

## CEER Online Specialised Training on Network Incentive Regulation and Benchmarking

05-07 October 2020

### Online Classes:

14:00-17:00 (CEST) on 05 October 2020

14:00-17:00 (CEST) on 06 October 2020

14:00-17:00 (CEST) on 07 October 2020

### COURSE PROGRAMME

#### **Level B: Specialised Course**

*Energy network revenues and tariffs are set by energy regulators to help ensure value for money and security of supply. There is also a focus on incentivising a high quality network service. Competitive pressures through incentives are effective in leading companies to choose the strategies that ensure the best performances.*

*In addition, there are now significant developments impacting on the network businesses. Elements such as innovation, flexibility and digitalisation are potential ways to provide for network efficiency and other performance outcomes. Their benefits should, however, also be balanced with the costs for customers. There is also a clear distinction between incentives for DSOs and TSOs through allowed revenues and incentives for network users through network and connection tariffs.*

*Energy regulators must carefully evaluate the costs of regulated companies to determine a fair return on capital while ensuring that customers do not pay more than necessary. This allowed revenue (whose calculation methodology is determined nationally) is then recovered via network tariffs, themselves carefully designed to reflect the costs of serving network users. There is no single regulatory incentive model appropriate for the diverse set of DSOs and TSOs that exist across Europe. Energy regulators must decide on the inclusion and design of relevant elements in incentive schemes based on the regulatory framework and the characteristics of the industry in each Member State. One of the regulatory tools that energy regulators can use to compare and determine the efficiency of their network design and in setting allowed revenues is benchmarking.*

*This tailor-made CEER's online training programme will help energy regulators deliver the expertise in setting network incentive regulation and carrying out benchmarking. The programme will cover the principles of network incentive regulation in the context of significant developments impacting on the energy network such as innovation, flexibility and digitalisation. It will include specific cases studies on how to design the incentive schemes, how to switch from cost plus to incentive-based regulation and how to use regulatory sandboxes in the implementation of incentive schemes. The programme will also focus on the benchmarking methodologies and practices of the electricity and gas networks in the context of the network tariff regulation.*

## Online Class 1, 14:00-17:00 (CEST) 05 October 2020

**14:00-14:15** Opening remarks, round-table introduction of the participants and introduction of the programme and the online format.

- **Mr Alexander Lütke-Handjery, BNetzA, Course Director**
- **Ms Anh Tran, CEER Training Manager**

### SESSION 1 NETWORK INCENTIVE REGULATION – PRINCIPLES AND PRACTICES

Traditionally, cost-plus and rate-of-return models were widely used for tariff regulation purposes as the means for regulated companies to recover allowed revenues. However, these models were considered to lack incentives for regulated companies to minimise costs and, conversely, could lead to 'gold-plating' and inefficient investment choices. This led to the emergence of incentive-based regulatory approaches, including price controls, with penalty and reward tools linked to attempts to improve network performance. More recently, market trends such as innovation, flexibility and digitalisation are influencing the development of an output-based model, with the Clean Energy Package provides the frame for the new market design. These new challenges call for new design in setting incentive regulation by energy regulators.

**14:15-14:45** Principles of incentive regulation.

- a) New challenges call for new regulation – smart networks, demand-side response, intermittent generation sources (renewables, distributed generation).
- b) Different models of incentive schemes in Europe to incentivise network utilities to deliver improvements (on cost efficiency, service levels, investments and research/development/demonstration, etc.).
- c) Similarities and differences in providing incentives for gas and electricity networks.
- d) Similarities and differences in providing incentives for transmission and distribution networks.

- **Mr Mike Huggins, Frontier Economics**

#### Q&A

**14:45-15:15** Group work: How incentives work in practice.

Discussion in small groups to apply learning from issues addressed during the previous session.

- **Mr Mike Huggins, Frontier Economics**

#### Q&A

**15:15-15:30** *Short break*

**15:30-16:00** Challenges of digitalisation and incentives for use of flexibility for the energy sector and the role of energy regulators to design incentive-based regulation and setting regulated revenues to enable digitalisation and the use of flexibility.

- **Mr Veli-Pekka Saajo, Energiavirasto**

**Q&A**

**16:00-16:30** National regulatory framework and practical experience on how to switch from cost plus to incentive-based regulation. Case study from Latvia.

- **Ms Māra Bērziņa, PUC**

**Q&A**

**16:30-17:00** General discussion and wrap up of Online Class 1.

- **Mr Alexander Lüdtke-Handjery, BNetzA, Course Director**

**- END FIRST DAY -**

## **Online Class 2, 14:00-17:00 (CEST) 06 October 2020**

**14:00-14:45** National regulatory framework and national case study in applying incentive tools in Spain.

- **Ms Henar Soto Tejero, CNMC**

**Q&A**

**14:45-15:30** National case study in applying regulatory sandboxes in the UK.

- **Mr Kevin Baillie, Ofgem**

**Q&A**

**15:30-15:45** *Short break*

**15:45-16:15** Group work: Different incentive schemes in Europe and how they work in practice.

- **Mr Alexander Lüdtke-Handjery, BNetzA, Course Director**

## SESSION 2 INTERNATIONAL AND EUROPEAN BENCHMARKING PRACTICES

Benchmarking is a tool that can be applied by regulators for different purposes within network tariff regulation and incentive regulation. Benchmarking allows regulators to take into account differences in companies' efficiencies when setting company's specific productivity factors. Benchmarking can be carried out for both electricity and gas networks at transmission and distribution levels. This session aims at exchanging experiences and lessons learnt on different benchmarking exercises, covering international and national benchmarking for gas and electricity at transmission and distribution levels. It aims to provide participants with new input for their NRA benchmarking tasks. Scientific approaches and different methodologies will be presented together with national and international practical examples.

**16:15-16:45** Introduction to benchmarking approaches.

- a) Rationale for determining efficiency of networks and the link between incentive regulation and benchmarking.
- b) A general framework for benchmarking analysis.

- **Mr Mike Huggins, Frontier Economics**

**Q&A**

**16:45-17:00** General discussion and wrap up of Online Class 2.

- **Mr Alexander Lüdtkke-Handjery, BNetzA, Course Director**

**- END SECOND DAY -**

## **Online Class 3, 14:00-17:00 (CEST) 07 October 2020**

**14:00-14:30** Regulatory tools to address the asymmetry of information challenge, including poor quality/absence of data and failure by regulated entities to provide data, data validation – dos and don'ts.

- **Mr Tim Harlinghausen, BNetzA**

**Q&A**

**14:30-15:15** Benchmarking practices in Europe - Practical exercise - electricity and gas DSO benchmarking in Germany.

- **Mr Alexander Lüdtkke-Handjery, BNetzA, Course Director**

**Q&A**

**15:15-15:30** *Short break*

**15:30-16:15** Benchmarking practices in Europe - Case study of electricity DSO benchmarking in Norway.

- **Ms Mona Heien, NVE**

**Q&A**

**16:15-16:45** Benchmarking practices in Europe – CEER pan-European electricity and gas TSO benchmarking study.

- **Mr Michiel Odijk, ACM**

**Q&A**

**16:45-17:00** Wrap-up of the course.

- **Mr Alexander Lütke-Handjery, BNetzA, Course Director**
- **Ms Anh Tran, CEER Training Manager**

**- END THIRD DAY -**