

# **Competition Policy, Competitiveness, and Investment in a Global Economy**

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## ***section 9 - Competition Policy and Regulated Infrastructure***

### **Challenges in Energy Regulation**

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## Challenges in Energy Regulation

# Recent European Evolution

- **tradition: monopoly by Public Administration, or state-owned company, or company under concession**
- **early liberalization in the 1980s: UK, nordic Countries**
- **general liberalization under European directives (1996, 1998, 2003)**
- **most Regulators set up between 1995 and 2001**

## Challenges in Energy Regulation **Evolution in Italy**

- **starting points: electricity nationalised in 1961, gas network created by state-owned company ENI**
- **the moving force: crisis in public finance, need to privatise (early 1990s)**
- **legislation for privatisation (1992 – 1994)**
- **legislation for liberalisation and regulation (1995)**
- **energy regulator instituted 1996**

# Challenges in Energy Regulation

## **General Challenges**

### **1. from monopoly to competition: cultural change**

- **Monopoly seen as “natural” in utilities**
- **End of state monopoly seen as end of public service**
- **Notion of “public utility service”**

# Challenges in Energy Regulation

## **General Challenges**

### **1. from monopoly to competition: issues**

- o security of supply**
- o quality of service**
- o industrial policy**

# Challenges in Energy Regulation

## **General Challenges**

### **2. independence of the Regulator**

- o market value of companies to be privatised**
- o assignment of tasks to regulator, ministry**

# Challenges in Energy Regulation

## **Specific Challenges**

### **1. tariff setting**

- **In transition: tariffs for final service**
- **In a liberalised context: tariffs for access to and use of networks**
- **Basic rule, basic difficulty: tariffs related to efficient rather than actual costs**

# Challenges in Energy Regulation

## **Specific Challenges**

### **2. rules for allocating electric interconnection capacity**

- **Congestion around Italy**
- **Auctions for capacity?**
- **Pro-rata allocation**
- **European regulation: market methods**

# Challenges in Energy Regulation

## **lessons from experience**

### **1. benefit from European cooperation**

- **(more or less) Independent Regulators in all countries**
- **Association of EU regulators (CEER)**
- **Advisory Group to the European Commission (ERGEG)**
- **Association of Eastern European Regulators (ERRA)**

# Challenges in Energy Regulation

## **lessons from experience**

### **2. the regulator in Italy**

- **A board of three**
- **Designated by Government, approved by Parliament with qualified majority**
- **For 7 years, no reappointment**
- **Legally prevented from having interests (also for 4 years after end of mandate)**

## Challenges in Energy Regulation

### **lessons from experience**

### **3. the regulator's office**

- **crucial: a dedicated team**
- **of qualified people (selection)**
- **economic, legal, technical: cultural mix**