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Title - Regulatory Approaches to Managing Investment Uncertainty

Investments in energy infrastructure, such as pipes, wires, transformers and generating plants are normally long lived. Where an investment is considered essential, but its risk is increased as a result of uncertainties, the inclusion of the investment in the regulated asset base passes these risks to consumers. Risks could include uncertainties over the future volume of demand, technology changes or price volatility. However, active management of identified risks can minimize their potential impact and costs. Energy regulators can have a significant effect on how these risks are managed, identifying the entity best able to manage those risks and ensuring they have a clear interest in doing so. This issue has become increasingly important in many countries as a result of changes in technologies (such as smart meters and smart grids) and policy decisions by governments which have increased substantially investments in renewable generation.

A number of approaches to managing investment uncertainties so as to ultimately benefit energy consumers, as well as investors and energy utilities, will be analyzed.