Energy regulation
the dutch case

Jacques de Jong
Director Dutch energy regulator
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Infrastructure electricity
Infrastructure
gas
To secure, promote or to design competition

- Generic and specific competition laws and authorities
- Ex ante versus ex post; regulatory and/or corrective action
- Sector specific regulation, for ever or not for ever?
- Independent authorities
A consistent approach

- Competiton law 1998
- Electricity Act 1998
- Gas Act 2000

As a general rule: Market where possible, regulation where necessary
Organisational set-up

- Competition law: NMa
- Energy laws: DTe
- DTe: NMa-chamber
- Synergie with NMa
  - competence, information, facilities
Liberalization in Dutch energy markets

- Generation & production
- Supply, step-by-step
- Networks, pipes & wires & services
Electricity & gas, generation and production

- Free market, full competition
- Ex post correction; ex ante merger control
- Complicated markets, structure and behaviour
Electricity and gas supplies

- Captive users, protection by ex ante regulation, tariffs and quality
- Free users, ex post correction; ex ante merger control
Electricity and gas networks

- Natural monopolies?
- New networks; transmission, distribution
- Network access regimes; to regulate or not
- Rtpa, ntpa, hybrid regimes
- Transmission versus distribution?

Access conditions and tariffs
Network has a key position

- Open and transparent
- Independent from supply and production:
  - both electricity T&D, gas D
  - not for gas transmission
Position of the networks

- Shareholders
- Board of governors
- Board of directors
  - Regulated relation
  - Network operators
  - Production or supply

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Market forces & network services

- **Limiting monopoly functions:**
  - losses, connection, metering, new networks
  - Energy balancing, electricity

- **Engineering competition:**
  - capacity trading gas, electricity;
  - role of spot markets
Technical access conditions

Electricity:
- Network code
- System code
- Metering code

Operators propose, DTe decides
Net Code

- Connection to the grid
- Operation of the grid
- Quality of the grid
- Allocation interconnectors
Netcode, interconnectors

- Transparency in capacity: netting M&X
- Allocation via auction
- Day, month, year
- Role APX
- Market monitoring system

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System Code

- Balancing responsibilities
- Back-up/black-start
- System reliability
- Access conditions for generators
Metering Code

- Meter location & quality
- Rules for data collection & use
Network pricing (electricity)

- Separate tariffs, one structure
  - connection
  - transportation
  - system services
- Operators propose, DTee decides
Network pricing system

Transportation:

- transmission & distribution
- cost orientation
- cascading system
- postage stamp
RPI-X methodology

- All regulated tariffs
- Tariff change = RPI - X
- X to be set 3-5 years
- 1996 = 2000 (electricity)
- 1999 = 2001 (gas)
Objective benchmark
- simulation market results using international acknowledged benchmark techniques

Reference companies
- distribution companies: national comparison
- TenneT: international comparison

Other steps
- correction performance, frontier-shift, effect corporation tax and cascade

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Results X-factors 2001-2003

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Savings RPI-X 2001-2003

Average X-factor: 5.9%
Total cumulative reduction in 3 years: f. 1.3 mld.
Differences in network regulation: electricity vs gas

** Electricity**
- Regulated third party access
- Tariffs set by regulator
- RPI-X incentive regulation
- Legal unbundling for TSO (TenneT) and regional companies (REC’s)

** Gas**
- Hybrid third party access
- Tariffs set by companies
- Efficiency incentives driven by negotiations and new entrants
- Administrative unbundling for TSO (Gasunie), legal for REC’s

RTPA must find balance for H-Tpa

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Principles “for the pipes”

- Principles for setting transportation tariffs:
  - Tariffs should be cost-oriented and based on historical costs (incl. reasonable ROI)
  - Fixed costs in a fixed tariff-element: variable costs in a variable element
  - Causality: every customer pays for his cost

- Non-discrimination

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Promoting gas-to-gas competition:
- Standard contracts
- Short-term contracts
- Secondary market for buying transport-capacity
- Transparency of information (costs, available capacity)
- Market-oriented balancing regime

Promoting competition in storage and flexibility-services
Negotiated Tpa?

- Negotiations on tariffs and conditions for transportation and storage, but:
  - gas company has to publish indicative tariffs and conditions
  - based on guidelines set by director DTe
  - deviation from indicative tariffs and conditions only on non-discriminatory and objective grounds

- Conclusion: Dutch system is somewhere between Negotiated Tpa and Regulated Tpa ≈ Hybrid TPa
Dutch Supply Tariffs (1)

- Electricity and Gas
- Regulated tariffs captives
- Licensing system for suppliers
-Temporary basis 2004
Dutch Supply tariffs (2)

- Energy content (wholesale)
  - market oriented yardstick

- Supplier’s cost (licensee)
  - rpi=x
Issues & challenges

- Monitor markets
- Instrument mix
- EU-proposals