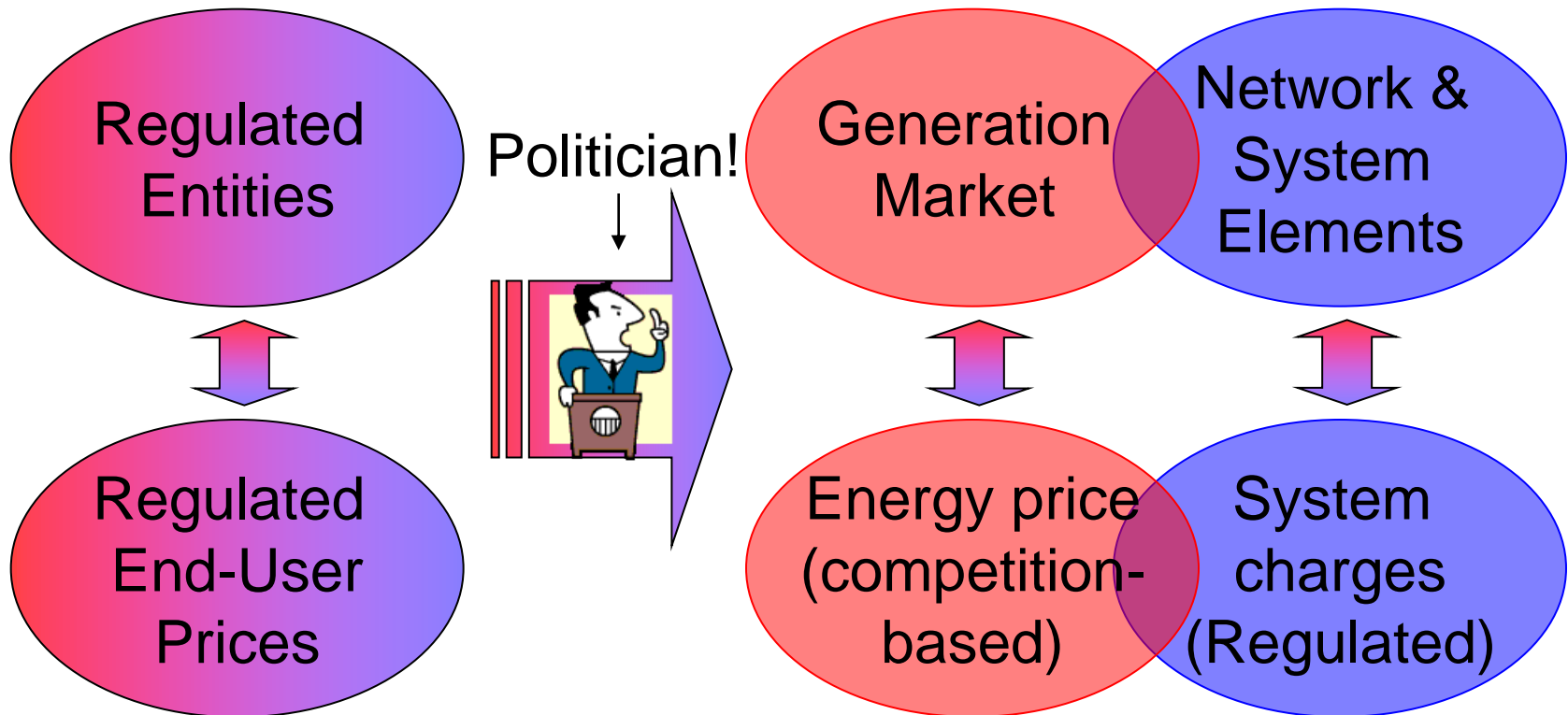


Trends And Prospects In Energy Implications On Markets And Regulation

Victor Parlicov,
Vice-Chairman, ERRA,
www.erranet.org
vparlicov@anre.md

To make a long story short...



Why?..

The idea was...

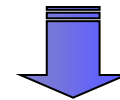


Competition
in Generation
Market



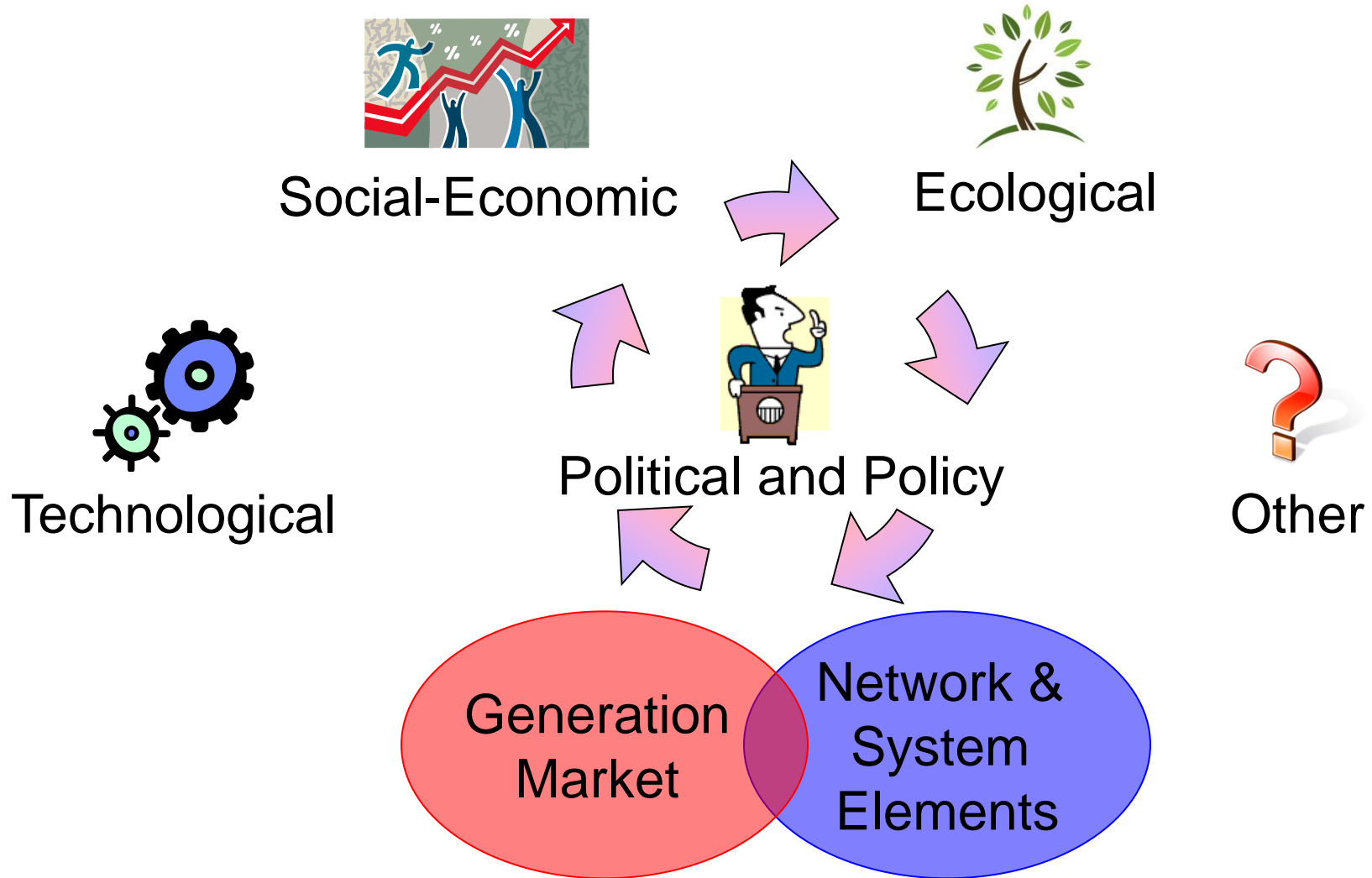
- Reduce Energy Prices
- Improve Quality of Supply

Regulated
Network &
System



- Keep System Prices “under control”
- Provide free access

Some context...





“Hot Topics” On The Energy Agenda

10
years
of regulatory cooperation

- **Accessibility:** bringing energy to and ensuring quality for every consumer
- **Affordability:** keeping energy cheap enough for the poorest to be able to afford it
- **Sustainability:** generating energy without depleting Planet’s resources
- **Efficiency:** consuming less energy while keeping or raising living standards (consumption of goods and services)

NB: these issues are both complementing and partially competing with each other, e.g. Accessibility and Sustainability are partially conflicting with Affordability; prioritizing happens depending on the context.

Today, the reality still is...



We want to see competition controlled
We want to see energy states!
ourselves!



- Poor interconnectors resulting in fragmented & concentrated national markets
- Efficient incentives on network development are not applied, because they are politically unpopular
- Regulated end-user prices

NOTE: as of 2008, 16 / 27 EU member states still had end-user price control for households, and 13 member states – even for non-households

- Harmonization of rules and regulations across borders is needed to stimulate regional cooperation
- Regulators need to cooperate more with TSO's focusing on system issues, both for managing congestions and for integrating RES
- Due to economic crisis and political goals (more renewable, smart grid, smart metering) network prices should go up, which is very unpopular with politicians, who put pressure on Regulators
- However, the role of Regulators is strengthened and consolidated, especially in EU- and ECT-Member countries



Trends, Options and Implication on future Regulatory activities (1)



~~We want to see the most effective way
investors to keep going for a while?~~
Oooooooooops!
Investors MUST RUN!

- RES will be exempted from wholesale competition / market via “feed-in tariff” systems
- Substantial part of flexible gas fired units will be contracted by TSOs for system regulation
- CHP generators could be preferred under the new energy efficiency regulation
- Foreseen nuclear units (if any) will be built under long term PPAs

How does it relate to the original idea of a competitive generation?

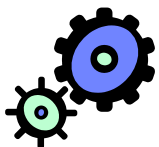


Trends, Options and Implication on future Regulatory activities (2)



It's not the highest priority, it's not the most difficult, Let's do it so that we can have a good protection!

- Regulators will have to balance between short term affordability and long term accessibility
- Regulators will have to balance between different categories of consumers, all sensible in crises times
- Regulators will need to provide “premium” comfort for attracting long-term investments, in a world where crediting is shrinking and priorities set by policy-makers are changing faster than investments payback periods



- Efficiency of energy use increases drastically as end-prices go up, and there is general support for such investment, which reduces demand and pushes the “system use” component further up;
- The specific generation cost of “new” (non-hydro) green energy is gradually reducing;

Technology is powerful and often unpredictable!

- Remember how the advance of information technology impacted Telecom and Energy?
- Imagine the perspectives of high-capacity, cheap energy storage: highly disconcentrated generation and its effect on the grid and “markets”!

? Uncertainties...

- Unpredictable incidents:
 - Japan nuclear accident => German nuclear moratorium
 - Consecutive dry years => the cheap and flexible hydro units are not available
- Unpredictable markets evolution:
 - What will happen with the oil price?
 - Will gas prices be decoupled from oil prices?
- Hard to predict CO₂ regulation:
 - Will CDM / CERs mechanism last beyond 2012?
 - What if 20/20/20 by 2020 targets are not met? Or 2050 targets overrule them?



Challenges in Regulation



- Resisting political interference in pricing, on the basis of: supporting local producers, helping poor consumers, “just a little bit, while it’s crisis”, etc.
- Create genuine functional markets, especially involving cross-border energy flows, in the world of interdependent and contradictory policy goals
“It takes two people to build a relation, and only one to break it”
- Serving as a “stability factor” in a sector where short-term priorities and even long-term goals are shifting under the pressure of unpredictable events and political context.

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Thank You
Q & A
For Your Attention

Victor Parlicov,
Vice-Chairman, ERRA,
www.erranet.org
vparlicov@anre.md