

# CEER/NARUC Special Seminar

## Energy Security and Regulation

7 december 2001

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# Key issues and regulatory approaches

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# Within less than two years markets have given a strong lesson

- the energy nightmare of California and the failure of Enron have shown that deregulation of the energy markets has not automatically lead to the lower prices, better supply and greater certainty.

# Are the markets able to make progress?

- Advocates of the free energy markets will argue :
  - what happened in the past was due to the adolescence of the markets;
  - as far as the markets are becoming more and more mature, operators will be more responsible.

# Markets cannot work on their ones

- But past experiences drawn from commodities markets, stock exchange markets and goods and services markets have demonstrated:

**markets cannot work on an efficiency way without a proper and sound regulation**

# No future in the old times

- A come back to old times where public authorities or public regulators were monitoring the management of utilities through prices control, investments authorizations and requirements will satisfy conservative public opinions but will be a economic setback.

# Gas and electricity markets have to be related

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- Tariffs of transport have to be related with the tariffs for the transmission grids because for the increasing role played by gas for generation
- If access tariffs to grids for generators are lower than tariffs for the use of gas pipe-lines which supply the generator, it could incite generators to locate power plants on sites of gas deposits

# Need of a legal framework

- A legal framework based on the principles of transparency, fairness and reliability will ensure the best adequacy between offer and demand and the fluidity of the physical and financial market,



# for the organization of the physical markets

- the cornerstones of this legal framework are the independence of the transmission and distribution grids from generators, suppliers and traders and the setting up of a sound regulatory body.

# Security is an important part of the regulator's responsibilities

- Regulators play an important role for the security supply through their responsibilities in :
  - Grids' monitoring
  - Congestions 'management
  - Power exchange markets

# Grids 'monitoring(I)

- the French law for electricity has given the French TSO the responsibility to draw up every year a medium and long term forecast of the future prospects for the supply and the consumption of electricity.

# Grids 'monitoring(II)

- Such an approach needs to be done in close relations with the regulators who should have a full responsibility for the destiny of the transmission grids.
- Through the determination of regulated access postage stamp tariffs and the supervision of the investments of networks, the regulator plays an important role in the localization of generation investments.

# Congestions 'management

➤ The regulator can:

- improve the quantity and the quality of electricity exchanges through requests of technical improvements and new investments.
- strengthen the security of the national market and allows a common share of reserve capacities, which will prevent from useless investments.

# Power exchange market?

- Strengthening the security of the physical market has to go hand in hand with a sound and reliable power exchange market.

# Need for a financial market(I)

- A market will give the operators, through financial transactions, terms of reference for pricing in the short and long term thanks to the spot and the future market.
- Market prices will give signals for the location, the type and the size for new investments

# but regulated(II)

- again without any regulation, exuberance and cheating of traders could lead to failures and jeopardize the confidence of the operators.



# Involvement of a securities exchange commission

- Any power exchange market needs to be under the supervision of a securities exchange commission, which has the competence to monitor financial transactions.

# TSO's responsibility

- But as TSOs must be responsible for the physical transactions linked to the financial ones in order to secure them, energy regulators have to be involved

# Need for a cooperation

- In this respect both energy regulators and securities exchange commissions must cooperate and be responsible for the governance of the power exchange market.

# A new horizon for energy policies

- Finally even if the governments prefer to keep under their control energy policies, the most efficient way to secure the supply of energy is a close association of energy regulators and operators to the definition of such policies.

# QUESTIONS?

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