following:

Creating proper market rules:

- **New Market Rules** (preparation, consultation, approval) should aim the establishment of functioning wholesale market and DAM (*targeted Net Pool Model*);

  - *The Regulator could create set up and require effective work of the Market Code Committee representing the interest of all Stakeholders!*

  - *Regulatory (conditional) approval should take into consideration the different opinion of Committee members! Conditional approval, if targeted goals are not reached.*

  - *CERA tasks based on „The new electricity market arrangements in Cyprus”*
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (6)

The Regulators role – among others – could be the following:

**Monitoring the different markets:**

- Hiring staff for market analysis and monitoring functions (preferably young economists)
- Cooperating with the Competition Authorities (learning from them how to analyse and evaluate markets)
- Identifying different markets (wholesale, retail, reserve markets, balancing market,...)
- Creating data reporting requirements, building up data management system and introducing analytical tools
- Data collection scope and frequency should be adjusted to the market liquidity (stages of market building)
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (7)

Ensuring Customer Protection – Reasons why it is important:

1. Information asymmetry (possibility of misleading) + small end-users cannot easily choose best offers on the free market

2. “Price Cap” (performance based) network charge setting is going hand in hand with Supply Quality Regulation:

During the price regulation period there is less regulatory intervention. Strong profit incentive for (private) investors of DSO: improve efficiency and reduce cost

Cost reduction may result less reliable supply, negative effect on supply quality (including commercial quality) → this is the main reason to set REALISTIC, but ambitious quality requirements!
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (8)

Passive elements of consumer protection:
- Efficient competition on Regional market with Supply market conditions
- Significant Market Power concept, rules
- Last Resort Supplier concept
- Guidance to the consumers on homepage: FAQ + How to change supplier?
- Approval of Business Conduct Rules of suppliers/traders, DSOs
- **Setting Quality of Supply requirements + monitoring + enforcement**
- Consumer satisfaction measurements

Active elements of consumer protection:
- Universal Service Provider (regulated tariff + controlled service level)
- Assistance for vulnerable consumers
  - Social assistance
  - Assistance for handicapped consumers
- Consumer participation in regulatory meetings
- Dispute settlement
- Complaint handling
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (9)

Quality of Supply Regulation as a System

Quality of Supply Regulation is a System of Requirements (set by the Regulator), Monitoring and Enforcement
- Continuity of supply (network reliability)
- Voltage quality
- Commercial quality (customer relations)

Monitoring and Enforcement

Financial incentives
- Quality dependent network tariff
- Overall Standards of performance
- Guaranteed Standards of performance (active consumer’s involvement in control and compensation system)

Consumer satisfaction measurements (survey):
- Expectation
- Satisfaction
2. Supporting the creation of efficient wholesale and retail competition and monitoring the market (9)

Underperformance based on gap (expectation – satisfaction) values in Hungary in 2007

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<td>Call centre</td>
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3. Supporting energy transition (based on new Climate and Energy Policies) and regulate/oversight/monitor the new players (storage, aggregator, energy communities, new services)(1)

The Regulators role – among others – could be the following:

Supporting Renewable Electricity Supply (RES) :

- Licensing procedure with special license conditions (setting support period, obligatory purchase conditions, balancing requirements [if any])
- Supporting network connection of RES facilities (discovering and eliminating the disincentives of the DSOs)
- Supporting smooth system integration of RES (special conditions in the Grid and Distribution Codes)
- Setting Balancing Responsible Party(ies) for RES producers
- Announcing new conditions of RES support schemes targeting new players (based on the „Winter Package” proposals)
3. Supporting energy transition (based on new Climate and Energy Policies) and regulate/oversight/monitor the new players (2)

The Regulators role – among others – could be the following:

**Adjusting regulatory methods/tools and incentives to the new tendencies:**
- More distributed generation (DG)
- More intermittent RES generation
- More flexibility is needed → *supporting DSR*
- More DG and effective Energy Efficiency measures resulting less distributed energy → *new type of network tariff system is required*
- The high flexibility need and the consumer wish for new type of services requiring the development of Smart Grid elements → *supportive network tariff system is required*
3. Supporting energy transition (based on new Climate and Energy Policies) and regulate/oversight/monitor the new players (3)

The Regulators role – among others – could be the following:

Regulate/oversight/monitor the new players:
- Small (rooftop) PV installation → net metering and settlement system
- Energy Efficiency related service companies → new type of network tariff system is required
- Storage (network related and system regulation related services) → new type of regulation is required
- Aggregators and Energy communities → new type of regulation is required
- New services → low entry barriers needed
4. Moving from national to regional and EU-wide regulation

The **Regulators role** – among others – could be the following:

More and more **issues are analysed and regulated on regional level and/or EU-wide:**

- Generation adequacy→ *common method + regional cooperation*
- Risk assessment→ *regional analysis and common evaluation*
- Cross-border network planning, investment and capacity allocation→ *regional TSO cooperation, regulatory harmonization, common approval*
- RES support systems→ *regional harmonization*
- Capacity Remuneration Mechanisms→ *regional harmonization*
- Solving debated issues among NRAs at ACER level → *active participation in ACER/CEER working groups*
Managing new responsibilities

Performing new activities and fulfilling new responsibilities the NRAs should re-allocate tasks and manpower:

- Less focus on licensing and more effort on market building and monitoring
- Transfer responsibilities to the independent system- and market operators (TSO, DSO and MO) preparing documents with stakeholders’ control:
  - Network development plan and system adequacy report
  - Network Codes
  - Market Rules
  - Customer satisfaction measurement
Changing role of regulators

- What are those new regulatory tasks, which require more training, or knowledge transfer?

- What are those regulatory responsibilities targeted by „The new electricity market arrangement in Cyprus“, which are in conflict with the general regulatory practice? (e.g. long term planning)

- What are those responsibilities, which could be outsourced?
THANK YOU FOR YOUR ATTENTION!

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