



14th EU-US Energy Regulators-Roundtable

March 18, 2019

Brussels, Belgium

Closing Statement

Energy regulators from Europe and the United States met on March 18, 2019, in Brussels, Belgium, for the 14th EU-US Energy Regulators-Roundtable to discuss common challenges and exchange best practices and experiencesⁱ. The event was organized jointly by the US and European associations of regulators, the National Association of Regulatory Utility Commissioners (NARUC) and the Council of European Energy Regulators (CEER).ⁱⁱ

Besides the latest developments, such as Brexit and Europe's Clean Energy legislation and distributed energy resources, the key themes discussed were regulatory independence; nodal pricing; the future role of gas; and the monitoring of market power and prices.

Regulatory independence

Safeguarding regulatory independence topped the agenda of the energy regulators' 2019 roundtable discussion, with a presentation from the European Commission on their study on the independence of Europe's energy national regulatory authorities (NRAs). Regulators from both the EU and the U.S.A. agreed that independent regulators are essential for providing regulatory policies that fuel sustainable growth and development while ensuring trust in public policymaking to achieve positive outcomes for citizens and businesses. Regulators see regulatory independence as fundamental to ensure market confidence, assisting efficient long-term investments that benefit consumers. In candid discussions, representatives of American and European energy regulators identified pinch points, throughout the regulatory life cycle, where their independence is threatened and noted the importance of a strong legal framework that makes clear the separation of roles among stakeholders in the regulatory sphere and the absolute need for arms-length independence from companies and politics, and the need for adequate resourcing. Institutions like CEER, NARUC, ACER, and FERC can assist their members by creating awareness for the importance of regulatory independence. U.S. regulators were interested to learn about the upcoming (2019) study by the European Commission on the independence of energy regulators in Europe. A big issue for countries is to decide whether the nominations and dismissal of the head of the national energy regulatory authorities should be the parliament or the government. EU rules are silent on this. But, the

legal provisions have been strengthened in the new Clean Energy legislative package to ensure the appointment of the Board of NRAs is an independent and impartial procedure.

The Commission's study (to be published in April 2019) has found that whilst Europe has very far reaching legal provisions on legal independence (e.g., Article 35 of Directive 2009/72), the law is often not mirrored in practice (e.g., on the approval of tariffs; or soft influences on questions such as how much cross-border capacity is needed; or with governments cutting the funding of the regulators). CEER pointed to a very explicit example in Slovenia in 2017 when the independence of the regulatory agency was being completely undermined. CEER wrote to the European Commission informing them and following an intervention by the European Commission, the proposed legislation was withdrawn.

CEER highlighted the need also to have regulatory independence at European level for the EU Agency for the Cooperation of Energy Regulation (ACER).

Wholesale Nodal Pricing

The second session of the EU-US roundtable focused on nodal pricing for wholesale markets. A presentation from Professor Anthony Papavasiliou from the University of Leuven set the scene for an interesting discussion around zonal and nodal pricing models and the advantages and disadvantages of both models. CEER explained that the European Electricity Target Model was developed over ten years ago and marks a major achievement in integrating European wholesale electricity markets. However, it is based on simplified assumptions that consider the European transmission network as a set of interconnected bidding zones, often as large as one or several European countries. This model does not always provide the appropriate wholesale price signals at a more local or regional level. Nodal design provides a solution for these issues; however, a nodal model can be perceived in Europe as more complex and suffering from liquidity problems. Professor Papavasiliou brought the debate beyond the academic level by presenting indicative results of inefficiencies in terms of day-ahead and real time operations, based on a snapshot of data from the Central Western European market. A key lesson was how European transmission system operators (TSOs) coordination can have a major impact on short-term operational efficiency.

Given the retrofit to wholesale electricity markets facilitated by the EU's Clean Energy Package, regulators from across Europe were keen to hear about the experience from US colleagues on nodal pricing and the experience with PJM, and the governance arrangements in the U.S.A. Understanding the features that nodal pricing can offer with respect to pricing in system constraints at a more local level was important for European regulators, allowing them to inform future debate regarding a possible revision of the European Electricity Target Model. Regulators discussed the changing energy landscape such as demand participation and the integration of renewables, and what broad outcome for consumers they want from wholesale markets and the energy system. Discussion points included the key elements of market design and whether a new market design is a good way to achieve the desired outcome for consumers; the impact of market design on day-ahead operations such as balancing and active network management; and whether nodal pricing can provide an answer to problems observed with the zonal design.

The Future Role of Natural Gas

Natural gas currently has an important place in the European energy mix and this is expected to continue for the foreseeable future. In the last decade, an increasing shift towards gas in thermal generation has been observed where gas supports climate change policy (by lowering CO₂ emissions in displacing coal or oil). However, in spite of its environmental advantages over other fossil fuels, the ambitious Paris Agreement decarbonisation targets and global oil price trends, the natural gas industry is undergoing a period of substantial uncertainty regarding its future role in the energy mix.

CEER explained the important role of gas in the decarbonisation agenda in the context of CEER's new "3D strategy" for the years 2019-2021, which focuses on

- (1) Digitalisation in the consumer interest;
- (2) Decarbonisation at least cost; and
- (3) Dynamic Regulation

In the context of the CEER's (2018) Future of Gas Report and its follow up work (including the new and the new EU gas legislative proposals), regulators explored the developments across US and EU gas markets and infrastructure. Apart from discussing global trends, a main discussion point was how the role of gas will change in the future, the factors that could affect the role of natural gas in the global energy mix and the impact on market design. Europe's regulators shared information on current work on regulatory implications for gas as a commodity and the role of the gas infrastructure from different perspectives such as technology, markets/competition and their monitoring and gas infrastructure safety. The discussion highlighted the importance of monitoring the development of competitive and liquid wholesale gas markets.

Concerns about carbon and methane are driving the natural gas sector to consider renewable natural gas in the U.S. California, which has a huge agricultural base and is huge emitter of methane now mandates the further reduction of green-house gases, has introduced public policy methane targets and a \$100 million grant program to promote the development of dairy digesters that will convert the waste into useable energy. Other states (like Idaho) are also considering renewable gas initiatives. Regulators examined issues such as the decarbonisation of heat, the greening of gas, and whether the current gas regulatory framework must adapt to meet the future challenges.

Monitoring of Market Power and Prices

Regulators underlined that monitoring market power and energy prices is vital to ensure integrity of electricity and gas markets. Participants agreed that consumers have a right to be protected from abusive forces in energy markets. Regulators from the U.S. and Europe made the most of this closed regulatory workshop to share experiences on the main types of market abuse behaviour they most frequently observe.

Participants agreed that regulators at state/national levels should be equipped with an appropriate toolset to identify, investigate, and, where market abuse has been identified, impose appropriate redress measures to protect market integrity and discourage other parties from pursuing similar activities in the future. Effective enforcement requires the combined

efforts of national/state regulators and their supra-national/federal agencies such as ACER/FERC in monitoring market participant behaviour.

Next Steps

The meeting allowed regulators to discuss regulatory developments, practices, and future challenges. The issues discussed in this EU-US Roundtable are common challenges faced by energy regulators around the world. Regulators participating in the roundtable confirmed their commitment to continue a dialogue to share best practices and improve regulatory insights by coordinating both bilaterally and multilaterally, including through the working groups of the International Confederation of Energy Regulators (ICER).ⁱⁱⁱ

Notes to Editors

ⁱ On March 18, 2019, the [14th EU-US Energy Regulators-Roundtable](#) was held in Brussels, Belgium. European and U.S. energy regulators have, since the year 2000, maintained an informal dialogue to exchange views and experience on selected topics of mutual interest across the electricity and gas markets, compare regulatory approaches, and discuss international developments and cooperation. The EU-US roundtable is jointly organised by the Council of European Energy Regulators ([CEER](#)) and the National Association of Regulatory Utility Commissioners ([NARUC](#)), the associations representing national/state energy regulators in Europe and USA respectively. Regulators from the US Federal Energy Regulatory Commission ([FERC](#)) and the European Agency for the Cooperation of Energy Regulators ([ACER](#)) also participated in the roundtable, along with two external speakers from the European Commission's DG ENER and Professor Papavasiliou, a nodal pricing expert).

ⁱⁱ Established in 2000, the Council of European Energy Regulators (CEER) is a not-for-profit association in which Europe's independent national regulators of electricity and gas voluntarily cooperate to protect consumers' interests and to facilitate the creation of a single, competitive, efficient, and sustainable internal market for gas and electricity in Europe (www.ceer.eu). Founded in 1889, the National Association of Regulatory Utility Commissioners (NARUC) is a non-profit organisation dedicated to representing the State public service commissions who regulate the utilities that provide essential services such as energy, telecommunications, water, and transportation (www.naruc.org).

ⁱⁱⁱ ICER brings together regulatory authorities for the energy sector from across six continents and over 200 regulatory agencies. ICER is composed of 11 regional regulatory associations as well as the regulatory authorities for Australia and Switzerland. ICER's goal is to serve as an effective tool to help improve public and policy-makers' awareness and understanding of energy regulation globally. More information and publications by ICER are available at www.icer-regulators.net.