

9th EU-US Energy Regulators Roundtable
October 3-4, 2011
Chicago, Illinois, USA

Closing Statement

US and European energy regulators met for their 9th roundtable on October 3-4, 2011 in Chicago, Illinois, USA¹. These roundtables, held every 12-18 months, provide an informal platform for senior officials to discuss current key issues, including cross-border infrastructure and investment, regulatory challenges of new technologies, market monitoring, consumer needs, diversity of fuel mix, and climate change and energy efficiency.

This latest meeting reinforced the many similarities in the challenges that energy regulators are facing in the US and Europe. In particular, a difficult financial climate coupled with massive investment needs and concerns about the energy fuel mix must be balanced with consumer interests and stable market conditions. Furthermore, renewables and smart technologies require policies to intelligently integrate them in the grid, while encouraging dynamic and empowered customer participation to help support climate change and energy efficiency goals. From a market perspective, regulators must closely monitor energy trading, as physical and financial markets converge.

Infrastructure is the essential conduit for the provision of energy services and, as a natural monopoly, a central element in regulatory decisions. The regulators' role in balancing investors' and consumers' expectations to ensure energy is both available and affordable in a sustainable manner is made more complex when **infrastructure** is cross-border, requiring cooperation between regulators and, often, additional central input to ensure the attainment of broader objectives, especially renewable and clean energy. Regulators discussed regional processes in the US, some with federal funding, and recent EU legislative and institutional developments that aim to further the European single energy market, including the introduction of European network planning overseen by the new the Agency for the Cooperation of Energy Regulators (ACER) to support cross-border market development. Both European and US regulators face a common set of challenges, including cost-effective project selection, incorporation of new technologies and evaluation of the risk-level of operator investments. These challenges reflect a great period of change in the EU and the US, where the global financial crisis intersects with political and financial uncertainty and with massive investment needs as well as with growing development of renewables and energy efficiency policies. In order to successfully manage and oversee the evolution of energy markets, regulators must be able to operate independently, in the best interest of consumers and security of supply, free from political considerations.

Regulators are faced with new challenges as technology rapidly evolves. US state regulators have a special emphasis on balancing consumer protection while promoting **grid modernization**. The participants discussed a series of principles to help keep the focus on

consumers while addressing grid modernization, including investments, costs and benefits; consumer protection; privacy and security; consumer education and communication; and multi-jurisdiction relations. Also with respect to consumer acceptance, the participants looked at the impact of increased electric vehicles on the grid. European Commission proposals for energy efficiency and carbon emission reductions in transportation, if agreed, will inter alia pave the way for new electric vehicle (EV) technologies to progressively penetrate automotive industry sales. Regulators can play an important role in providing policy recommendations to facilitate a massive integration of EVs taking full advantage of the future deployment of smart distribution grids. In addition, demand response programs, energy efficiency measures and distributed generation are developing rapidly as new technologies, including smart meters and smart grids, emerge which will help pave the way for a new generation of energy networks (and their use).

Market monitoring continues to be of significance to regulators. The EU is strengthening the integrity of energy trading. The new Regulation on Energy Market Integrity and Transparency (REMIT) which is expected to come into force end of 2011 in the European Union will prohibit insider dealing and market manipulation in the electricity and gas markets. REMIT includes key elements and new responsibilities for ACER with regard to wholesale market monitoring, where national regulators will also have to ensure enforcement of the rules. In the US, both state and federal regulators are engaged in market monitoring efforts. The Federal Energy Regulatory Commission (FERC) saw its authority over market oversight enhanced in response to the US West Coast energy crisis. This function includes market monitoring, surveillance and transaction analysis. Market monitoring provides a better understanding of the markets the Commission regulates and gives other stakeholders (state commissions, the public) a resource for information and analysis. Surveillance and transaction analysis identify market anomalies and assess their causes. The EU and the US are both witnessing the convergence of the physical and financial sides of energy, and the possible impact of financial energy products on electricity and gas physical trading markets, which require strong and sound regulatory oversight.

Energy regulators often play a balancing role between market mechanisms and **public service objectives** in the treatment of vulnerable customers, affordability (in terms of upcoming investments), privacy/customer data and consumer awareness. Priorities between the long (supply security, continuity of supply) and short term interests of customers (low prices, affordability) can shift in times of economic crisis. Energy prices usually have a significant political dimension, particularly in an environment where and when competitive markets are not perfect and the various groups of end-users are very price sensitive. Regulators need to make a greater effort to ensure that consumers understand the connection between their lifestyle and the needs of the electric grid. Domestic and industry consumers (even in times of economic recession) continue to adopt new technologies that add load to a grid for which planning and upgrades have not kept pace. In addition, many people support renewable energy, but are not aware of the complications associated with integrating intermittent power. Consumers need to be informed of the need to recognize that their actions can increase the costs of maintaining reliable electric service and also that these costs (as well as the economic sustainability of incentives) are becoming increasingly difficult for vulnerable customers to bear and consequently.

The fuel mix is an important driver for **investments in generation and energy networks**. These investments are essentially long-term and capital intensive. Currently, the investments have become more risky because of doubts on nuclear policy, future political commitment to tackle climate change and changes in generation and grid technologies. This unintended collision between network security and reinforcement needs and environmental or other priorities places pressure on investment decisions and long-term planning for energy. However, investments are essential to meet climate change and fuel mix ambitions. Recent shale gas development has been described as the “game-changer” in the natural gas sector and beyond. Not long ago, there was concern that the United States may not have sufficient

gas supplies to meet demand. Companies and investors by the score were preparing to seek permits to build LNG import terminals to supplement domestic natural gas production. New nuclear plants were being planned and considered around the world. Two occurrences have since changed the outlook for both new LNG import terminals and nuclear plants: the shale gas boom and the March 2011 Fukushima disaster which resulted in the closure of nearly a dozen nuclear plants in Japan alone. Countries around the world have responded with varied positions on the future of energy development going forward. Energy regulators can help to reconcile the different fuel mix reactions with the needs of networks and markets, in order to incentivize investments while balancing them with public service objectives.

Finally, regulators shared policy developments related to **climate change**, including increases in **renewables and energy efficiency**. In the US, states and regional organizations are developing and implementing their own programs in response to announced and anticipated federal programs. These localized programs include energy efficiency programs and renewable portfolio standards, all of which have implications for power markets, as well as for regulators in terms of implementation of the programs, and monitoring any reliability concerns that may result. In Europe, a suite of measures to promote the use of renewables in the EU came into effect in December 2010 and new legislative proposals on energy efficiency will likely affect regulatory oversight of utilities as well as actual investments in generation and transmission/distribution networks. In recent years, European regulators have strengthened their joint work in these areas, looking at regulatory aspects of an increased use of renewables, including the implications of non-harmonized RES support schemes within the EU and recommendations for regulatory practices related to energy efficiency.

The issues discussed in this two-day event are similar to those faced by energy regulators around the world. They are also being discussed in larger regulatory circles, including the working groups of the **International Confederation of Energy Regulators (ICER)**² and at the upcoming **World Forum on Energy Regulation V** (May 2012, Quebec City, Canada). The roundtable participants³ confirmed their commitment to sharing and disseminating best practices and improving regulatory decision making through on-going communication and coordination.

Notes to Editors:

1. On October 3-4, 2011, the 9th EU-US Energy Regulators Round Table was held in Chicago, Illinois (USA). Since 2000, U.S. and EU regulators have maintained an informal dialogue where energy regulators exchange views and experience on selected topics of mutual interest in the electricity and gas markets, compare regulatory approaches, and discuss international developments and cooperation. With the involvement of the regulators from the Council of European Energy Regulators (CEER) and the National Association of Regulatory Utility Commissioners (NARUC), the roundtable convened to discuss energy and regulatory developments and challenges. The meeting was also attended by the Federal Energy Regulatory Commission (FERC), the Agency for the Cooperation of Energy Regulators (ACER) and the Energy Regulators Regional Association (ERRA), whose members come from Central European and Eurasian countries.
2. ICER brings together in a formal and structured dialogue the energy regulatory authorities from across 6 continents and over 200 regulatory agencies, including both the most developed markets and those which are still taking shape. It is composed of 11 regional regulatory associations as well as the regulatory authority for Australia. ICER's goal is to serve as an effective tool to help improve, worldwide, public and policy-maker awareness and understanding of energy regulation and its role in addressing a wide spectrum of socio-economic, environmental and market issues. More information and publications by ICER are available at www.icer-regulators.net.
3. The EU-US Roundtable is jointly organized by CEER and NARUC, with the involvement of other U.S. and EU regulatory organizations. 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.energy-regulators.eu). Founded in 1889, the National Association of Regulatory Utility Commissioners (NARUC) is a non-profit organization 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).