

Energitilsynet - experiences from an independent regulatory authority

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*The Nordic electricity market in the
EU's Energy Union, 15 May 2018, OSLO*

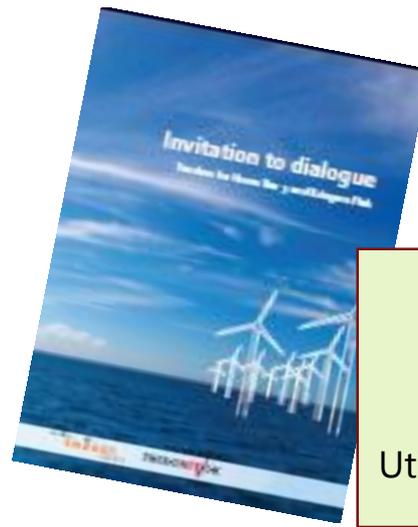


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Several Major Changes in Energy Policy

- ranging from
 - no intervention - over increasing State influence
 - with focus shifting from security of supply consideration to sustainable development of the energy sector – renewables & EE
 - to liberalization of energy markets
 - but still RES & EE
- Impact on both regulation and the regulator

The Danish
Climate Policy Plan
Towards a low
carbon society



Energy – for a green
Denmark
Danish Ministry of Energy,
Utilities and Climate, April 2018

Good news from Denmark: Progress in green transition

- Denmark is recognized internationally as a leading country within energy and climate. CO₂-emissions have dropped by 1/3 since 1990.
- The World Energy Council: "Denmark has the worlds best energy system".
- The Danish Government has in April 2018 presented new initiatives for further green transition.
- And the largest opposition party has also presented ambitious initiatives.
- Denmark has a long tradition for long-term plans and strategies and
- Political consensus on implementation.
- The City of Copenhagen has set the ambitious goal of becoming the first capital in the world to be CO₂-neutral in 2025.
- Ørsted (formerly DONG Energy) has decided to stop use of coal by 2023.

Energy – for a green Denmark

• National targets:

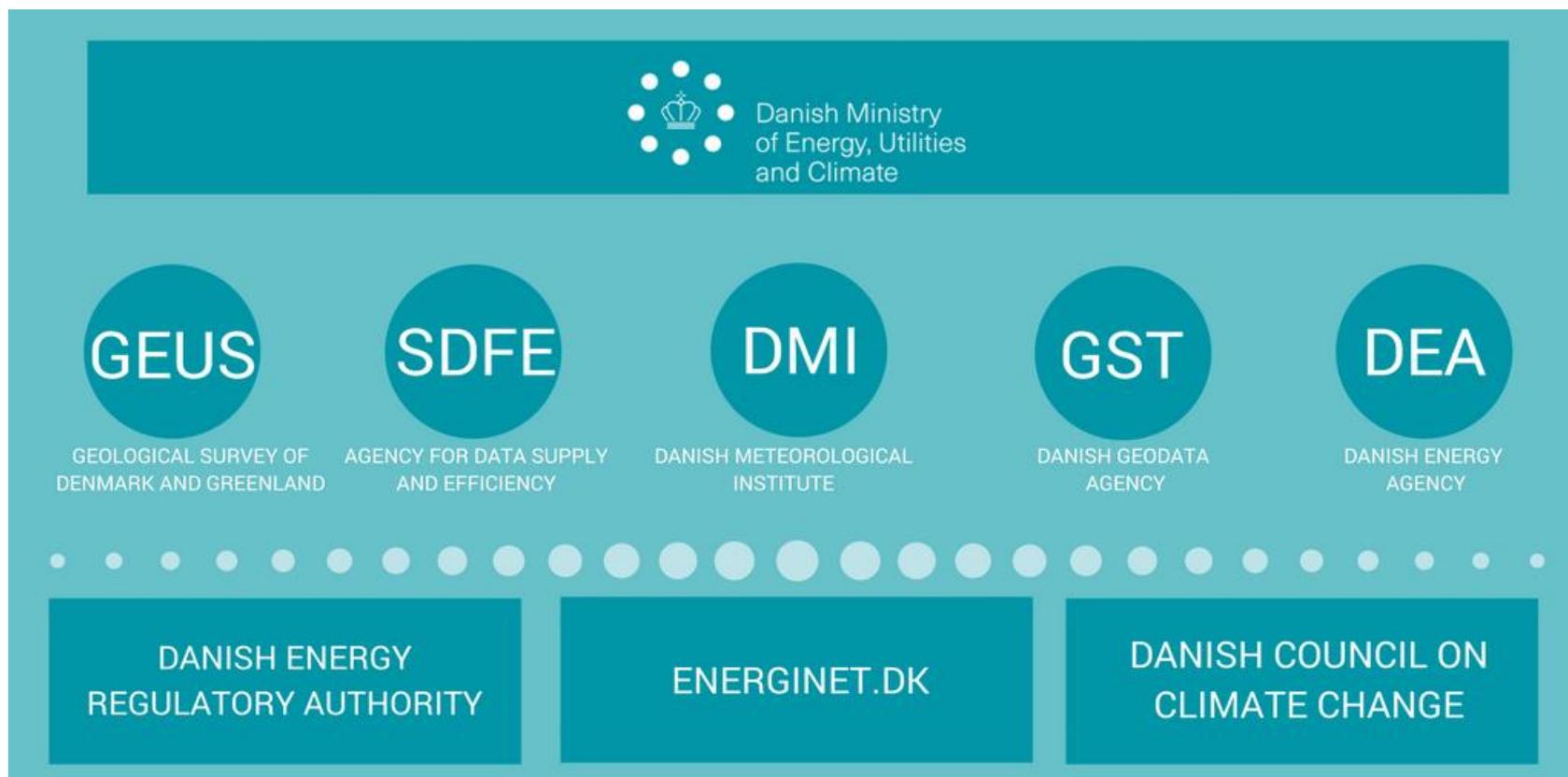
- By 2030, Denmark must have at least 50 % of its energy needs covered by renewable energy.
- By 2030, coal must be phased out of electricity production
- By 2050 -> a low-emission society, independent of fossil fuels.
- By 2020, greenhouse gas emissions from non-ETS sectors should be reduced by 20 % compared with 2005
- DK will reduce emissions in non-ETS sectors by 39 %, compared to 2005

• EU targets:

- Annual energy savings in 2014-2020 of 1.5 % of energy consumption.
- The EU must reduce CO₂ emissions by at least 40 % by 2030.
- The EU will collectively reduce emissions in the EU's



Organization of Energy Authorities



The Energy Regulatory Authority Tasks & Profile

- The tasks of DERA are stipulated in the supply acts for electricity, natural gas and heat
 - **Interpret** the energy legislation (framework legislation)
 - **Decide/stipulate**
 - e.g. efficiency requirements, returns on capital in district heating plants, prices of electricity supply products
 - **Approve**
 - E.g. methods to set prices for gas & electricity; terms of access, and that the price of heat from a district heating plant is reasonable
 - **Monitor**
 - E.g. the wholesale markets and the retail markets, management of storage capacity, prices, sector guidelines, reports from energy enterprises to DERA & conducts analyses of the performance
 - **Ensure transparency**
 - e.g. publishing prices of energy, setting regulations on the information to be included in consumers' energy bills,



Overview: Companies in Electricity and Gas Sector

Company	Owner	Responsibilities
Energinet.dk	Danish State	Transmission of electricity & gas System responsibility (energy security)
Electricity grid companies	Danish State, municipalities, consumers, private sector	Distribution
Natural Gas network companies	Danish State, municipalities	Distribution

Energinet.DK

Transmission and System Operation

- Regulated in accordance with a **non-profit principle**,
 - under which the tariffs charged by the company may only cover its necessary costs for efficient operation
 - as well as interest to secure the real value of its basic capital as at January 2005.
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- DERA can determine that a specific cost, or the size of this, does not represent a necessary cost for efficient operation and therefore all or part of the cost cannot be included in Energinet.dk's tariffs.

The Electricity Sector

- Distribution Net companies
- approximately 70 companies

DERA tasks:

- Regulation of prices and terms for customers through **revenue-cap regulation**
- **Efficiency requirements based upon benchmarking**
- Supervise and regulate the electricity price for **supply obligation products** and basic products
- Involved in preparing legislation by issuing replies to consultations

The Natural Gas Sector

- Distribution Net companies
- 3 companies

DERA tasks:

- Regulation of prices and terms for customers through **revenue-cap regulation**
- **Efficiency requirements based upon benchmarking**
- Supervise and regulate the electricity price for **supply obligation products** and basic products
- Regulate terms of use of the two Danish **natural gas storage** facilities
- Involved in preparing legislation by issuing replies to consultations

The District Heating Sector (1)

- Around 600 companies – various sizes

DERA tasks:

- Regulation of prices and terms for customers in accordance with a **non-profit principle** – the full price
 - Prices are only allowed to reflect the costs necessary for production and distribution
 - The running of a Profit or a Deficit is generally not allowed
- Prices and general conditions must be notified to DERA to be valid
- DERA can order prices (tariffs) and general conditions to be amended for the future

The District Heating Sector (2)

Composition of tariffs - Tariffs should be divided into a basic and a variable tariff

- **The Basic Tariff** shall cover the costs of providing and maintaining the Heating Infrastructure, including salaries and wages
 - **The Variable Tariff** shall cover the costs of fuel
- The aim of dividing the tariff is to ensure that the heating system is available for use when necessary

Work of DERA and Appeal

- DERA can address issues and cases at its **own or on the basis of an enquiry** by an enterprise or consumer etc.
- Decisions made by DERA can be brought before the **Energy Board of Appeal** by stakeholders with significant and individual interest in the decision.

International Work of DERA

- **EU – General level**
 - ACER's Board of Regulators
 - Agency for the Cooperation of Energy Regulators
 - CEER : GA
 - Council of European Energy Regulators
 - Selected ACER and CEER working groups
 - ACER cross regional working groups
- **NordREG- Cooperation with Nordic Energy Regulators**
 - Focus on retail market
 - Target of common Nordic retail market by 2015
 - Other Nordic topics

The Energy Regulatory Authority Tasks & Profile

➤ **Independent of the government.**

- Consists of a Chairman, a Deputy Chairman, five Ordinary Members
- Appointed by the Minister for Energy, Supply and Climate
- but the members take decisions independent from the Minister & Ministry
- All are appointed for a period of five years and may be reappointed once
- Represent legal, financial, technical, environmental, business and consumer expertise
- Must be independent and neither seek nor follow any instruction from any public or private entity

Organization of DERA - Secretariat

- One director appointed by the Minister
 - Four individual divisions:
 1. Retail & Distribution,
 2. Wholesale & Transmission
 3. District Heating and
 4. Energy savings
 - an administrative secretariat (Law and Administration).
- The divisions prepare:
 - cases for processing by the Board
 - make decisions in accordance with the practice and guidelines stipulated by the Board
 - Total employed approximately 60 persons.

A new organization of the regulator

- The new Regulatory Authority to be led by a **single director** who has full competence in all cases and carries out the management of the organization.
- Replaces the Board: chairman, vice-chair & five expert members
- The legal framework is now enshrined in **one main Act** rather than contained in the sectoral legislation.
- The purpose of the is to safeguard the interests of consumers, as well as to emphasize cost-effectiveness.
- The new regulator must carry out the **same tasks** as the current Energy Regulatory Authority, but will carry out **more analysis and monitoring** work as well as provide ongoing input for regulation of the supply sector.
- A new name – Energitilsynet -
> **Forsyningstilsynet**

The New Energy Regulatory Authority

- **Independent of the government.**
 - Appointed by the Minister for Energy, Supply and Climate
 - but takes decisions independent from the Minister & Ministry
 - Appointed for a period of **five years**
and may be reappointed once
 - ???? - Represent legal, financial, technical, environmental, business and consumer expertise
 - **Must be independent and neither seek nor follow any instruction from others**
 - Dismissal only if not fulfilling the criteria of independence or not meeting responsibilities

The New Energy Regulatory Authority

➤ **Independence of the government.**

- Must orientate the Minister
- The Minister can ask for information and analysis
- The Minister can ask for proposals for regulatory developments
- Yearly reports to the Minister and ACER
- Prepare and publish a work plan based on more detailed rules issued by the Minister
- The Minister can appoint a Contact Commission to advice the Minister and the regulator
- *What does it mean in practice that the national regulatory authorities shall act independent of the national government?*

Questions

- Thank you for your attention
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