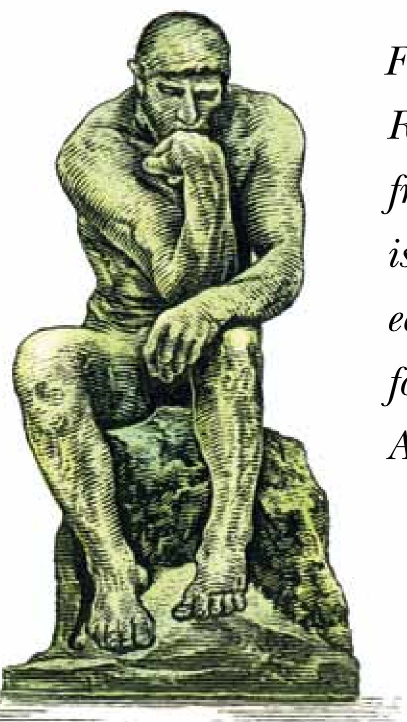
Interview: Lord Mogg

‘Regulators have a role in fighting climate change’



Rodin's "The thinker". Images: Antar Dayal/ Illustration Works/Corbis

For Lord Mogg, President of the Council of European Regulators (CEER), the role of regulators must be extended from market monitoring and tariff setting to today's hot issues: climate change and recovery from the current economic crisis. Those will be among the issues tackled by the fourth World Forum on Energy Regulation (WFER IV) in Athens in October.

by Hughes Belin

If there is a model of good energy regulation in Europe, in which country would it be?

There isn't a perfect model. A risk you have in Europe is to think that a model you have in one country could be transposed anywhere else. The UK has a very good consultation process, formal, stately, probably exaggerated but nonetheless where stakeholders have every opportunity to come and criticise the law, challenge, etcetera. The Italians have a similarly developed consultation system but the independence is constantly challenged. However, so far, the Italian system has been sufficiently resilient to maintain independent regulation. The French system attracts in its process very able people, has a high level of expertise and sophistication in lots of areas. Its main weakness is the freedom (of the network owners, ed.) to set tariffs. The Nordic countries have a very special situation because they have a mutual alliance, and a greater level of integration and market operation. So you see there is no such thing as THE model. Models need to be appropriate for the situation.

What could we learn from the US?

First of all, market monitoring. The FERC (Federal Energy Regulator Commission, ed.) has a highly sophisticated market monitoring process to detect possible abuses on the market and to see where there are problems. And knowing what is going on the market is very good for improving market functioning and making informed policy decisions. Their model, which allows for fines of up to one million dollars a day, is perhaps too sophisticated for application here. But the increasing interplay between energy and financial markets highlights the importance of market monitoring and of measures that seek to avoid market abuse. Second: for a number of states, the process of stakeholders' consultation in the US is quite sophisticated and quite simple. Where everybody could benefit is to better understand how to communicate to the less sophisticated stakeholders about what they think. How to explain a very complicated issue, such as a price review system, is an art. Although they turned that into a form of political fighting, they are very sophisticated in communicating simply and effectively. That is something that we could learn.

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Are there things we could learn others?

Australia, Canada, and non-EU countries come here to see how we organise things. I'm not trying to say that we got it right but if you're fairly advanced in this sort of liberalisation people come and see what it is. We are also starting to get closer now to the Russian regulator – this is where the "G8+ roundtable" (i.e. of the regulators from the G8 countries, ed.) in May of this year proved a very useful forum. Our regulatory roundtables (e.g. G8+ regulators and the EU-US regulators roundtable) along with the World Forum on Energy Regulation (WFER) are our way of exporting our policy.

What do you expect from the fourth World Forum on Energy Regulation in Athens this October?

A major outcome I foresee is to get a globalisation of energy regulation through establishing a sort of loose confederation of the world's energy regulators, using the umbrella of the World Forum. Why? Because increasingly energy is a global issue. LNG is a globally traded transaction, climate change, energy conservation and the risk of political instability, are global issues. Europe is only part of the process and we have a lot of ideas that we can develop and collaborate with the US, Canada, Australia and others.

Such as?

Europe is several years ahead of the US in implementing policies to tackle climate change. The EU's Emissions Trading Scheme (ETS) – the world's largest carbon trading scheme – in in place since 2005, is a key tool to tackle climate change. Many expect that the US may introduce federal regulation in an effort to reduce CO_2 emissions in the near future. Already seventeen US States have introduced or will introduce mandatory "cap-and trade" systems similar to the EU's ETS. Energy Regulators play a crucial role in implementing the provisions of the EU's Climate Change and Energy Package whether it is by authorising infrastructure and investment projects, overseeing modifications to market rules, approving tariffs or (in some cases) managing emissions trading certificates. Climate change is a global issue. Consequently global solutions to climate change based on market mechanisms need to be found. Just a few short weeks before the UN Climate Change Summit in Copenhagen in December 2009, the role of regulators in responding to climate change is one of the four core themes of WFER in Athens.

What could be the role of energy regulators in fighting climate change?

First thing is to recognise that regulators, as we are, have a role in fighting climate change. Our reputation, that market and the prices for consumers are our sole concern, is an old story. It's a perception that has to be changed. A core part of our job is to regulate the wires and gas pipelines. Regulators are fundamental to the adaptation of the network in responding to climate change. We have to incentivise the development of modern smart networks, the integration of new and best available technologies and energy efficient measures. We have to encourage network operators, through the right incentives, to respond to the challenges of climate change. Other aspects are not confined to climate change. But it highlights the point. Because of climate change you need new ideas and R&D has been very poor. And if there is criticism against liberalisation, it is that it has not stimulated R&D. Now you need that R&D more than ever. So we have introduced schemes several years ago to stimulate the development of new ideas and reward it, new ideas that make use of the network and everything else.

Can you be more specific on how you can incentivise for example smart networks?

Networks are the trade routes that will carry renewable energy to consumers. In the UK we have begun in price controls to encourage network companies to play their part in tackling climate change by providing them with financial incentives to boost their own environmental performance. For example, we are changing the financial incentives on grid companies to invest in the new capacity needed to connect low-carbon and renewable generation and to have the capacity available when new generation comes on. There are also direct and indirect ways for distribution companies to be more environmentally aware such as reducing nework losses. We also encourage distribution companies to be more in touch with customers' needs in managing their own use by installing rooftop wind turbines and other forms of so called micro-generation. Iin the UK, we are, with the government, developing off-shore wind which requires a whole process to make sure it happens effectively and efficiently. What we say to governments is often: 'if you want to do that, do it this way, it is a more effective way', through the expertise we have. The regulators in that sense are the servants for delivering goals in the best way possible.

'The Commission and regulators have a huge task ahead to create competitive European markets and to police them'

Regulators also claim they have a role in the recovery from the financial and economic crisis. How would they contribute?

Let's not forget that energy fuels our economy. It is essential for our economic growth, international competitiveness and standard of living. Thus both liquid wholesale markets and competitive energy markets are key to recovering from the crisis. Both energy and securities regulators have a key role to play and there should be a clear delineation of responsibilities and cooperation between both sets of regulators. The link between energy and financial markets has become increasingly visible as traditional financial markets across the globe face a crisis, which many have linked to insufficient regulatory control. The crisis underlines only too clearly the need for appropriate regulation for market stability and consumer protection. Combinations of features make energy markets more prone than other markets to abuse and there is significant and immediate impact on competitors and customers. ERGEG (representing the European energy regulators) and CESR (representing the securities regulators) have jointly advised the EU Commission on the need for policies specific to energy markets to adequately address their distinct nature including appropriate market monitoring and of measures that seek to avoid insider dealing and market manipulation in energy. The Commission and regulators have a huge task ahead to create competitive European markets and to police them. ■

Who is Lord Mogg?

Lord Mogg is President of the Council of European Energy Regulators (CEER) and Chair of the European Regulators Group for Electricity and Gas (ERGEG). ERGEG was set up by the European Commission as its advisory group on energy issues. He was appointed in October 2008 for a second five year term as the non-executive Chairman of Ofgem (the energy regulator for Great Britain). From 1990 to 2003 he worked in the European Commission.