

CONFERENCE DAILY

Day 1

Monday, September 23, 2019

OPENING CEREMONY

Nearly 200 participants from 39 countries attended the 18th ERRA Energy Regulation and Investment Conference in Riga, Latvia on September 23-24, 2019. The Conference was hosted by the Public Utilities Commission of Latvia and focused on transitional challenges.

Introductory Remarks

In his opening address, *Märt Ots*, ERRA Chairman and General Director of the Estonian Competition Authority, noted that the way we perceive energy as the common good is changing, and highlighted that regulatory solutions are required to support a sustainable future in a global context.

Rolands Irklis, Chairman, Public Utilities Commission, Latvia; ERRA Presidium Member, CEER Vice-President and ACER Vice-Chair, adhered to uncertainties in energy sector developments due to the energy transition and emphasized the importance of the ability of markets to adopt to technological development and transitional challenges.

Keynote Addresses

Alparslan Bayraktar, Deputy Minister, Energy and Natural Resources Ministry of Turkey, Former ERRA Chairman and Chairman of ERRA Strategic Advisory Board, highlighted the role of regulators in the energy transition, underlining the importance of regulators to be aware of technological

developments and renewed roles of current players in the energy market.

Kristian Ruby, Secretary General of Eurelectric, highlighted that – in uncertain times – there is one element of certainty and this is the fact that a large share of Europe’s electricity is already decarbonized and the EU energy sector will become carbon neutral by 2045. Mr. Ruby noted there is a common path between electrification and decarbonisation, with renewables meeting approximately 80% of energy demand by 2050.

Figure 1. *Märt Ots*, Chairman of ERRA, provides his remarks in the opening of the conference



SESSION I:

BALTIC-NORDIC ELECTRICITY AND NATURAL GAS MARKET: ENERGY TRANSITION

Hando Sutter, CEO of Eesti Energia, Estonia spoke on the role of electricity market design in the process of decarbonisation. The increase of renewable energy ambitions raises the question of whether or not the current market design is good

enough to address challenges power systems face with additional renewable penetration. Mr. Sutter brought to surface market discrepancies due to unfair competitive of countries, adding that Capacity Mechanisms should be implemented on a regional level as adequacy of supply should be approached from a regional perspective. Meeting decarbonisation goals will require regional renewable energy investments so the electricity market should also be regionally designed in order to avoid adverse outcomes from situations that may arise when generators benefitting from different support schemes are accessing the same market.

Figure 2. Participants of Panel Discussion on Baltic-Nordic Electricity Market



The panel discussion that followed was moderated by *Andrius Kazukauskas*, Senior Researcher at the Vilnius University in Lithuania and consisted of distinguished panel members including *Rafal Gawin*, President of the Energy Regulatory Office of Poland, *Gatis Junghans*, Member of the Board at AS Augstsprieguma tikls of Latvia, *Hando Sutter*, CEO of Eesti Energia AS in Estonia, *Anne Vadasz Nilsson*, Director General of the Energy Markets Inspectorate of Sweden and *Inga Ziliene*, Chair of the National Energy Regulatory Council of Lithuania and addressed issues of electricity market design, regional capacity markets and the implications of the Clean Energy Package on the role of regulators. Strategic reserves are considered to be the least intrusive measures to address system adequacy and regulators should be observant of market barriers. The share of the power component in the tariff is becoming smaller, meaning that customers have stronger incentives

to switch to prosumer roles to avoid higher grid costs and investments will be made in local production and storage, which are becoming increasingly competitive technologies. Grid tariff structures must provide incentives to customers for flexibility and this will allow third parties such as aggregators to enter the market, serving as a 'representative' of the customers and reacting to these incentives.

The Session was followed by discussions on the natural gas sector in the Baltic-Nordic region. The discussions were opened with a presentation from *Rolands Irklis*, covering Baltic Gas Market opening, present and future infrastructure and prospects of the Baltic-Nordic Gas Market. This presentation was followed by a panel discussion moderated by *Vidmantas Jankauskas*, Former Chairman of ERA and included *Rolands Irklis*, *Mart Ots*, General Director of the Estonian Competition Authority, *Timo Partanen*, Leading Specialist of Energiavirasto (Energy Authority of Finland) and *Vytautas Ruolia*, Commercial Director of AB Amber Grid (the natural gas transmission system operator of Lithuania).

Figure 3. Baltic-Nordic Natural Gas Market Panel Discussion Participants



The panel discussed trends in natural gas markets, the reasons behind falling natural gas demand, interconnector and infrastructure development in the gas sector and the future of renewable gas. Panelists noted flexibility services demand will be required in a setting of high level of RES penetration, and the gas sector can participate in this market due to its high flexibility of generation. There is significant potential for gas in the heavy

industry sector, due to the lower price of natural gas service compared to electricity, which could provide a business case for larger customers. The panel addressed challenges in approving required infrastructure investments which have a significant impact on the tariffs and noted the increase in costs due to investments improves the effectiveness of competitive markets which leads to lower prices in the long-run. The panel also addressed the challenges presented by the network code as it does not prescribe details on how countries can merge natural gas markets. Inter-TSO compensation mechanisms between the three Baltic countries were also discussed, addressing the possible gaps that may arise from the current allocation of revenues based on consumption and revenues that would be received from transit countries to recover higher investment costs. Sector coupling and integration, making electricity and gas two sides of the same equation, will be an important factor affecting renewable gas in the future. However there is a challenge related to the fact that the current regulatory framework is capex oriented, and not solution oriented. The gas grid can help the power grid to optimize the investments provided that there are policy measures to provide incentives to power grids to minimize investments.

**SESSION II:
ENERGY TRANSITION AND
DECENTRALISATION I.**

The energy transition and decentralisation session was moderated by *Maia Melikidze*, Commissioner at the Georgian National Energy and Water Supply Regulatory Commission and covered the increasingly important topic of renewed roles of distribution system operators in providing flexibility in a setting of decentralized generation. *Stephen Woodhouse*, Chief Digital Officer, Pöyry Management Consulting started off the discussions with a presentation on the energy transition, noting that electricity is fundamentally inexpensive and is an undervalued commodity and that net-zero ambitions require full decarbonisation of power,

heat and transport. Investment in digital electricity infrastructure and software now surpasses investment in global gas power generation.

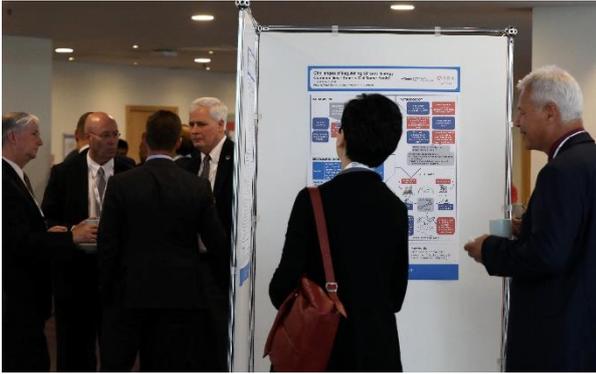
Figure 4. *Stephen Woodhouse's presentation on the challenges of energy transition*



Juliusz Kowalczyk, Expert, PSE S.A. (TSO) of Poland provided a presentation on the challenges of regulating citizens' energy communities and regulatory roles in this area. The presentation covered a number of questions related to consumer rights of participation, business models of CECs and market design responses to price signals and possible frameworks for owning, operating and developing grids.

Luca Lo Schiavo, Deputy Director, Infrastructure Regulation Department of the Italian Regulatory Authority for Energy, Networks and Environment provided a presentation on the regulatory role related to electric vehicle (EV) recharging development. Mr. Lo Schiavo noted that smart charging is an important issue as it can moderate the impact of EV charging on the system peak and can help consumers save money if they are charging their vehicles away from the peak (through time of use tariffs). Regulators must have two main objectives in mind. The first is to favour the development of smart charging, especially at home and at work. However, these should not have a high impact on network tariffs for investment developments which are due to electro mobility uptake.

Figure 5. Poster Exhibition of Conference Abstracts, the best were presented during Session II.



Arthur House, Chief Cybersecurity Risk Officer at the State of Connecticut, provided a presentation on cybersecurity of critical infrastructure in an increasingly digitized energy sector. Mr. House noted that potential damage of cyber breach is very significant and such breaches have the ability to cripple critical infrastructure. Regulators have an important role in protecting infrastructure. In this sense, governments should recognize that regulators need to be able to access sensitive information in order to understand the threats to utilities, which may be classified. In addition, utilities need to cope with new responsibilities, accepting that there are new cyber threats and – as a result – accept enhanced regulatory scrutiny. Regulators do not necessarily need to be cyber experts but do need to check on establishment of cyber security ‘culture’ and ‘hygiene’ habits of utilities, the ability of systems to respond to unexpected challenges and to verify that the overall resilience efforts are adequate. The discussions covered pricing principles and whether it should be customers, governments or utilities paying for the cost of infrastructure resilience. Panellists suggested there are very strong arguments for

cyber security costs to be passed through to end-user tariffs.

Figure 6. Session II panel discussing prospects and challenges of decentralization



The panel discussion that followed was moderated by Vera Gusenbauer, Policy Officer at E-Control, Austria and comprised of Svetlana Bagdantseva, Head of Division at the Federal Antimonopoly Service of Russia, Pierre Braun, an Advisor for Distribution and Market Facilitation at Eurelectric, Matteo Mazzoni, a Senior Analyst at ICIS and Liutauras Varanavičius, Director of Strategy Department at LITGRID, Lithuania and covered the topic of decentralization in the energy sector. DSOs will play key roles in future energy systems. Recent figures show that last year in Europe €30 billion have been invested in distribution grids and estimation envision that – to reach the EU energy targets – these investments need to be doubled to €60 billion per year to decarbonize electricity systems by 2040. Regulatory models should shift more towards TOTEX approach, looking not only at capex solutions but to provide incentives for innovative solutions that reduce tariff impacts on end-users. ■

