

CEER Specialised Training on Network Incentive Regulation and Benchmarking

14-15 June 2018

CEER Office, Cours Saint-Michel 30a (5th floor), 1040 Brussels

COURSE PROGRAMME

Energy networks play a key role in transporting energy between energy producers and consumers, typically as a monopoly activity in an area, with their costs comprising a significant portion of consumers' bills. As a result, energy network revenues and tariffs are set by European energy regulators to help ensure value for money and security of supply. There is also a focus on incentivising a high quality network service.

In addition, there are now significant developments impacting on the network businesses. This includes increased levels of wind and solar generation, more integrated European wholesale markets, a move to increased demand-side flexibility and progress towards Smart Networks. Distribution System Operators are at the front-end of such changes, facilitated in many cases by the roll-out of Smart Meters.

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. 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 tailored-made 2-day CEER 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 and specific relevant examples from countries across Europe. 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.

Thursday, 14 June 2018
10:30-17:45

WELCOME AND INTRODUCTION

10:30-10:45 Opening remarks and round-table introduction of the participants.

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

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 (renewables, demand response, smart networks) are influencing the development of an output-based model, while the 3rd Package provisions and the electricity and gas target models provide the frame for our market design. With different roles and operational challenges, distribution networks are frequently the object of innovations in regulatory oversight.

10:45-12:00 Principles of incentive regulation.

- a) New challenges call for new regulation – smart networks, demand-side response, intermittent generation sources (renewables, distributed generation).
- b) 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

12:00-12:45 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

12:45-13:45 *Lunch Break – CEER Office*

13:45-14:30 Practical experience on how to switch from cost plus to incentive based regulation.

▪ **Mr Martin Breßlein, BNetzA**

Q&A

14:30-15:30 National case studies in applying incentive tools.

a) Approach at ARERA regarding incentive regulation for innovation in electricity distribution networks with smart grids.

- **Mr Samuele Larzeni, ARERA**

Q&A

15:30-15:45 *Coffee break*

15:45-17:30 National case studies in applying incentive tools (cont.).

b) Approach at NVE regarding cost efficiency at the transmission and distribution level.

c) Approach at CRE regarding development of interconnector capacities at the transmission level.

- **Mr Tore Langset, NVE**
- **Mr Antoine Dereuddre, CRE**

Q&A

17:30-17:45 Wrap up of Day 1.

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

17:45-18:45 Reception Drinks – all participants and lecturers are welcome to join.

- END FIRST DAY -

Friday, 15 June 2018
09:00-16:15

SESSION 3 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.

09:00-10:30 Introduction to benchmarking approaches and overview of UK benchmarking practice.

- a) Rationale for determining efficiency of networks and the link between incentive regulation and benchmarking.
- b) A general framework for benchmarking analysis.
- c) Benchmarking UK electricity distribution networks – the RIIO-ED1 case study.
 - Context and overview of models
 - Totex models
 - Disaggregated models
 - Regional Wage Adjustment
 - Smart Grid benefits
- d) Conclusion.

▪ **Mr Mike Huggins, Frontier Economics**

Q&A

10:30-10:45 *Coffee break*

10:45-11:45 Definitions, types and methods of benchmarking, using the example of the German electricity and gas DSO benchmarking exercise.

▪ **Mr Stefan Albrecht, BNetzA**

Q&A

11:45-12:45 Data validation – Dos and don'ts.

▪ **Mr Tim Harlinghausen, BNetzA**

Q&A

12:45-13:45 *Lunch Break*

13:45-14:45 Benchmarking practices in Europe - Case study of electricity DSO benchmarking in Norway.

- **Ms Mona Heien, NVE**

Q&A

14:45-15:00 *Coffee break*

15:00-16:00 Benchmarking practices in Europe – CEER pan-European electricity and gas TSO benchmarking study.

- **Mr Michiel Odijk, ACM**

Q&A

16:00-16:15 Wrap-up of Day 2.

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

- END SECOND DAY -