

Critique of CEER Paper on regulation of energy infrastructure

Analysis and comments prepared for EPSU by Steve Thomas, June 2003

1.Introduction

In March 2003, the Council of European Energy Regulators (CEER) issued a Position Paper, 'Principles on regulatory control and financial reward for infrastructure'. This was in response to a request by the European Commission to the CEER to put forward guidelines on 'how to regulate and financially reward the construction of infrastructure, taking into account the provisions of article 7 of Directive 2001/77/EC in relation to electricity produced from renewable energy sources.'

Before examining the Position Paper in detail, a number of points should be noted. First, although CEER describes its report as a 'Position Paper', in the document, it is made clear that it has not been approved by the CEER Board. It is not therefore clear how this can be described as a CEER Position Paper.

Second, it should be noted that no reference whatsoever is made to renewable energy sources in the Position Paper. Most of the Position Paper concerns the duties of Transmission System Operators and on international transmission connections, and there are detailed references to natural gas networks. Since most renewable electricity sources are small in scale, less than 10MW, and, for practical reasons, feed directly into their local distribution networks rather than the national high-voltage grid, the Position Paper does not seem relevant to the question asked of the CEER. The CEER also puts forward 'principles' rather than 'guidelines' justifying this on the basis that the principles would form the basis for discussions with the European Commission and other interested parties and that guidelines would be produced in a second phase after these discussions and after the principles are approved by the CEER Board.

Third, the Position Paper concentrates almost exclusively on how investment in new transmission capacity should be handled. This is understandable given the

concentration on infrastructure development. However, it should be noted that in the cases where transmission systems in a liberalised system have failed, for example in Argentina in 2002 and New Zealand in 1998 , it was due principally to failure to maintain existing assets effectively. Some recognition in the Position Paper of the importance of maintenance would have been welcome.

Finally, it should be noted that the problem of investment in transmission is one substantially created by the process of liberalisation. As the Position Paper acknowledges 'In a non-liberalised market where there is only one vertically integrated company, that company has natural incentives for network reinforcements.' In short, integrated companies have a strong incentive to make sure there is sufficient investment in infrastructure to ensure that their own consumers are reliably supplied. Liberalisation breaks that chain of responsibility to consumers. The Commission and the CEER do not appear to acknowledge that there could be any doubts that a liberalised model of electricity supply industry is superior to the non-liberalised model. There are many arguments that need not be rehearsed here about how efficient wholesale electricity markets have actually been and whether retail competition really does bring benefits to consumers, especially residential consumers. However, it should be noted that there are strong grounds for arguing that in such a capital intensive network industry with such an overwhelming need for reliability, a monopoly system would be more efficient. In a properly regulated, centrally planned system, wasteful duplication of investment could be avoided and central planning would allow the necessary long-term investments to be made to ensure that supply and demand would balance.

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