

MEDREG STRATEGY 2020-2030

A contribution to the establishment of a Mediterranean energy community

The Mediterranean Sea unites different continents. In this region of the world, different political systems, economies and religions have been meeting and influencing each other through various centuries, creating rivalries and partnerships. The historical importance of “Mare Nostrum” for exchange and cooperation is undeniably everlasting until today.

Mediterranean countries are facing diverse challenges which affect the region as a whole. Economic and social development is progressing at different speed. While the Northern countries have been struggling since 2008 with a heavy economic and financial crisis, most of the Southern ones are facing a profound transformation of their societies. The challenges are thus tremendous to create a climate of security and prosperity, of stability and peace and foster a sustainable form of development taking into full account environmental aspects and the social-economic needs of the region.

Cooperation, both at the political and industrial level, seems to have lost momentum. Political and economic exchanges at EU-Mediterranean level are not flourishing and industrial projects are lagging behind schedule or are even called into question. National frameworks are not always adapted to give room for closer regional cooperation and for a minimum of coordination of national policies.

Energy is key to tackle these challenges and there is a large potential, especially in the southern and eastern Mediterranean countries for building prosperity over energy investments. However, commercial exchanges of energy at regional level and access to energy remain still limited. While the definition of energy policy lies in the hands of policy makers, regulation is a tool to help achieve political and economic goals.

ENERGY REGULATORS IN THE DRIVING SEAT

Regulators are expected to accompany and support the positive evolutions in energy policy. By creating transparent rules and stable regulatory frameworks guiding the establishment and transformation of the markets, regulators set favourable conditions for improving security of supply, triggering infrastructure investments, developing interconnections, incentivising energy efficiency measures and protecting consumers. Moreover, the combined effort of regulators is important as the various national approaches need to be compatible in order to permit smooth cross border exchanges, efficient market opening, and help regional integration. Energy regulators should provide advice and make recommendations on the evolution of rules and establish a dialogue not only among themselves but also with other Mediterranean institutional, financial and industrial actors as well as consumer associations to create common understanding and interests in the Mediterranean area.

They can thus help prosperity by providing the adequate environment for helping the region to tap its full potential, to the greater benefit of consumers.

Energy cooperation was one of the driving forces of European integration (CECA 1951-2002) even though later on economic issues took the lead. Since the mid-1990s the EC has undertaken several initiatives to create a single market for energy and a common European energy policy. Looking east, the Energy Community Treaty (entry into force in 2006) strives to progressively extend the EU energy *acquis* to the South East Europe and Black Sea region in order to facilitate interconnections and derive common benefits.

In the Mediterranean no such legal framework exists but regional cooperation was boosted in 2008 with the launch of the Union for the Mediterranean (UfM) as a continuation of the Euro-Med Partnership established in 1995. Energy is one of the priority areas of the UfM.

In the absence of an overall legal framework in the region, bilateral and multilateral cooperation takes different forms (ad-hoc, Memorandum of Understanding, contractual). At political level, the European Commission came up with several proposals to gradually move towards an EU-Southern Mediterranean energy community¹. Establishing such a community is a long term project and will require all actors (political, economic, and regulatory) to pull and work together in the same direction.

There is a patchwork of Mediterranean regional and sub-regional associations and institutions dealing with energy. Despite a common goal to integrate the markets, develop energy infrastructure and improve regulatory and economic frameworks, only few synergies have been developed so far. While each regional organisation has its "*raison d'être*", it is necessary to get to a higher stage, i.e. providing clear input/recommendations on how to implement and become a driving force of the integration process.

MEDREG'S CONTRIBUTION

As the only association representing independent public authorities responsible for the electricity and gas sector from nearly all countries in the Mediterranean, MEDREG gets more and more recognition. The EC explicitly mentioned MEDREG as one of the key institutions for regional cooperation in the energy sector².

Already in 2011 the MEDREG Action Plan mentioned that "the main objective of MEDREG is to create the conditions for a further step in terms of regional cooperation in the energy sector, which could lead to the creation of a Mediterranean Energy Community". Further MEDREG calls for a "Master

¹Joint Communication of the European Commission and the High Representative of the EU for Foreign Affairs and Security Policy « A partnership for democracy and shared prosperity with the Southern Mediterranean », 2011. Joint Communication of the European Commission and the High Representative of the EU for Foreign Affairs and Security Policy « Supporting closer cooperation and regional integration in the Maghreb », 2012.

²Since 2008 MEDREG receives funding under the Euro-Med framework. Another illustrative example is the European Commission's invitation to take part in the EU-funded project on the integration of electricity markets in the Maghreb (IMME) which was set up in 2010.

Plan on energy in the Mediterranean region”, which could become the institutional backbone for such a community of interest.

How energy markets and networks in the Mediterranean will look like in 2020-2030 is difficult to predict as integration is progressing at different speed in the sub regions (EU, Balkans, southern/eastern shores, Maghreb, Mashreq). Nevertheless, creating a community of interest means also to agree on a set of fundamentals.

In MEDREG’s view the principal pillars of the future Mediterranean Energy Community are as such:

1) A sound institutional regulatory framework

The regulatory frameworks vary greatly among Mediterranean countries, notably between the Southern and Eastern shores. In the absence of a binding legal framework for the whole region, a minimum set of common principles have to be agreed on in order to create a Mediterranean market in the long run.

- a. A first step would be the set-up in each of the Mediterranean countries of independent regulators in charge of market monitoring and network regulation, including tariff setting for networks and end users and regulation of natural monopolies. This includes a clarification of the roles of the different actors and a clear distinction between their responsibilities (who is responsible for what). MEDREG’s recommendations on independence, powers and competences of regulatory authorities should be implemented in all countries. MEDREG could carry out peer reviews to mirror progress in each country.
- b. Secondly, the national legal and regulatory frameworks should be improved, whilst taking into account the specificities of the Mediterranean countries, in order to facilitate the deepening of regional cooperation and energy exchanges.
- c. Thirdly, regional guidelines of best practices and benchmarking of the regulatory frameworks would help assessing and understanding the situation and the regional impact of national decisions in the energy sector. In the long run, regional markets and network codes/standards should be elaborated commonly by regulators and network operators of the Mediterranean and be put forward to governments and parliaments who might consider making them legally binding.

Regulators are not acting in an isolated environment. Benefitting from the experience of other institutions and establishing a constructive dialogue with all concerned actors will strengthen the institutional framework as a whole. MEDREG is already undertaking capacity building activities and deepening cooperation with stakeholders in order to help developing a common regulatory culture.

Objective: An independent regulator with clear powers and competences exists in each Mediterranean country. National legal and regulatory frameworks are improved and common network codes/standards emerge based on a common understanding shared by all energy actors in the region.

2) Optimal conditions for infrastructure investments

Only when the physical infrastructure is in place, cross-border energy exchange can emerge. That's why the energy systems need to be interconnected at regional level and investments should be considered as one of the priorities as they are key for market integration. The whole energy chain is concerned from production and transmission to distribution, both for new projects and the reinforcement of existing transmission grids. Many feasibility studies, undertaken or underway, show that there is willingness to invest in Mediterranean energy projects, but that investment conditions are not optimal. They need to be improved, not only by developing innovative financing instruments but also on the regulatory and economic side. Sound operational mechanisms for cross-border transactions should be set up and coordination of the national investment plans is necessary, notably when it comes to regional projects. One idea could be to draw lessons from the EU experience: identify projects of common interest for the Mediterranean region. However, this cannot substitute the necessity to develop optimal conditions for long-term investment. Indeed investors consider the existence of an independent and reliable regulator as a guarantee for a stable regulatory framework less exposed to interference of all kinds (e.g. political).

The efficient management of existing and new infrastructures is key to facilitate cross-border trade. By 2020, competition on cross-border infrastructures should be a reality. Until then efficient management of interconnection capacities and congestions as well as transparent and non-discriminatory access for third parties to the transmission systems need to be established or improved where already in existence.

There are already regional networks, pipelines and connections between the Southern and Northern shores (e.g. Medgaz, Arab gas pipeline, Arab power system, Morocco-Spain interconnection, connections via Turkey...) but energy trade remains limited. As a first step, MEDREG could act as an external facilitator/mediator to help overcome deadlocks, ease dialogue and develop regional investment plans within the Mediterranean region. As a second step, MEDREG could take a closer look at interconnections with non-Mediterranean countries as this is also an important issue for reasons of security of supply and export/import of energy.

Furthermore, investment conditions in RES installations need to be improved. Indeed, the high potential of renewable energies could help decarbonising electricity production and thus combatting climate change and improving security of supply. The approaches on the Northern and Southern shore are complementary. While the European Union tries to decarbonise its electrical system by 2050, Eastern and Southern countries work on the completion of the electrification and to increase their installed power. In both cases efficient investment in RES generation can help reaching these goals.

Moreover, the adoption and implementation of energy efficiency measures needs to be improved. Regulators could incentivise such investments as such measures could help manage energy consumption and thus decrease costs for consumers.

Objective: All countries are interconnected. Gas and electricity infrastructure are operated effectively with the best cost-efficiency rate. New incentives for efficient investments in RES generation and energy efficiency are in place. The share of electricity produced from RES is increasing and the installations are connected to the grid. Barriers to investment are minimized.

3) Functioning, competitive and transparent electricity and gas markets

Functioning competitive energy markets are important to ensure that energy is delivered to consumers in the best cost effective way. In order to avoid malfunctioning, a stable regulatory framework and efficient regulatory oversight is needed.

A proper market design needs to be developed in order to progressively integrate the wholesale and retail markets. MEDREG could develop such market models. Different activities in the energy chain should be progressively unbundled: production, supply, transmission, storage and distribution to increase competition and benefits for consumers.

If markets function properly, they will allow for the efficient use of interconnections by allocating transmission capacity in the most efficient way and at market prices. Cross border trade should emerge progressively and be in place on all interconnections, not only for reasons of security of supply but also for competition between different national markets. This would increase regional integration.

While protecting commercially sensitive information, access to information is important to enable market players to trade (e.g. price signals), operators to manage efficiently their networks (e.g. question of predictability) and regulators to monitor the functioning of the markets (e.g. liquidity of wholesale markets) and detect market abuse. Common indicators should be developed to harmonise the format in which the data should be published and to assess the performance of the operators. **Objective:** There is a market for electricity and gas in each country. Cross border trade is in place on all interconnections. Transparency and access to information is increasing. The regulator efficiently monitors market developments and improvements in transparency.

4) Efficient consumers protection taking into account the particular situation of vulnerable consumers

As consumers bear most of the costs of the decisions made by the energy sector (governments, undertakings, and regulators) their protection is one of the main missions of regulators. By 2020, consumers should be aware of their rights, have access to information and the choice between different suppliers, which implies the opening up of retail markets. One important aspect of consumer protection is access to energy. Indeed, 9 million people in Mediterranean countries still did not have access to electricity in 2012. The development of well-functioning energy markets and infrastructure should go hand in hand with struggling against energy poverty. Particular attention should be paid to vulnerable consumers, which is not only an issue in the Southern and Eastern shores. All consumers should be protected efficiently and get access to the necessary information in

order to be empowered to become a real actor on the energy market. Furthermore, regulators should set the right incentives regarding quality of supply and energy services to encourage improvements for the benefit of consumers.

Objective: Consumers can choose between different suppliers. They have access to necessary information regarding billing and their rights. Vulnerable consumers are efficiently protected.

5) Intensified regional cooperation and setting up of pilot projects

Electricity is often seen as driver for cooperation. MEDREG proposed a Master Plan to create a regional electricity market, starting with sub-regional projects. The first pilot, the IMME (Integration of Electricity Markets of Maghreb Countries) project, is already up and running since 2010. It aims at defining a harmonised regulatory framework for the integration of the Algerian, Moroccan and Tunisian markets by 2015. Other projects could be developed building on the lessons learnt from the IMME project.

One form of energy that will help decreasing dependence from conventional energy resources while combating climate change is electricity produced from renewable energy sources (RES). Many potential regional projects focus notably on the development of RES projects. These initiatives should be put into practice and could serve as a pilot for testing the flexibility mechanism introduced in the EU tool to promote North-South RES exchange and for encouraging cost-effective South-South RES exchanges. Intermittence of RES is better managed if grids are well interconnected.

The approach of sub-regional is also valid for the gas sector notably with regard to security of supply in the region. Some Mediterranean countries have important reserves while others need to import large amounts of gas. To prevent disruption of gas supply, interconnections should be managed effectively and where needed, enable reverse flows. The development of liquefied natural gas is also influencing the structure of the gas market and increases competition between different forms of gas supply.

The idea is not to have a “one-size-fits-all” approach but to create through different smaller sub-regional projects a dynamic so that national interests can progressively converge. They can serve as test cases for different cooperation models and mechanisms. If one project succeeds, because a regulatory system for such projects was set up, then the attractiveness of the whole region for investors is likely to increase.

When developing sub-regional projects it is also important to guarantee/ensure their compatibility at regional level. Cross-regional coordination could be ensured by MEDREG. Flexibility is needed in the transitional period (e.g. allowing bilateral contracts for supply and for capacity allocation until regional exchanges and capacity allocation mechanisms are established). Regional roadmaps could help guiding this transition.

Objective: Regional coordination and cooperation is intensified. Common principles for market integration are defined and pilot projects are set up to test implementing them.

MEDREG'S FUTURE

To contribute efficiently to the realisation of the abovementioned objectives MEDREG needs to grow along its tasks.

In 2016, when the expiration of the 3rd EC funding comes to an end, MEDREG needs to have in place a solid financial basis, notably by a stronger financial commitment by its members, enabling MEDREG to be more autonomous.

The institutional layer will evolve. MEDREG should become more institutionalised and stand on its own feet. MEDREG already has started to lay the foundation for strengthening its institutional structure. MEDREG's ambition is to evolve towards a reference organisation in the Mediterranean region for its expertise and independence raising the quality of regulatory frameworks and helping market integration. Therefore MEDREG is reinforcing its capacity building activities and institutional support to its members and also strives to share best practice beyond Mediterranean borders. MEDREG could develop a "Master Plan for electricity and gas" which could become the institutional backbone for such a Mediterranean community of interest.

MEDREG is the only association in the energy field representing independent public authorities linking three continents, with a wide range of different political, economic and social situations. All members of MEDREG are very much willing to collaborate to build a common area which may allow peaceful relations and sustainable development. This is why MEDREG is on its way to be one pillar of the future Mediterranean energy community of interests and invites all parties involved to take the necessary steps for this project to become true.

MEDREG'S TOOLKIT FOR IMPLEMENTING THE STRATEGY 2020-2030

Different tools will help putting the strategy into practice. While several tools are already at work, others will need to be launched.

1) Capacity building : training courses and exchange of experience

One of MEDREG's objectives is to strengthen the capacities and improve the skills of Mediterranean Energy Regulators. Even if the situation in each country differs, many technical, legal and institutional issues are common to the work of all regulators. MEDREG has already started to develop even more its institutional support for its members. This takes different forms.

In order to encourage knowledge transfer, capacity building seminars are fundamental tools. In these seminars regulators learn from the experience of other regulators and exchange on best practices and lessons learnt from different national approaches. also involving external partners.

Another tool to improve the skills of regulators' staff is training. MEDREG will continue to propose to its members regular training opportunities on regulatory topics. MEDREG will organise training workshops linked to topics the working groups are dealing with, or provide scholarships for specific training courses organised by other institutions. Finally, MEDREG will organise tailor made ad-hoc training courses in cooperation with an external partners following the topics suggested by regulators.

2) External dialogue and institutional building– strong relations with other institutions and stakeholders

MEDREG's interaction with regional organisations and stakeholders has very much increased over the years and is a key to create an institutional growth in the area. Since MEDREG mission mainly relies on harmonizing regulatory frameworks around the Mediterranean Area, a particular attention will be paid to support MEDREG members to have a dialogue with their national and regional Institutions in order to enhance their roles and competences. The European Union has been of great support of MEDREG's activities from the start and remains its major partner: in the future this link has to become more and more stable. With other political institutions, such as Union for the Mediterranean and the Parliamentary Assembly of the Mediterranean, MEDREG will continue to collaborate , in particular supporting the Union for Mediterranean effort to create a sort of Mediterranean Energy Community, where MEDREG has been identified as a main actor.

Furthermore, MEDREG will support and collaborate with other associations in the energy sector such as the Association of Mediterranean Transmission System Operators (MEDTSO). Regarding financial institutions, MEDREG will enhance the discussion on investment conditions to understand the point of view of public investors in energy infrastructure. Considering that consumer protection is a main regulatory goal, MEDREG is striving to get consumer associations on board as regulation should serve more and more the benefits of consumers.

According to these general guidelines, MEDREG will debate on periodical basis on regulatory issues in a "Forum on energy regulation in the Mediterranean"³ to which many different partners and stakeholders will contribute and participate.

MEDREG is thus developing its external relations with all interested institutions and stakeholders to create synergies and develop a common understanding of the needs and possibilities to create a community of interests in the Mediterranean energy sector.

MEDREG is also looking beyond the Mediterranean and notably will improve the work already engaged with other regulatory associations such as CEER, ECRB, ERRA and ARIAE⁴ as regulatory topics are quite similar in each region but the approaches and solutions implemented differ

³ A first Forum will be held on "Regulation & investments: Solutions for the Mediterranean Region" in Barcelona on the 26th of November 2014.

⁴ . A first workshop with CEER was organised in November 2013, another with ECRB and ERRA in September 2014 and one with ARIAE could follow.

3) Action plan – regular update of deliverables

The work of MEDREG's working groups is structured by the deliverables and timing set out in the triennial action plan which is updated every year. This is a useful tool to give a clear outlook on the different steps undertaken to define a common approach to regional integration by tackling specific regulatory topics and develop guidelines and recommendations which should be implemented by all.

In order to improve the implementation of the Action Plan, more resources will be devoted to coordinate working groups and task forces to converge.

4) Pilot projects and roadmaps– move progressively towards regional integration

MEDREG will develop some thinking on different sub-regional pilot projects which could foster and speed up the integration of the region. Based on the ideas and objectives set out in the strategy, MEDREG could develop specific roadmaps to define the intermediate steps and the timing. This would help coordinate our efforts around particular issues. These roadmaps should take account of national specifics and the different degree of maturity of national energy markets. The IMME initiative was a first step but also shows that sound political support is needed to progress. Therefore other projects will be set up on one specific issue to work sept by step towards a more harmonised regional approach.

TIMING TO IMPLEMENT THE 2020-2030 STRATEGY

- 2015-2020 An independent regulator with clear powers and competences exists in all Mediterranean countries.
- 2020-2030 All countries are interconnected.
- 2015-2030 Gas and electricity infrastructure are operated effectively with the best cost-efficiency rate.
- 2015 -2030 RES generation is increasing and the installations are connected to the grid.
- 2020-2030 Barriers to investment are minimized.
- 2015-2020 There is a market for electricity and gas in each country.
- 2015 – 2020 The regulator monitors efficiently market developments and improvements in transparency.
- 2015-2020 Cross border trade is in place on all interconnections.
- 2015-2030 Transparency and access to information is increasing.
- 2015-2020 Consumers can choose between different suppliers.
- 2015-2020 Consumers have access to necessary information regarding billing.
- 2015-2020 Vulnerable consumers are efficiently protected.
- 2015-2030 Regional coordination and cooperation is intensified.
- 2015-2030 Common principles for market integration are defined and pilot projects are set up to test implementing them.