

## Position Paper

### The Role of Regulation in Security of Supply and the CEER Approach<sup>1</sup>

CEER welcomes the initiative of the EU Commission to investigate security of supply issues in its Green Paper “Towards a European strategy for the security of energy supply” (COM(2000) 769 final) and the emphasis, the European Commission has placed on security of supply as one of the most important public service obligations. CEER also emphasizes the role of a well functioning integrated Internal Energy Market in ensuring long-term security of supply.

CEER wants to stress, that the EU initiatives to establish a free market operating within a sound regulatory framework has the potential to deliver a high degree of security of supply at competitive prices. Generally, security of supply problems result from inadequacies in the regulatory framework or shortcomings in the free market.

In the newly liberalized markets many stakeholders need to share the responsibility for assuring security of supply, such as the EU, the member states, the TSO’s, regional network operators, power generators, power exchanges as well as regulators. While political concerns for security of supply by national governments remain essentially unchanged, traditional national or regional integrated electricity utilities no longer have the direct responsibility for security of supply. The responsibilities of national governments remain at the same time mainly unchanged.

Therefore, the roles of all the stakeholders need to be re-assessed in order to fully accommodate the new market structures. There must be a procedure for setting and monitoring objectives, standards and indicators in relation to security of supply, applicable for all the stakeholders.

In some countries generation adequacy is viewed as a responsibility of the market with no specific responsibilities being assigned to the regulator in this respect. In others the regulator responsibilities include both, the generation adequacy and the network capacity. Within this new complexity, the regulators have been given the challenging task of developing efficient, market based regulatory mechanisms for ensuring security of supply, without restricting fair competition. New market arrangements should provide efficient price signals for investments to ensure security of supply. For this purpose, it is necessary to look at the whole value chain from generation, through transmission/distribution to the supply to the end user.

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<sup>1</sup> Remark: Presently, this position paper covers primarily electricity and leaves addressing of the gas issues to a future paper.

CEER believes that:

- Security of supply is addressed more effectively in an integrated competitive market where Member States comply with a common set of principles.

The use of resources needed to address security of supply is optimized in a larger integrated market, rather than on the basis of each individual country. This was demonstrated in markets that have already been integrated, e.g. Scandinavia.

- Appropriate harmonization should ensure that within a fully integrated market a single country does not act unilaterally at the expense of the common security of supply. Until a fully integrated market is achieved, further discussion is required to establish the circumstances and principles under which security of supply procedures, such as in the case of system emergency, may need to be invoked.
- The harmonized security of supply criteria should include measures and principles necessary at the community level:
  - For the continued liberalization of the European energy market
  - For non-discriminatory Third Party Access requirements to the network

Many measures are needed to ensure the effective implementation of an integrated energy market. Therefore the new EU directives on electricity and gas are an important step to provide security of supply at a European level. The development of common criteria for monitoring and assuring security of supply should be a focus of CEER in close cooperation with ETSO, UCTE and GTE.

Any future monitoring will be based on a clear set of criteria and justified in terms of assessing the development of the Internal Electricity Market and its effective functioning. This will help to provide decision makers with objective and verifiable information on whether any further actions are necessary to assure continuing security of supply, particularly in the event of a crisis.

As an association of independent regulatory authorities, it will be important for CEER to work towards a solution to address security of supply by:

- Developing the regulatory framework for market participants that ensures efficient investment signals for network capacity and – depending on the responsibility assigned to the regulator - generation
- Ensuring that effective incentives are in place for optimal use of existing infrastructure and promoting short-term security of supply by adopting congestion management methods on the demand and supply side that can help alleviate constraints
- Monitoring the integration into the market of long-term EU energy policy objectives, e.g. environment, renewable generation targets, procurement of primary energy, energy efficiency, etc.
- Continuing to analyze the security of supply situation within the integrated market and within the distinct regions of the EU and making proposals as appropriate
- Identifying, analyzing and suggesting measures concerning barriers to competition
- Implementation of the demand side management measures
- Encouraging involvement of consumers within the security of supply debate and taking appropriate account of the cost to final customers, of various methods for delivering security of supply

CEER takes further account of the Communication (COM(2001) 775 final) from the Commission to the European Parliament and the Council, on European Energy Infrastructure as well as the new draft directives on gas and oil security of supply (COM(2002) 488 final).

Adequate infrastructure capacity within the EU and at the periphery is an important but yet unfulfilled prerequisite for a well functioning internal market in energy. Price differences between some of the member states of the European Union indicate that economic arbitrage is not possible on technical reasons. To gain the full benefits of market opening these bottlenecks should be minimized. Bearing that in mind, the CEER Working Groups are addressing a range of issues including congestion management and infrastructure issues.

Furthermore, CEER WG on Infrastructure is working to propose a common position and a regulatory framework for providing incentives for efficient new infrastructure investment, in close collaboration with the Commission, ETSO, the EU Member States and other stakeholders. The CEER believes that regulators are an essential party because of their independence, objectiveness and commitment to the common and open Internal Energy Market in Europe. Moreover, regulators have a role in promoting certainty and reducing risk for market players.

CEER is committed to contribute to the actions agreed in the last Florence and Madrid Fora:

- The development of an overall long-term strategy for security of supply in the Internal Electricity Market, considering also the impact of the gas market and gas security of supply
- Considering the impact of the cross border issues to security of supply

Establishing common principles for security of supply, similar to the successful rules of the Internal Electricity Market also at the periphery of the EU, will ease access to the EU market for new suppliers and provide a strong incentive for further investments.

Whereas harmonization within the integrated market can help addressing security of supply more effectively, the criteria defined at the EU level would have to take into account the specific local situation, respecting national or regional laws and responsibilities assigned to the national regulators.

At the same time CEER wishes to emphasize that full theoretical and practical compliance to the existing EU directives on energy are of utmost importance to reach the common objective of short- and long term security of supply.

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