


**ACER**

 Agency for the Cooperation  
of Energy Regulators

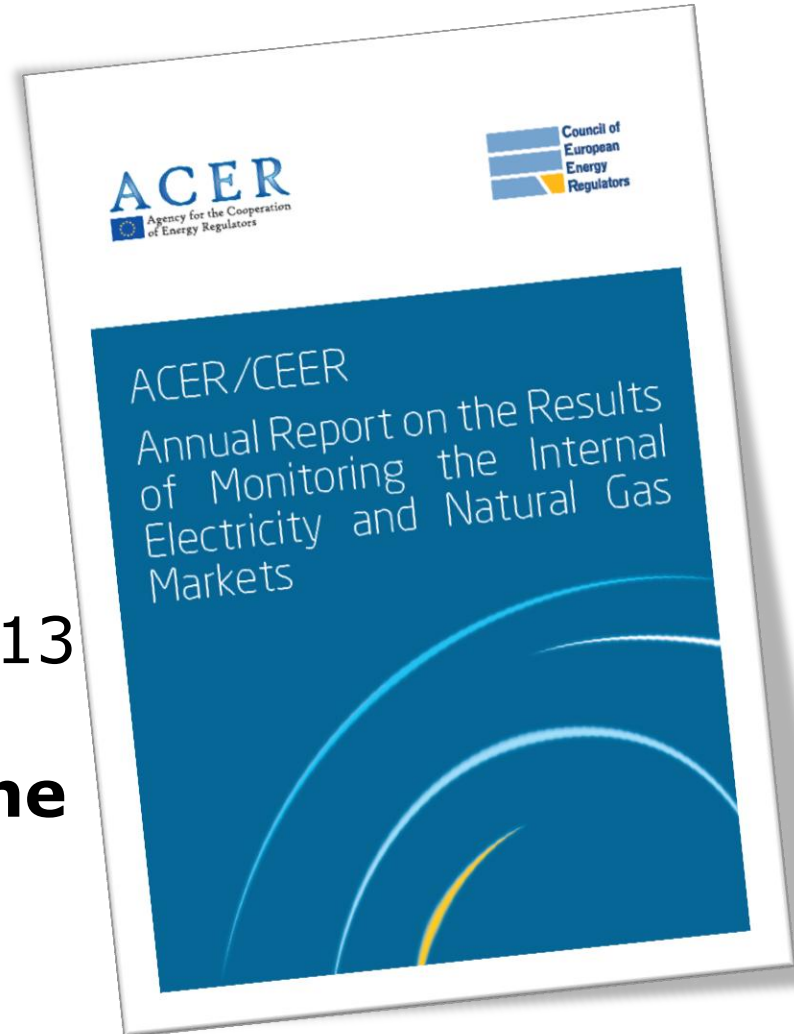
# The EU Experience with Incentive Regulation

***Alberto Pototschnig***  
*Director*

**The British Utility Regulation Model:  
Beyond Competition and Incentive Regulation?  
LSE – London, 31 March 2014**

# Market Monitoring Report 2013

- ACER/CEER jointly-branded report, bringing together
  - » ACER EU vision
  - » NRAs national expertise
- Covers developments in 2012
- Published on 28 November 2013
- **Main focus on Barriers to the Internal Energy Market**



# Price Regulation: the Legal Framework (1)

- Directive 72/2009/EC (electricity), Article 3(3):
  - » Households and, possibly, small enterprises shall enjoy universal service, i.e. the right to be supplied with electricity of a specified quality at **reasonable, easily and clearly comparable, transparent and non-discriminatory prices**
  - » Distribution companies shall connect customers to their network under regulated terms, conditions and **tariffs**
- No similar provisions in Directive 73/2009/EC (gas)

## Price Regulation: the Legal Framework (2)

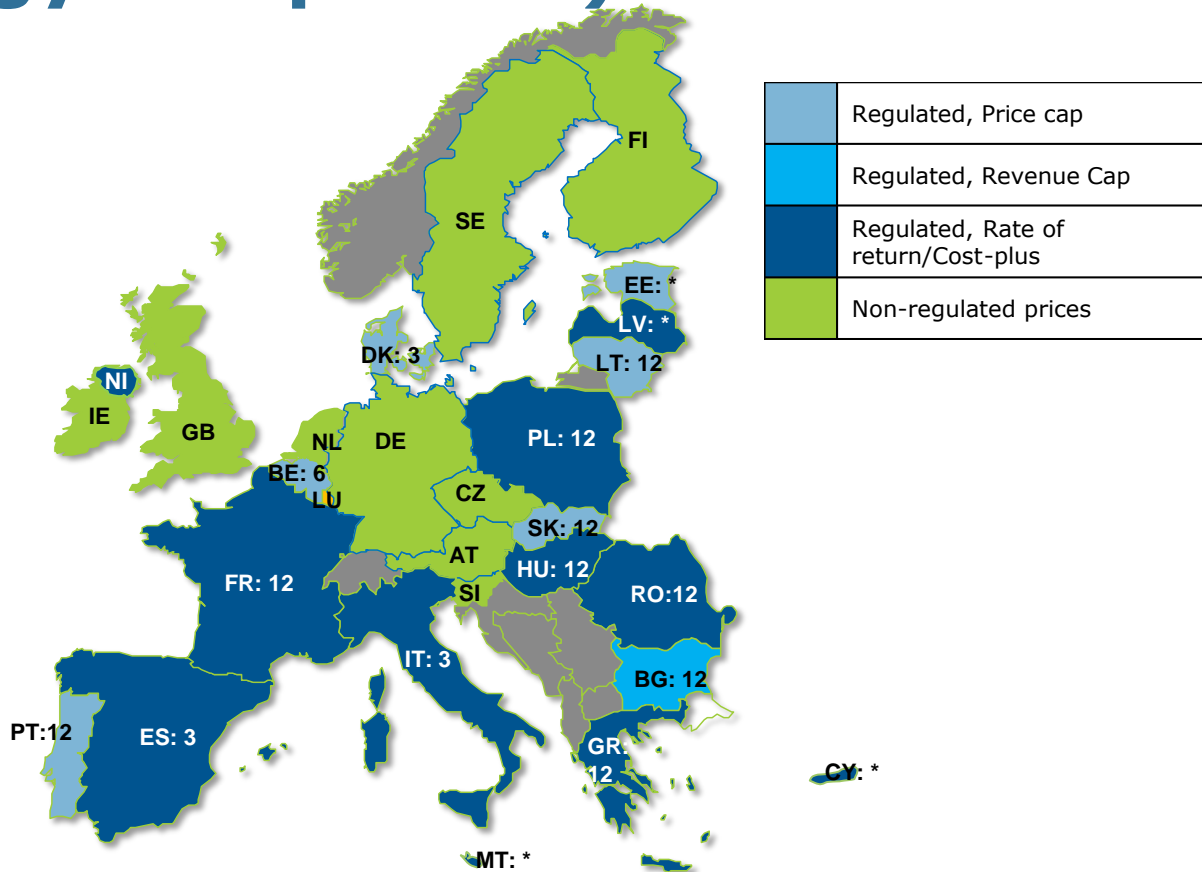
- Directive 72/2009/EC (electricity), Article 37(1) and (6) and Directive 72/2009/EC (gas), Article 41(1) and (6):
  - NRAs shall fix or approve the charges or their methodologies for: connection, transmission or distribution, balancing services, access to cross-border infrastructures and, in the case of gas, access to LNG terminals
  - Transmission and distribution tariffs or methodologies shall allow the necessary investments in the networks to be carried out in a manner allowing those investments to ensure the viability of the networks

# Making the internal energy market work

## Commission Communication 15.11.2012

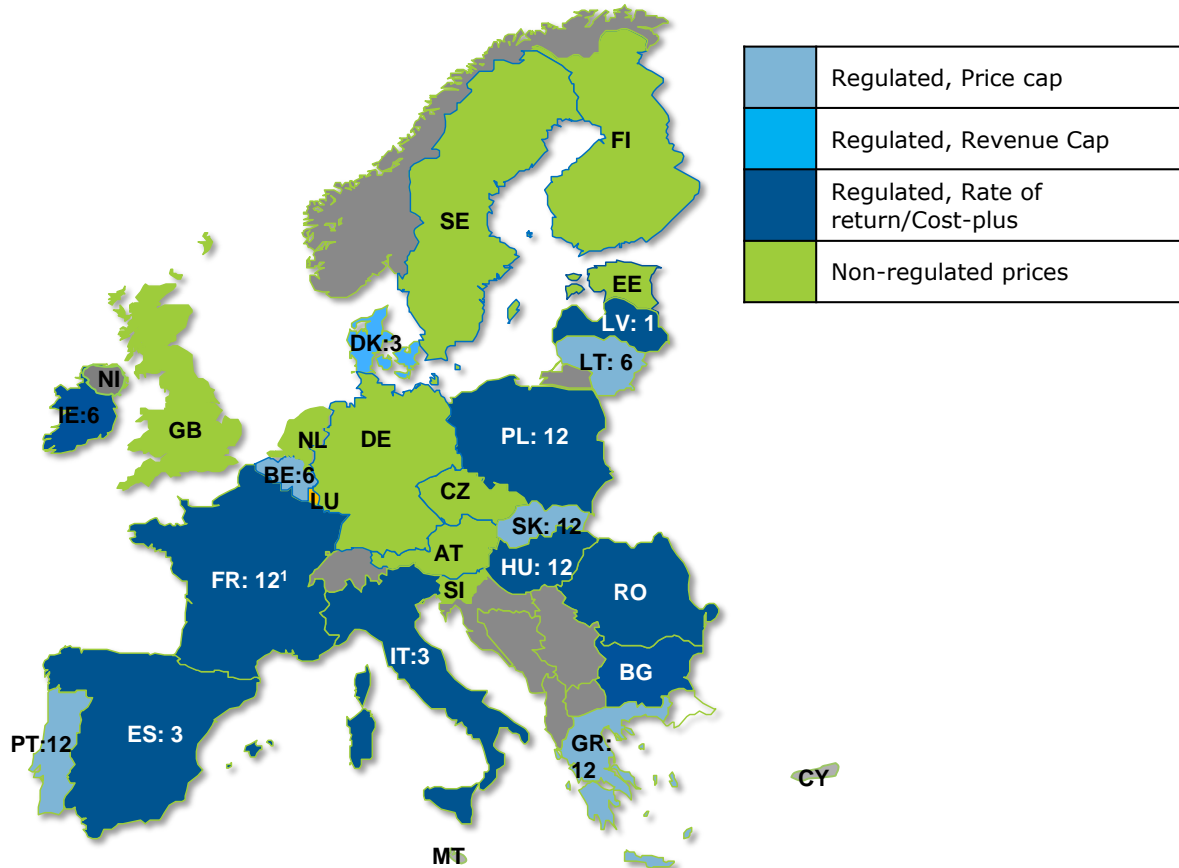
- Member States should seek to ***cease regulating electricity and gas prices for all consumers***, including households and SMEs, taking into account universal service obligation and effective protection of vulnerable customers
- A recent European Court of Justice ruling states that ***price regulation can be compatible with EU law only under strictly defined circumstances***
- The Commission will continue to insist on ***phase-out timetables for regulated prices*** being part of Member States' structural reforms

# Regulation of end-user electricity prices (energy component)



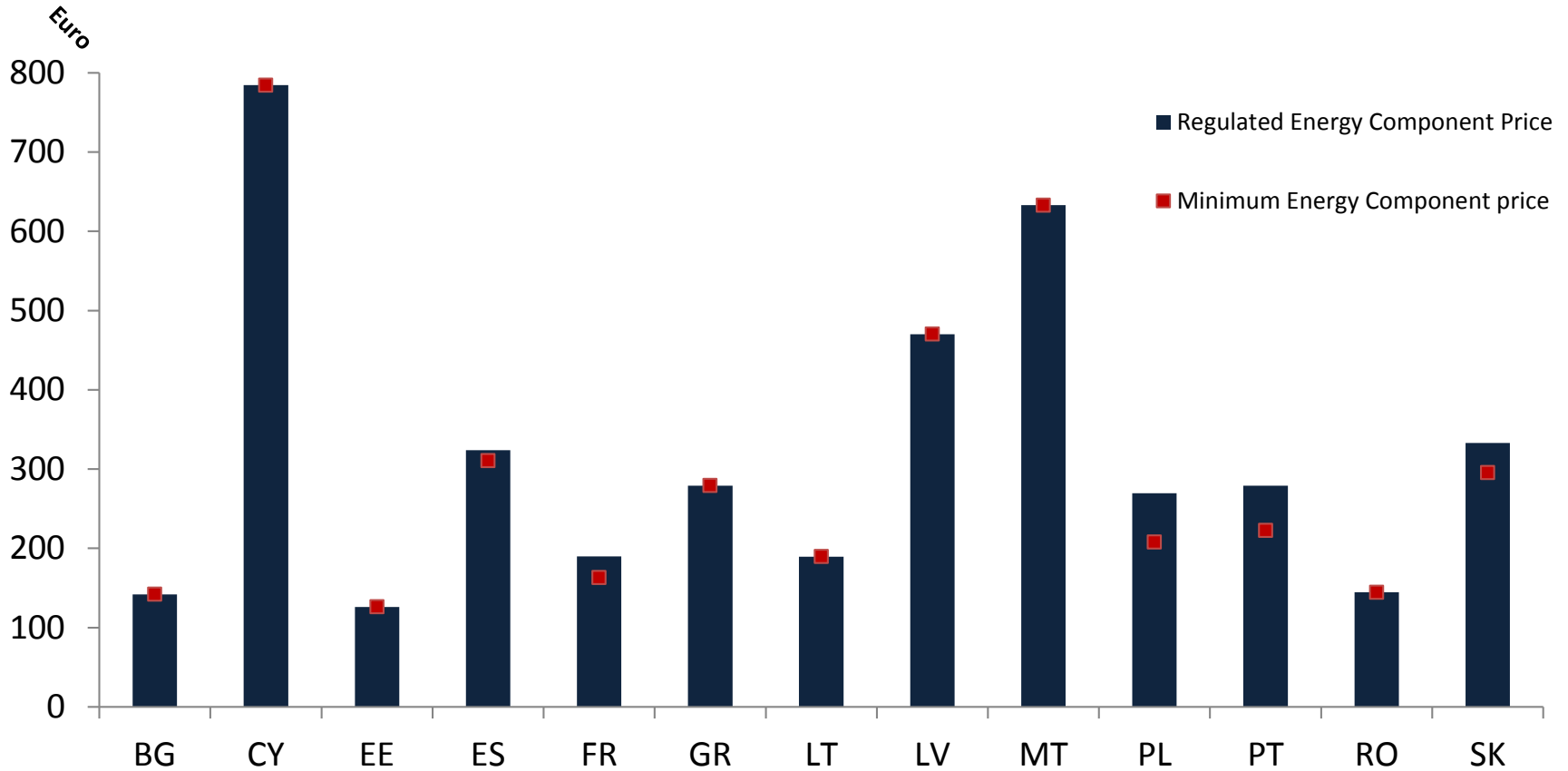
Source: CEER national indicators database and ACER questionnaire on regulated prices (2013)

# Regulation of end-user gas prices (energy component)



Source: CEER national indicators database and ACER questionnaire on regulated prices (2013)

# Regulated Prices and Market Prices (electricity)

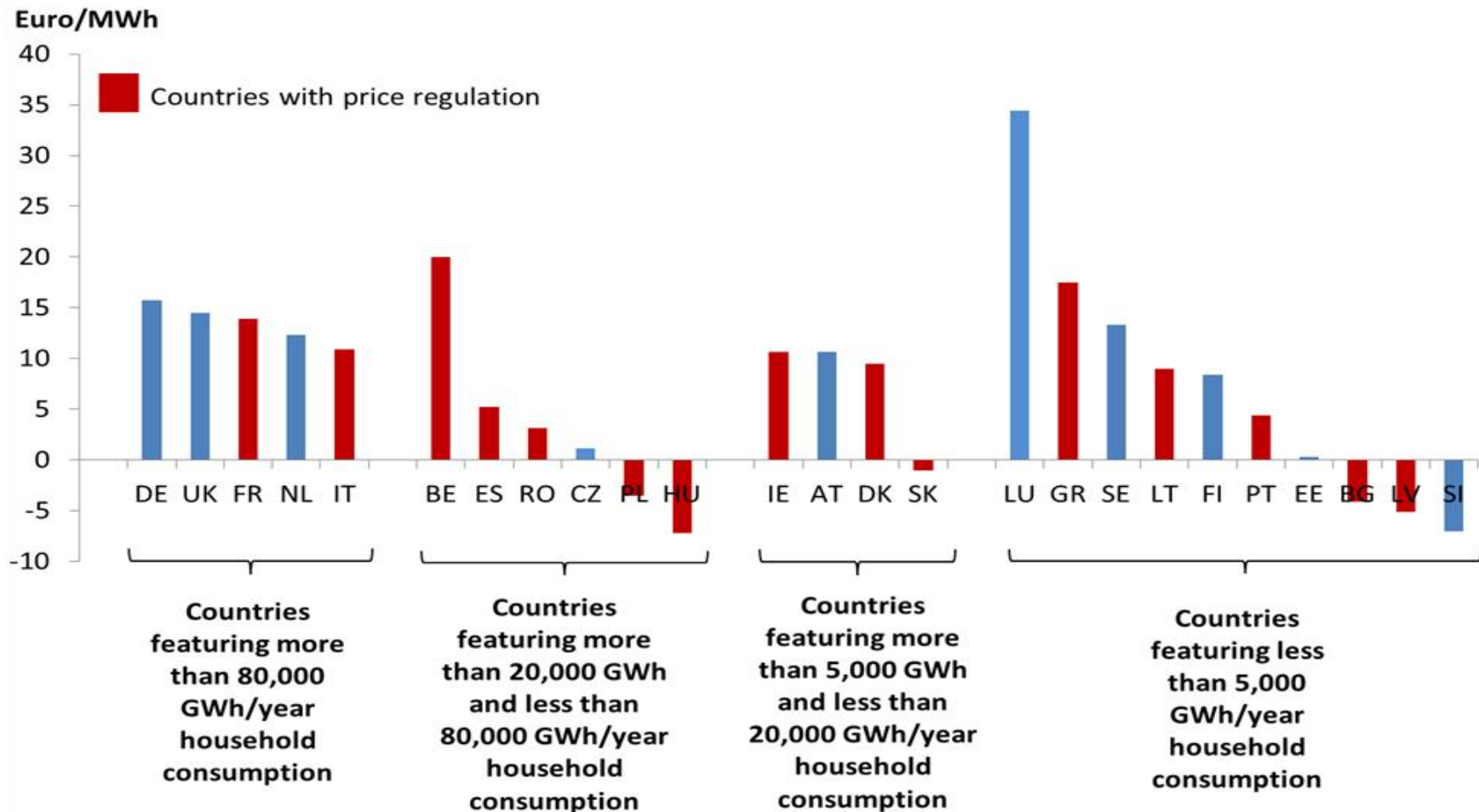


*Energy component: regulated price and cheapest offer for household consumers in the market (Euro/year)*

*Source: ACER retail database (December 2012)*



# Retailers' Mark-up (gas)

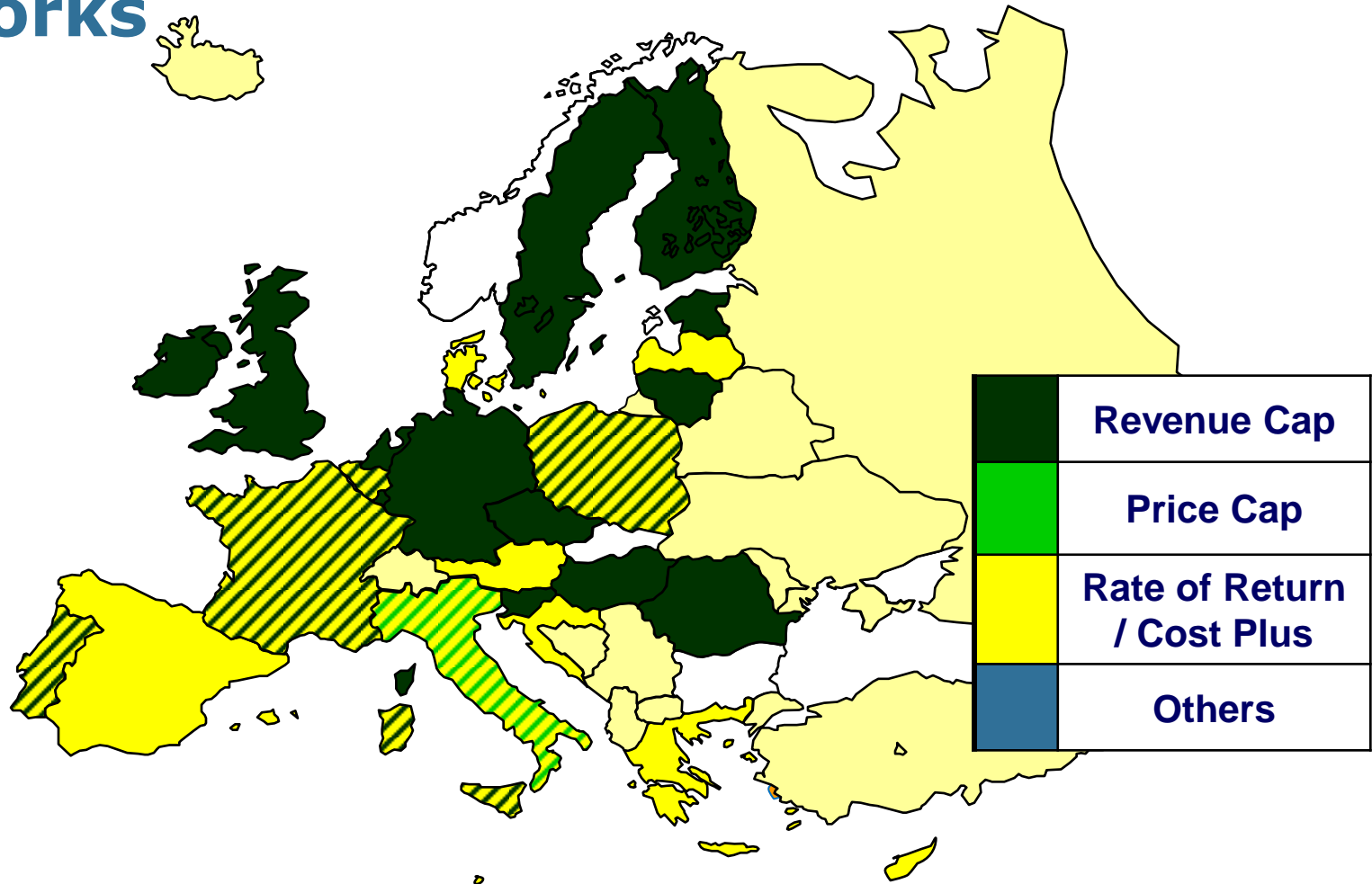


*For a 15,000kWh/year household consumption profile in the capital – December 2012*  
*Source: ACER analysis based on ACER retail database (December 2012), COMEXT/Eurostat database revised by ACER (2013), ICIS Heren (2013), Eurostat 2013, and NRA national monitoring reports*

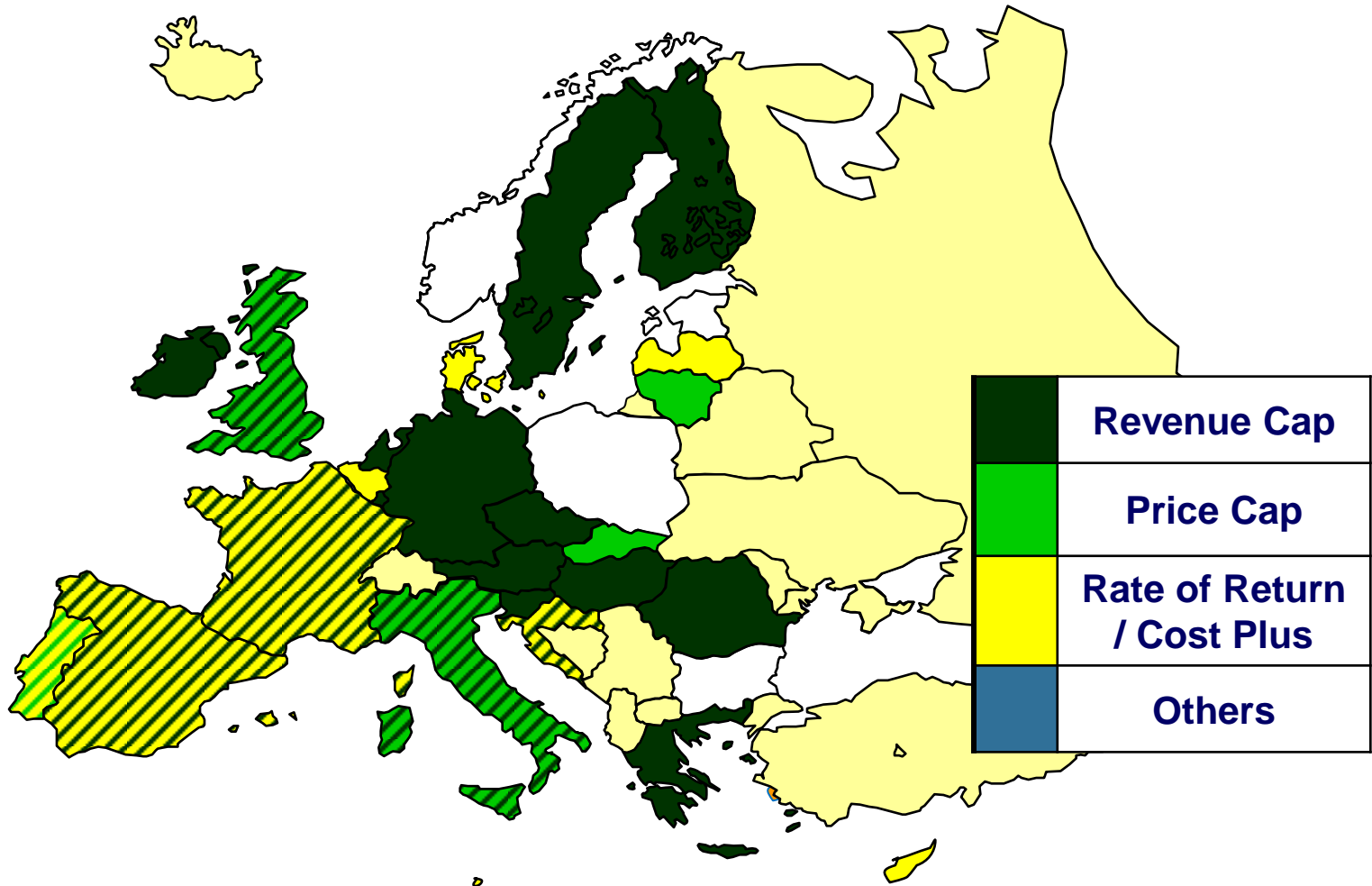
# Barriers to entry into retail markets

- Consumer switching behaviour
  - switching rates still low in the majority of MSs
  - loyalty to local, publicly-owned suppliers
  - switching perceived to be complex, insecure and time-consuming
- **Retail price regulation**
  - disengage consumers from switching
  - if set below costs, they act as absolute barrier to entry
- Regulatory framework
  - different regulatory and legislation regimes
  - complex licensing, non-accredited licenses between MSs
- Lack of adequate unbundling
  - in many MSs still not fully implemented
  - the main outstanding issue is the rebranding of DSOs

# Regulation of (cross-border) electricity networks



# Regulation of (cross-border) gas networks





**Thank you for your attention!**

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