The findings, conclusions and interpretations expressed in this document are those of MEDREG alone and should in no way be taken to reflect the policies or opinion of the European Commission.

LIST OF ACRONYMS

- ACER: Agency for the Cooperation of Energy Regulators
- BNetzA: German Federal Network Agency
- CEER: Council of European Energy Regulators of the European Union
- CER: Irish Commission for Energy Regulation
- ICER: International Confederation of Energy Regulators
- MEDREG: Mediterranean Energy Regulators
- Med-TSO: Mediterranean Transmission System Operators
- MENA: Middle East and North Africa
- NRA: National Regulatory Authority
- OME: Observatoire Méditerranéen de l’Énergie
- RCREEE: Regional Center for Renewable Energy and Energy Efficiency
- RTE: Réseau de Transport d’Électricité of France

JOINT ENERGY REGULATORY ROUNDTABLE

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The Energy Regulatory Roundtable jointly organized by the Association of Mediterranean Energy Regulators (MEDREG) and the Council of European Energy Regulators (CEER), took place on 19 November 2013 in Grasse, France.

This event gathered 15 speakers and 70 participants from the whole Euro-Mediterranean area. Since its creation, MEDREG has established a fruitful cooperation with CEER, both bilaterally and under the wider framework of the International Confederation of Energy Regulators (iCER).

Both organizations are committed to support the enactment of adequate and effective regulation, as a pivotal dimension for the optimal functioning of energy markets. Indeed, energy regulators play a central role in the definition and implementation of a proper energy market design. Their tasks include promoting an open and non-discriminatory market access, safeguard the interest of consumers and encourage sustainable investments.

Reaching this goal entails a proper assessment of national market structures, existing legal and economic frameworks and regional markets. The roundtable organized by MEDREG and CEER aimed at advancing the discussion on what lessons can be drawn from the EU experience regarding energy regulation, notably as regards the independence of NRAs, and which best regulatory practices for the infrastructure investments could be implemented in the Mediterranean basin.

This publication presents the key messages delivered by the main actors of the Euro-Mediterranean energy sector during the roundtable.

### LIST OF MEDREG MEMBERS

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I am glad to present you the proceedings of the MEDREG-CEER joint workshop on energy regulation, which took place in Grasse (France) on 19 November 2013. For the first time, representatives of both Associations discussed common challenges and strategies for the energy markets of the Euro-Mediterranean region. I believe that this event stressed the importance of the work carried out by national energy regulators.

Given the institutional, political and economic difficulties, States are tempted to take national measures. However, interconnecting the European and Mediterranean markets will help prosperity and secure energy supply. Additionally, cooperation between European and Mediterranean energy regulators is a key asset to establish a common, transparent and stable regulatory framework and set clear and accepted market rules, a precondition for triggering the necessary infrastructure investments.

Their main duty is to make energy available to the greatest number of individuals at fair and affordable prices. Nevertheless, in a context of economic crisis, energy regulators have a difficult task, notably when it comes to pricing and investment decisions, as political pressure is increasing. Therefore, the independence of regulators from governments and industry remains of paramount importance.

Regulators are an important pillar in designing the future energy market and are willing to actively participate in this process and public and private actors of the energy sector are prepared to closely cooperate to take up the challenge.

Michel Thiollière
MEDREG President
and CRE Commissioner

Regulatory cooperation in a time of change

This CEER-MEDREG workshop has been an important occasion to debate regulatory challenges. Energy markets everywhere are changing rapidly. Growth in renewables requires more demand-side flexibility. Small consumers are evolving to become “prosumers” who produce as well as consume energy and thus are increasingly drawn into legislative frameworks. Distribution System Operators will face a changing role. Smarter, integrated grids are indeed needed. Setting the right regulatory framework enables investor confidence so that the large investment in cross-border infrastructure required is built and used efficiently. It is a core competence of the national regulator to conduct regulatory assessments of the network investment. In so doing, the regulator balances the public interest so that cost-efficient investments are made. In setting the right framework, the regulator also facilitates innovation and helps building trust and confidence in the market.

Europe’s energy regulators are now looking beyond 2014, the deadline set by EU leaders for delivering a European Internal Energy Market. Our strategic focus now is on developing an overarching 2025 vision. Regulatory cooperation has benefited enormously from regional associations like CEER and MEDREG. Initiatives such as this joint workshop bring together relevant experts to discuss recent developments, share experiences, and learn from each other. Such dialogue is a step further through CEER and MEDREG’s membership of and active participation in the International Confederation of Energy Regulators (ICER). ICER enhances collaboration between energy regulators from across the world on issues affecting energy regulation globally.

CEER places a high value on this inaugural joint CEER-MEDREG roundtable. Energy regulators face similar issues and challenges. Shaping the energy regulatory framework for future energy markets to thrive is important not only in its own right but also because energy plays a pivotal role in the growth, competitiveness and sustainability of the economy at large.

Lord Mogg
CEER President, ICER Chair and Chair of the ACER Board of Regulators
Middle East and North Africa (MENA) power challenges

Decision makers and energy stakeholders face five main challenges for the promotion of energy efficiency:

• **PRICES:** governments of MENA countries should consider the gradual reduction of energy subsidies, with the long-term aim to reinforce the energy efficiency of their supply chains.

• **SHORTAGE OF NATURAL GAS:** despite the fact that MENA countries contain one third of global gas reserves, most countries of the area suffer shortages that often impair the functioning of power plants.

• **INVESTMENTS:** 50 to 60 billion USD are required annually in MENA countries to sustain a close to 45% growth in energy demand (+140 GW) over the next 5 years, in a context where private investments are increasingly scarce and governments shy away from power investments.

• **LIMITED REGIONAL INFRASTRUCTURES:** national power and gas networks are improperly used and still too limited to ensure regional development.

• **LIMITED POWER SUPPLIES:** as a consequence of the four other challenges, in some MENA countries electricity is only available for a few hours per day, although resources would potentially be available for use.

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**KEYPIN SPEECH**

Dr. Tareq Emtairah
Executive Director, RCREEE

The Regional Center for Renewable Energy and Energy Efficiency (RCREEE) is a not-for-profit regional organization which aims to enable and increase the adoption of renewable energy and energy efficiency practices in the Arab region.

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**SESSION 1**

What challenges are regulators facing in a changing environment?

Bearing in mind MEDREG’s vision, which is to **create the rules for a common Mediterranean energy future**, this roundtable discussed the impacts of legal, technological and administrative changes on the tasks of the regulators.

Session 1 was chaired by

Fazil Şenel
MEDREG Vice-President and Board member of EMRA (Turkey)
How to adapt to a new regulatory regime: Integrating into the EU from a regulator’s perspective

EU accession appears as a powerful motivation for adapting and modernising energy regulation. This has again proved true in the case of Croatia, which joined the EU on July 1st, 2013, and is now continuing on the path of adapting and further developing its regulatory framework in the early stage of EU membership.

EU membership and related requirements of the integrated EU energy market stimulate capacity build-up of energy regulators in new member countries. The on-going challenge for younger EU Member States is to balance national energy measures with the requirements of the dynamic and evolving EU energy market framework. It is valuable both for the Southern and South-Eastern Mediterranean to promote exchange of experiences at the regional level. A clear set of priorities for future co-operation and joint implementation – merging EU energy concepts with regional specifics – therefore seems especially important.

The progressive consolidation of regulatory powers in the Mediterranean

The role of energy regulators is to ensure the opening of energy markets and promote their balance. This implies that regulators are independent enough to be able to make decisions on all issues relevant to their missions, as well as to adapt to changes.

The results of a benchmarking study carried out by the MEDREG Institutional Working Group in 2008 and updated in 2013 show substantial positive evolutions. During these five years, most Mediterranean regulators have gained increased independence and powers in terms of tariff setting and elaboration or enforcement of network rules and standards.

Main competencies of energy regulators

- Power to sanction sector participants
- Dispute settlement powers dealing with access issues
- Specific mechanisms used to seek and receive continuous input from sector participants
- Compiling information on market dominance predatory and anti-competitive behavior
- Address the needs of vulnerable populations

Integration of EU and national regulation

- Actively participate in the EU developments on energy regulation
- Fully harmonize national and European energy legislations
- Broaden regulatory perspective while improving domestic regulatory practices
- Continue working on regulatory capacity building
- Balance the EU, regional and domestic dimensions
Case-study: the role of the German regulator for energy

Since the 2011 German energy turnaround, BNetzA has developed administrative duties over electricity and gas network planning. From BNetzA perspective, the challenges in Germany are the following: ensuring national grid security and expansion; integrating the quick development of renewables; controlling the increase of electricity prices; providing coordination with neighbours.

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The Mediterranean regulatory challenges

- The development of renewable energy requires an adaptation of infrastructure and management of the power system, the additional costs. Who pays what?
- Grid reinforcement to manage and integrate distributed generation into the market (smart grid)
- Security costs of the electric system: additional costs for maintaining and safeguarding the security of the electric system in the context of volatility and intermittent RES
- Capacity mechanisms to be adopted at regional level to target specific investments in new generating units, necessary to secure revenue stream for traditional (gas) power plants so to avoid them exiting the system

View from the outside

The population of the Mediterranean basin is expected to increase by 80 million people and the GDP per capita of Southern shore should increase by 75% over the period 2012-2030. Overall energy demand is expected to increase by 40% during the same period, and electricity will grow on average between 2.8% and 5% in the South; therefore, 200 GW of new generation capacity will need to be installed.

Taking into account the different stages of development of each country, regulatory challenges include the encouragement of well-designed and progressive regulatory frameworks which facilitate the emergence of a non-discriminatory, transparent and sound set of rules for the access to essential facilities.
Investments in energy infrastructure in Europe and in the Mediterranean: which investments do we need?

This roundtable discussed several interrelated aspects concerning cooperation, investment and accessibility (or lack thereof) of energy resources.

Session 2 was chaired by Dr. Hafez El-Salmawy MEDREG Vice-President and Managing Director of EgyptEra (Egypt)

Regulatory cooperation and implementation of the third package provisions on gas infrastructure exemptions: the case of TAP

The Trans Adriatic Pipeline (TAP) is a natural gas pipeline which will start in Greece, cross Albania and the Adriatic Sea and come ashore in southern Italy. TAP, which should become operational by 2019, is an essential component of the so called Southern Corridor and part of the broader idea to let gas flow from any location within Europe to any other location in the continent, through a fully competitive, functioning and liquid market. The completion of a functional European single energy market requires that third-party access to electricity and gas infrastructure, regulated tariffs, unbundling of vertically integrated undertakings and especially efficient and harmonised cross-border regulation are in place. In the case of TAP, three National Regulatory Authorities are involved, which implies the necessity for well defined procedures leading to common decisions. The case of TAP shows that regulatory cooperation is both a necessity and a very useful tool to implement large cross-border infrastructure.
Integration of renewable energy sources in isolated systems: the Irish case

Ireland has set for itself an aggressive target in terms of renewable energy, to be completed by 2020: by that date, 40% of its electricity should come from renewable sources and 37% from the wind sources alone. Such a challenge requires changes to system operation and grid codes that allow wind penetration to rise from 50% to 75% of the instantaneous demand. Ireland is also considering increased interconnection, through the development of potential projects such as the ‘Celtic Interconnector’ to France.

In order to achieve the aforementioned objectives, the facilitation of demand-side and storage management is important, as well as changing the role of the Distribution System Operator.

TSO Perspective: Euro-Mediterranean investment needs and importance of cooperation

Med-TSO was created in April 2012 to promote cooperation among the Mediterranean Transmission System Operators (TSOs), and with other institutions such as MEDREG, ENTSO-E at EU level, and the network of Mediterranean agencies for energy conservation MEDENER. The Association has recently completed a first Master Plan of the Mediterranean electricity interconnections.

According to the Master Plan, it is urgent to develop interconnectors in the region in order to ensure security of supply for interconnected coupled countries and support economic optimisation. To this aim, the development of an intense institutional cooperation is fundamental. The synergy between Med-TSO and MEDREG is thus crucial, notably to encourage the adoption of compatible cross-border network codes.
Alberto Ponti
Head of the Pan-European Utilities Team, Société Générale (United Kingdom)
Société Générale is a multinational and universal bank, based in France.

The virtuous circle: a view from the financial markets

Regulators have the capacity to instigate a virtuous circle in the development of energy infrastructure based on one main asset: their independence. Coupled with clear and consistent legislative frameworks, effective regulatory decisions can support the choice of investors to finance systems that are also adequate to lower energy prices.

Financial markets are interested in supporting gas and electricity infrastructures, notably for regulated assets, which offer long term investment opportunities and better visibility in terms of rate of return. A lower perceived risk also depends on regulators’ transparency and consistency and can encourage ample availability of financing for new infrastructures, at a lower cost.
European and Mediterranean energy regulators share common goals and challenges, notably ensuring consistent and fair market conditions for all the actors, guaranteeing the quality of energy supply at an affordable price, informing and protecting consumers and citizens, and promoting an efficient integration of renewable energy sources.

In this context, long-lasting differences can create opportunities and benefits for the future, through a constant exchange of experience and identification of good practice. It is worth remembering the initial spark that set alight the European convergence: the European Community of Coal and Steel.

This workshop offered evidence of the need for transparent, stable, simple and harmonised rules, and stronger interconnections in the Euro-Med area, beyond the specificities of each country. These demands can only be met through closer dialogue and cooperation among European and Mediterranean regulators, and between the latter and the TSOs. Harmonised regulatory frameworks constitute an essential guarantee in the eyes of the investors, hence for infrastructure developments.

Jean Monnet once affirmed: “Rien n’est possible sans les hommes, rien n’est durable sans les institutions” (nothing is possible without individuals, nothing can last without institutions). In the energy field, institutional dialogue and cooperation are also a prerequisite to technical convergence.

Institutional capacity-building between regulators thus appears as a key issue to address the needs of investors and consumers.

This workshop should not be viewed as an achievement in itself, but as the starting point for further dialogue and integration, and as a spark of peace.

Luigi Carbone
MEDREG Permanent Vice-President, AEEGSi (Italy)
WAY FORWARD

The importance of cooperation

With the view to further develop the current partnerships in the Mediterranean region, MEDREG is committed to expand its cooperation with external partners and initiate new projects. The Association has already established relations with various Mediterranean stakeholders active in the region.

Since 2008, MEDREG has been granted observer status within the Parliamentary Assembly of the Mediterranean (PAM). The Association has actively participated in the elaboration of preparatory reports for the implementation of the Mediterranean Solar Plan under the coordination of the Secretariat of the Union for the Mediterranean (UfM).

In addition to its constant exchange with CEER and ICER, MEDREG is also reinforcing its partnership with other regional associations of regulators, for instance by organising trainings with the Energy Regulators Regional Association (ERRA) on the Economic and Technical Aspects of the Deployment of Renewable Energy Sources.

The Association is also cooperating with the energy industry in the Mediterranean region. Following the terms of the framework cooperation protocol signed in September 2013 between Med-TSO (the Association of Mediterranean Transmission System Operators for Electricity) and MEDREG, their cooperation will be developed on selected topics. By 2016, MEDREG intends to promote the creation of a similar cooperation network among Mediterranean TSOs in the gas sector.

MEDREG has developed contacts with other key associations and institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank, Medgrid, OME, RCREEE, RES4MED (private initiative for the development of RES in the Mediterranean region) and other relevant actors.

In order to additionally benefit from this cooperation net and advance on the common path that leads to the establishment of a Mediterranean Energy Community, MEDREG is working to set up an Annual Forum on Energy Regulation in the Mediterranean. The forum will be open to all stakeholders in order to foster a comprehensive exchange on the main orientations of regulatory approaches in the Mediterranean region.