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# **Regulatory Transparency and Interaction with the Government**

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# Scope of Regulation

The regulators have been focusing on several areas seeking to establish effective regulation and strengthen the competitive market conduct.

## Regulatory Controls

### Price Control

- Revenue setting
- Tariff setting
- Efficiency incentives
- Investment sufficiency

### Quality of Supply

- Commercial quality
- Continuity of supply (reliability)
- Technical quality

### Market Functioning

- Market design / market rules
- System / network rules
- Market monitoring
- Market integration

### Other

- Unbundling
- Security of supply
- Innovation
- Social issues (energy poverty, subsidies)
- Environmental i/ safety issues

# Regulatory Transparency

- Clear rules related to data collection, data processing and information exchange
- Less discretionary elements in the decision making process
- Comprehensive and transparent consultation with stakeholders
- Publication of the consultation documents / with appropriate explanations on the motivation of the decisions made
- Accountability and a mechanism for appealing regulatory decisions

# Role of Government

- Establish the general framework for the sector operation
- Formulation of the national energy policy
- Decisions on specific policy aspects with wider economic and social implications
  - Level of competition
  - Fuel diversity
  - Environmental policy
  - Promotion of technologies
  - Subsidies
- Typical examples
  - Environmental standards
  - Industry support schemes / subsidies (coal mining, renewables energies or gas exploration, innovation funding)
  - Social support schemes such as tariff subsidies, special supply conditions (such as imposing limitations on cutting off supplies to low income families)

# Conflict Potentials

- Regulators often appointed by the governments
- The governments may also keep certain competences (e.g. end-user price control)
- The governments may informally intervene and influence the work of the regulators by:
  - Imposing administrative pressure
  - Steering public opinion and media
  - Promoting populist views (e.g. promises to limit price increases or to revoke licenses)
- Superordinate economic / social objectives might play a role in limiting regulators in their actions
  - Inflation control
  - Regional development policy
  - Subsidies to population, industry or/and technology promoters

# Conflict Potentials

- In the emerging countries traditionally in the tariff area
  - Introduction of cost reflective tariffs may lead to substantial price increases for specific customer groups which are politically not acceptable
  - Institutional challenges (knowledge gaps, missing motivation, fluctuation and low institutional budgets)
- In developed countries conflicts more related to changes in the electricity industry arising from regional / national policy with respect to climate, competition and security of supply on the one hand, and from the economic and technical development on the other
  - Promotion of renewable policy and non-discriminatory funding of above-market cost
  - Penetration of renewable technologies and competition on energy markets
  - Decarbonisation objectives and maintaining the competitiveness of national economy



# Example / EU Policy versus Member Interests



EU policy is not always congruent with the interests of the member states.

## EU Motivation

- Integrated market
- Harmonised cross-border access regime
- Coordinated evaluation and development of efficient infrastructure
- Coordinated RES policy

## Motives of Member States

- Act in the national politic, economic and social context
- Respect public view in own countries
- Sensitive to increase of national energy prices
- Sensitive to competitiveness of national industry
- Sometimes reluctant to change existing routines and practices

## Conflicting Areas

- Regional investment projects (allocation of cost and benefits)
- Implementation of market capacity mechanisms (impact of regional prices and incentives to trade)
- Design of RES support schemes (choice of optimal location and technology)

While individual states may have eligible motives for their policy, a lack of coordination can lead to inefficient network infrastructure and distorted market conduct. The Third Package has established an institutional basis for enhancement for coordination.



# Mitigation Measures

- No universal way for responding to challenges, they should be addressed in the context of the specific situation
- Strengthening regulatory capacity (in particular for the emerging countries)
- Improve transparency
- Constructive / responsible political conduct
- Stakeholder engagement
- Improved coordination on a national and regional level



**Many thanks !**

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