



# The Role of regulators in Energy security

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## The role of a consumer is changing

Today consumers can play three different roles simultaneously :

- ✓ **use energy** to meet their needs (commercial or non-commercial);
- ✓ **take part in power market procedures** as energy suppliers (solar or wind generator) or through demand side management program;
- ✓ **be investors** in energy assets or energy companies stocks.

**The consumer needs Energy security which consists of both Security of supply & Security of demand.**

# Energy security and Balance of interests

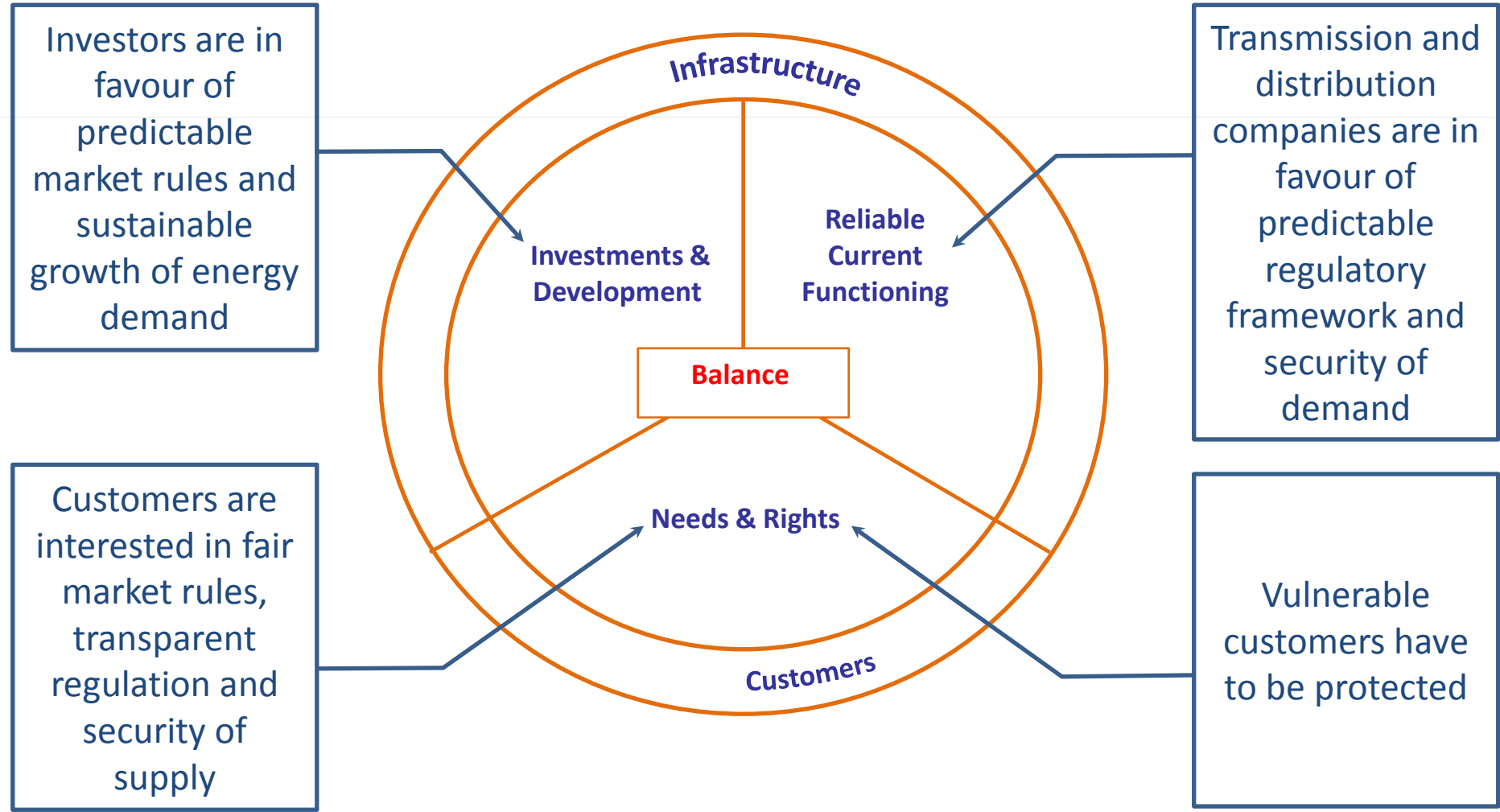
End-users are interested in fair market rules, transparent regulation and energy security (security of supply & demand).

Transmission and Distribution companies are interested in predictable regulatory framework and energy security.

Investors are in favour of stable market rules, sustainable growth and energy security.

**Mission of regulation is  
to balance correctly all of the mentioned above.**

# Energy security = Security of supply + Security of demand



# The role of Regulators in Energy security

**On the whole Regulators' contribution to Security of energy supply and demand is described in:**

- ✓ G8 Leaders' Declaration "Global Energy Security" (St.Petersburg, July 16, 2006)
- ✓ G8+ Energy Regulators' Statement "Regulation, energy markets and new investments: their contribution to economic recovery, clean energy technology deployment and energy security" (Rome, May24, 2009)
- ✓ G20 Outreach Energy Regulators' Round Table "Statement on sound regulation and promoting investments in energy infrastructure" (KAZAN, June 3, 2013)

# Regulators' activity to ensure Energy security

Global economic cycles



Growth or slow down of national economy



Mobilization of regulatory tools aimed at smoothing over the influence of peaks and minimums of economic cycles



Counter-cyclic efforts of regulators:

Economy slowing – the main focus on consumers and reliable functioning of infrastructure

Economy growth – the main focus on investors and infrastructure development



Flexibility and transparency of regulatory rules, methodology and tools



Regulators' philosophy: Ensuring the Balance

# Some cases 1

- Long-term regulatory decisions (methodology, long term rules and/or tariffs setting)

but

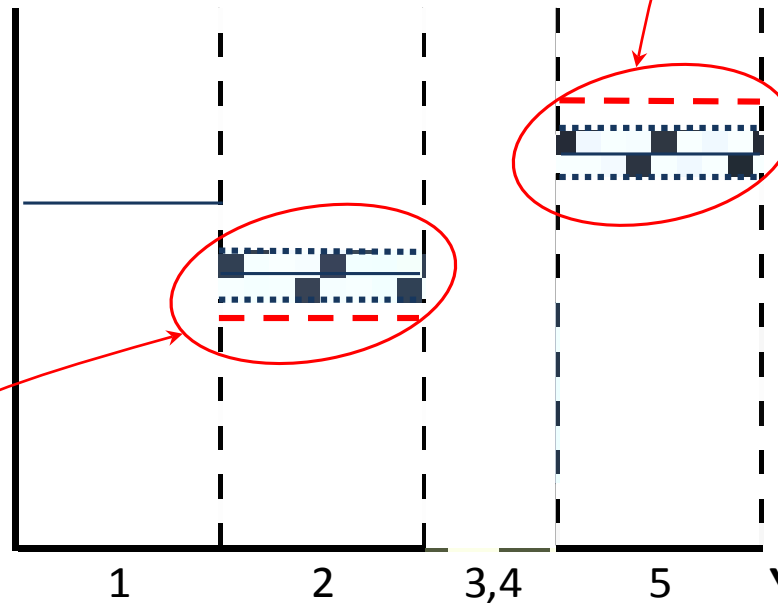
- Developed and installed counter-cyclic and stimulating regulatory rules

## Long-term rules:

- cost-plus calculation
- OPEX (rules of indexation and/or X-factor value)
- rules for direct calculation of non-controlled costs
- CAPEX
- ....

T = min → an example of stimulating regulatory tool

Tariff



Level of tariffs: min / max    calculated level    calculated level after correction

T = max → the support of customer but additional measures could be necessary to support infrastructure

## Results:

- limited dependence of tariff on a volume of services
- limited dependence of tariff on all the reasons = tariff margins (max and min)
- ....



## Some cases 2

### Telecom

#### **Liberalization for the benefit of customers:**

- ✓ FST of Russia determines marginal tariffs (maximum level) for mandatory services. It is a customer's right to choose only mandatory services on regulated tariffs or some complex package including mandatory ones of services based on free pricing of the whole package

### Electricity

#### **Power and capacity market:**

- ✓ Transparent rules of price regulation for generators in case of unexpected power deficit or extreme energy price raising
- ✓ Tariffs setting rules for must-run generation which hasn't passed the capacity market procedures but necessary for customers (heating or system reliability)



# Some cases 2 (continued)

## Electricity

### Transmission and distribution companies:

- ✓ Not taking into account some replacement costs if there are no investment needs (approved investment program)

### Retail market for households:

- ✓ Marginal index of households' changes of payments for public utilities + budget expenses
- ✓ Prohibition of electricity cross-subsidy enlargement and the schedule of its decreasing

**Specialized regulatory mechanisms, tools and competence are being defined in national legislation completely.**

- ✓ World Forum on Energy Regulation
- ✓ Conferences regularly organized by regional Associations of energy regulators (*e.g. ERRA Energy Investment & Regulation Annual Conference*)
- ✓ Bilateral and multilateral meetings and contacts
- ✓ G20 Energy regulators' dialogue (Russia 2013, Australia 2014, Turkey 2015, China 2016?)



**Thank you for  
you attention**



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