Principles on Regulatory Control and Financial Reward for Infrastructure

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Importance of new infrastructure for competition and security of supply

1. Public authorities should endeavour to encourage sufficient investment in gas and electricity network infrastructure in order to implement the internal energy market, facilitate efficient competition and safeguard security of supply.

   Public authorities need to maintain oversight of infrastructure decisions in order to promote both security of supply and network efficiency.

Importance of the efficient use of infrastructure

2. Transmission System Operators must manage their networks in a way that ensures the efficient use of infrastructure.

Principles for infrastructure

Role and responsability of public authorities

3. Transparent, non-discriminatory and standardised options for the development of infrastructure must be developed as far as possible to minimize regulatory risks.

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Transparency of investment plans

4. Public authorities should enforce a minimum procedure for the publication of the Transmission System Operators' infrastructure plans.

Independence in network management

5. Transmission System Operators must be effectively unbundled to ensure that there is no conflict of interest when making investment decisions and to ensure there are sufficient incentives to provide non-discriminatory third party access. Unbundling of network ownership is the preferred route to follow.

Applicable regulatory regime

Three approaches:

Approach one: Regulated reinforcement with regulated tariffs.

Regulated reinforcement:

- ✓ TSOs propose every infrastructure.
- ✓ The Authority judge merits and desirability of each investment.
  - ✓ Set of criteria: Technical, Economic
- ✓ For Interconnection infrastructures: a Community-level monitoring procedure could be envisaged for priority project proposals when they contain a European interest.

Regulated tariffs:

- ✓ The cost of each infrastructure is recouped through regulated tariffs.

Principles for infrastructure

Applicable regulatory regime (Cont.)

Approach one: Regulated reinforcement with regulated tariffs.

Regulated tariffs:

- ✓ Two possibilities for remuneration:
  1. According to recognised or certified standard costs with an adequate rate of return:

     -Two parts: capital charges and operating costs.

     -Capital charges: depreciation cost (from one of the used financial methodologies) plus cost of capital (determined by the regulatory authority)

     -Methodologies and criteria should be standardised.
  2. Remuneration of the infrastructure as a result of a public tender.

Principles for infrastructure

Applicable regulatory regime (Cont.)

Approach two: Non-regulated reinforcement with regulated tariffs.

Non-regulated reinforcement:

- ✓ Network reinforcement are done by TSOs.
- ✓ Regulators do not have an explicit role in approval or rejection of specific infrastructure projects. They establish rules ex-ante: output standards, quality controls, etc.
- ✓ Market signals must properly highlight the need for new investment.
- ✓ Auctions, re-sale on secondary markets and “open-season” could be used as a catalyst to identify feasible infrastructure projects.
- ✓ New capacity reservation could be made in advance to the infrastructure construction. Typically for: HVDC lines, LNG regasification plants, or inter-State (inter TSO) lines.

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Applicable regulatory regime (Cont.)

Approach two: Non-regulated reinforcement with regulated tariffs.

Regulated tariffs:

- ✓ Transmission Companies are rewarded for a level of infrastructure overall (not on an asset-by-asset basis).
- ✓ The overall reward is commonly subject to RPI-X procedures.
- ✓ Output or quality standards can be incorporated to prevent under-investment (“baseline investment”).
- ✓ This “baseline investment” is the basis for determine the allowable revenue for the price control period.
- ✓ Additional incentives could be provided for TSOs to increase its “baseline investment” to respond to incremental demand in excess through the sale of long-term access rights.
- ✓ TSOs according to its success may receive for these investments a higher or lower reward than for “baseline investment”.

Applicable regulatory regime (Cont.)

Approach three: Non-regulated reinforcement with non-regulated tariffs (merchant lines).

- ✓ Infrastructures are developed and operated on a commercial basis outside the default regulatory regime applicable for national networks.
- ✓ Firm transmission rights are allocated to the private investors.
- ✓ The cost of the infrastructure is paid for by its developer. The revenues are not subject to the ordinary kind of price level regulation
- ✓ Infrastructure owners bear the risk of not recovery the full cost of the construction

Applicable regulatory regime (Cont.)

Approach three: Non-regulated reinforcement with non-regulated tariffs (merchant lines).

- CEER believes that merchant lines should only be permitted on a case-by-case basis and should be subject to some requirements.
- Basically: merchant lines must not grant market power and they should promote effective competition.

Applicable regulatory regime (Cont.)

Principle on the applicable regulatory regime

6. Public authorities should establish, in advance and in a transparent manner, which regulatory regime is to be applied for both national and cross-border investments. Such a regulatory regime should include a clear description of its applicability, the relevant criteria for the financial reward for new infrastructure investments and should describe the relevant criteria applicable to third party access to the new infrastructure.
7. Merchant infrastructures have to be decided in a case by case basis and should continue to be subject to an appropriate ex-ante regulatory control for each individual case. Where the merchant status is granted on a time-limited basis, the ongoing regulatory status should be properly re-appraised at the end of this period

Procedures for licensing new infrastructure

7. Public authorities should guarantee that procedures applicable to granting required licenses for new investments in gas and electricity network infrastructure are non-discriminatory and efficient.

Administrative difficulties

8. Swifter, more expeditious administrative authorisation procedures are required for infrastructure development, including, in particular, interconnection infrastructures.