Energy Regulators Regional Association // Special Conference Edition // October 2018

ERRA NEWSLETTER

CONFERENCE STATEMENT

Two hundred participants from 40 countries attended the 2018 ERRA Energy Regulation and Investment Conference in Antalya, Turkey on October 9–10, 2018. The Conference was hosted by the Energy Market Regulatory Authority (EMRA) of Turkey and co-organized by ERRA and the Turkey Energy Summit (TES).

In the opening remarks, event organizers, Mustafa Yilmaz, President of the Energy Market Regulatory Authority and The Honorable Fatih Dönmez, Minister of Energy and Natural Resources of Turkey highlighted the

"importance of regulatory independence in a period of great transition in the energy sector and encouraged regulators to continue working through a stable and predictable regulatory framework."

Mart Ots, Chairman of ERRA, pointed to the progress that has been made by member organizations to restructure energy sectors in a way that lays the groundwork for competition to flourish and noted regulators should have the confidence to allow markets to play a bigger role in the energy sector, providing added value and welfare for customers.

The conference discussed regulators' roles in accommodating demand-side dynamics, with the increasing number of customers assuming a more proactive role in the energy market by participating in demand-side management mechanisms or producing energy for their own consumption. Innovation is also affecting the power sector, with e-mobility, digitalization, storage and block-chain technology impacting the composition of the market players in future power markets and the ways in which these market players interact with one another.

9TH TURKEY ENERGY SUMMIT
17TH ERRA ENERGY INVESTMENT & REGULATION CONFERENCE
9-10 October 2018/ANTALYA, TURKEY

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https://erranet.org/conference/investment-conference-2018/

The role of natural gas in the future energy consumption portfolio was the focus of the second session of the conference. Europe is currently debating the future role of gas and the chosen scenario will impact developments in other regional gas markets. These impacts and the effect of the increased availability of LNG were analyzed, with added perspectives on Euro-Mediterranean natural gas markets and the Baltic regional gas market.

Conference participants were then introduced to the challenge of enhancing security of supply under transitional market conditions, with electricity prices over the past decade being generally below levels required to attract new market-based infrastructure investment. The fact that that energy sectors are presently under a transition process, with increased amounts of renewables penetration, new forms of gas trading while continuing deregulating prices and introducing competition and wholesale and retail levels perpetuates this challenge, as do increasing ambitions of introducing subsidized generation from renewable energy sources. The emergence of power exchanges and coupling and integration of electricity markets together with liberalized gas trading regimes are contributing towards more stable and transparent price formations, increasing investor confidence in sustainable price signals.

The 2019 ERRA Energy Investment and Regulation Conference will be held in September 2019 in Latvia hosted by the Public Utility Commission of Latvia. ■

INTERVIEW WITH MÄRT OTS, ERRA CHAIRMAN

The Energy Investment and Regulation Conference was organized in Turkey on October 9-10 2018. Can you give us information about the Conference?

This was ERRA's 3rd Investment Conference in Turkey, after Istanbul and Izmir, we were happy to be invited to the capital of the Mediterranean Turkey. We always put a strong focus on the host country. This year the agenda flashed a high number of Turkish energy sector representatives and given that the event was organized in parallel with the 9th Turkey Energy Summit, participants had an exclusive opportunity to hear the latest news about the Turkish energy sector. The event was hosted by our long-lasting and supportive member, the Energy Market Regulatory Authority (EMRA) of Turkey and the Honourable Fatih Dönmez, Minister of Energy and Natural Resources of Turkey opened the Conferences, who is a past Presidium Member of ERRA.

Why was it important to organize the event jointly with the Turkey Energy Summit?

This was a very special and never seen set-up for ERRA and we are grateful for TES for accepting ERRA as their partner. First of all, TES was the diamond sponsor of the ERRA Conference, additionally TES provided invaluable assistance in the organization of the event. Secondly, TES is a highly prestigious event with a great knowledge about the local market players, so we can say that TES delivered the complete Turkish energy market "into" the ERRA Conference.

What is the role of policymakers, especially regulators, in helping attract significant investments and how important is the stability and predictability of the regulatory framework in this context?

Stable and predictable regulation is critical for attracting infrastructure investment and for the long-term sustainability of regulated infrastructure. A stable regulatory policy is beneficial for developers as the risks of arbitrary and unstable regulatory decision-making are adequately addressed through a predictable regulatory framework. On the other hand, such a policy also benefits customers as stable regulation and credible regulatory governance increase the regulatory credibility and, therefore, investor confidence. This translates into a lower perceived regulatory risk and lower required returns for investments, lowering the cost of capital, which is then passed through to end-users.

"ERRA is pleased to have promoted regulatory stability since its establishment and to have served as a discussion hub for peer-to-peer exchange for stable regulatory decision-making."

What issues do you think ERRA Members could face in the near future?

ERRA is fortunate to have a geographically-diverse membership as this means that the knowledge base can be expanded to various experiences and approaches to regulation. In the case of EU or EnCS regulators, the regulatory approach is often bound by common EU policy objectives while in other cases, such as Middle East, Africa and Latin America, we also find examples of innovative approaches to regulation. These approaches are tailored to fit varying policy objectives to member organizations, whether it is to improve the enabling environment for infrastructure investments, enhancing the development of competitive and efficient markets through market coupling or allowing space for innovation while preserving the financial sustainability of improved infrastructure. So the challenges differ depending on the policy objectives but the objective of fair, stable and predictable regulation is always the same. ■

INTERVIEW WITH NECMI ODYAKMAZ, ENERJISA, TURKEY

What is your greatest takeaway from this year's conference?

The ERRA Conference presents a very good opportunity to come together with different stakeholders from the energy sector, especially the regulated sector, so you can have a chance to exchange expertise. Since problems, questions and answers are more or less the same all around Europe, especially in ERRA member countries,

there is just a phase difference. If one country or one regulator has been experiencing one problem, that same problem is going to be a problem in the second or in the third country.

Since we have common problems or common takeaways of the sector, it is a good opportunity to exchange views, exchange the solutions to create synergy between regulators and market players and stakeholders.

Mr. Necmi Odyakmaz, Director of Regulatory Affairs, Enerjisa, Turkey

How would you say the ERRA conference differs from other conferences you may have attended in the past?

One big advantage of the ERRA conference is that it is a great gathering for market participants as well. On one hand there are regulators, and on the other hand there are market participants who are regulated by regulators. So you can have the chance, the opportunity, the platform, the very good environment and ambience to make contact with the regulators. ■

CONFERENCE DAILY

Day 1
Tuesday, 9 October 2018

Introductory Remarks

Mustafa Karahan, Chair of the Turkey Energy Summit, opened the conference noting that it is organized at a critical time of paradigm changes in the energy sector landscape. Sinan Ak, CEO of Zorlu Enerji, provided an overview of the evolution of the energy sector developments in Turkey, whereas Kivanc Zaimler, CEO of Enerjisa, emphasized the importance of co-organizing the conference with ERRA, including a high number of energy regulators and policy makers.

Keynote Addresses

Mart Ots, Chairman of the Energy Regulators Regional Association (ERRA), praised the structural reforms that countries have implemented in their energy sectors and highlighted the role of regulatory independence. In doing so, Mr. Orts encouraged regulators to have confidence in the power of markets to provide value and welfare to the sectors we regulate and to energy customers.

The Conference then aired a video of the role of EMRA in the developments in the Turkish energy sector. Mustafa Yilmaz, President of the Energy Market Regulatory Authority, noted that the 17th ERRA Energy Investment and Regulatory Conference is being co-organized under the motto of „Regional Energy – Global Synergy" and encouraged discussions to be developed under this motto.

The Honorable Fatih Dönmez, Minister of Energy and Natural Resources of Turkey

Mr. Fatih Dönmez, Minister of Energy and Natural Resources of Turkey, welcomed participants and noted that EMRA, the Minister himself, as well as the Deputy-Minister of Energy of Turkey are all well familiarized with ERRA and expressed his pleasure of having ERRA as a co-organizer of the conference.

SESSION I: Current Status of the Turkish Energy Sector

The Conference then went on to a Q&A session with the Turkish Minister of Energy and Natural Resources, Mr. Fatih Dönmez. The discussions covered developments in drilling vessels in the Mediterranean and Black seas as well as up-stream investments on land. Mr. Dönmez noted the importance of the sustainability of policies related to the energy sector and their role in enhancing the ability of the energy sector to be able to predict market developments. Mr. Dönmez addressed the issue of 950 MW of BOT contracts, which are set to expire soon, and provided insights on EMRA's plans to further liberalize the retail market.

SESSION II: Empowered Customers: Regulator's Role in Improving Demand-side Dynamics

The second session of the conference was opened by Erin Hammel – Master of Ceremony - Director of International Programs at the National Association of Regulatory Utility Commissioners (NARUC) – ERRA's sister organization. Tamara Sulukhia, Sustainable Development and Infrastructure Program Leader for Turkey at the World Bank, moderated the session related to empowered customers and regulator's roles in improving demand-side dynamics. Mr. Oleg Barkin, Member of the Board of the NP Market Council of Russia provided a presentation on the role of the Council in supporting new technological developments in the Russian Wholesale Energy Market, noting that distributed generation and demand response systems are likely to affect demand-side dynamics in the near-term. Gatis Junghans, Member of the Board of the Latvian Transmission System Operator, emphasized that customers can provide a useful flexibility source to the system by participating actively in the electricity market. Mr. Priit Treial of Elektrilevi (Estonia) provided a presentation on how regulation facilitates innovation and noted that, according to current trends, individual systems will be less expensive than buying electricity from the grids within the next decade. Elektrilevi already identified around 1000 locations where such investments are already worthwhile.

Mr. Priit Treial (Elektrilevi) presentation on empowering customers and future costs of supply between individual systems and grid supply

The panel discussion that followed was moderated by Huseyin Karatas, Former EMRA commissioner. The Panel consisted of Afsin Burak Bostanci, an Energy Expert of EMRA, David Dgebuadze, Head of the Electricity metering Department at Georgian State Electrosystem, Jesus Serrano Landeros, a Commissioner at the Energy Regulatory Commission of Mexico and Dmitry Vasiliev, Head of Department at the Federal Antimonopoly Service, Russian Federation. The panel noted the increased importance of DSM to support the integration of RES and the necessity to allow independent aggregators to enter the market to provide these services.

Day 2
Wednesday, 10 October 2018

SESSION III: Emerging Trends in Gas Policy – Perspectives for Regional and Global Markets

Session III opened with discussions on emerging trends in Gas Policy and perspectives for regional and global markets. The Discussion was moderated by Gülefsan Demirbas, Head of the Strategy Development Department at the Energy Market Regulatory Authority (EMRA) of Turkey. In her opening Remarks

Ms. Demirbas noted that there are fundamental changes in the gas markets, with the US becoming an exporter through LNG and China becoming an even larger importer of gas.

Session III Speakers (left to right) Rota Snuka, Hasan Ozkoc, Konstantin Petrov, Wouter Koopman and Gulefsan Demirbas

Wouter Koopman, Gas Advocacy Manager for Europe at Shell presented the effects of increased LNG availability, noting growing population, rising demand, ongoing supply, climate change mitigation and improving air quality as factors contributing to the energy challenge. Gas will play a growing role to meet the energy challenge, with LNG being the fastest growing gas supply source. Konstantin Petrov, Managing Consultant at DNV GL, provided a presentation of the Future Role of Gas from a Regulatory Perspective.

Mr. Petrov noted that the future role of gas in the case of power generation will be highly impacted by the policy on renewables support and highlighted that regulators should consider revisiting elements of the tariff design of the gas transmission networks in order to place adequate short-term capacity charges that do not discourage users to book the capacity. In his presentation on Euro-Mediterranean Gas Markets, Mr. Hasan Özkoc, Assistant Secretary General at MEDREG, highlighted that the gas demand is in a fast lane, thanks to its flexibility and ability to ease environmental problems. Gas markets are being re-shaped with Chinese consumption, US production and increase in industrial consumption being the main drivers behind these changes. Finally, Rota Snuka, Commissioner at the Public Utilities Commission of Latvia provided a presentation on the Baltic Regional Gas Markets, pointing out that developed infrastructure is a pre-requisite for the efficient functioning of the market.

The panel discussion that followed was moderated by Matt Drinkwater, Senior Editor for Electricity, Gas and LNG at Argus and consisted of Aziz Camci, Chairman of Petform, Turkey, Arman Satimov, Advisor to the Chairman at KAZENERGY, Michael Thomadakis, Director of the Energy Sector at Grant Thornton and Nikola Vistica, member of the Board of Commissioners at the Croatian Energy Regulatory Agency.

The discussions highlighted the importance of developing additional infrastructure and establishing a regional market in enhancing security of supply and mitigating risk.

The finalization of the Trans-Adriatic Pipeline (TAP) will further enable the establishment of regional gas markets and IAP will contribute to the gasification of SEE countries – by Nikola Vistica

SESSION IV: Enhancing Security of Supply under Transitional Market Conditions

The final session of the conference covered the topic of enhancing security of supply under transitional market conditions. The session was moderated by Mr. Hammad Zafar Hundal, Country Manager at the Islamic Development Bank Group. Fayez Al Jabri, General Director for Technical Affairs at the Electricity and Co-Generation Regulatory Authority (ECRA) of Saudi Arabia presented ECRA's Regulatory Approach to Maintaining Security of Supply, the paper which won this year's ERRA Conference Abstract award. Haakon Reiersen Leknes, of NordPool Consulting provided a presentation on the Role of New Power Exchanges and Market Coupling to Enhance Security of Supply, highlighting that a common European power market enables the efficient use of transmission capacity by trading energy across borders, coordinates market development and levels out electricity prices. The final presentation of the session was provided by Bagdagul Kaya Caner, Head of the Group for Natural Gas Network Operation Regulations at the Energy Market Regulatory Authority (EMRA), covering the implications of organized natural gas markets on security of supply and predictability in energy markets. The session was followed by a panel discussion moderated by Matthias Finger, Professor at the Lausanne Federal Institute of Technology (EPFL) and included Mehmet Erturk, Former EMRA Vice President, Maria Manicuta, Director General for Network Access and Authorization Department at the Romanian

Energy Regulatory Authority (ANRE), Giorgi Pangani, Commissioner at the Georgian National Energy and Water Supply Regulatory Commission and President of the Energy Community Regulatory Board and Dietmar Preinstorfer, Head of the international relations department at E-control Austria. The panel discussions addressed the key roles of energy sector stakeholders in security of supply.

Concluding Remarks and Announcement of the 2019 ERRA Conference Location

In his concluding remarks, Mart Ots, Chairman of ERRA praised progress made by member organizations to restructure sectors in a way which fosters the development of competition and encouraged regulators to have the confidence to allow markets to provide added value and welfare to customers. The next ERRA conference will take place in September 2019 in Latvia. ■

ERRA EXHIBITION STAND

The ERRA Exhibition Booth located in the sponsor area of the Turkish Energy Summit attracted a large number of visitors throughout the Conference. A great pride for ERRA was to host Minister Fatih Dönmez in the stand. Minister Dönmez was happy to see and greet his former Presidium Member fellows as he served on the ERRA Presidium from 2008 to 2012 as Commissioner of the Energy Market Regulatory Authority of Turkey.

Honorable Fatih Dönmez, Minister of Energy and Natural Resources of Turkey with ERRA Presidium and Honorary Members

The stand allowed ERRA to reinforce our efforts, core values and messages to our visitors. We were happy to host many members of our association in the stand and to use the booth as a meeting point with potential new partners. ■

INTERVIEW WITH FAYEZ AL JABRI, ECRA, SAUDI ARABIA

What is your takeaway from today's conference?

Recently, the function of regulating gas distribution has been added to ECRA, so now we are the Saudi Arabian Regulator for Electricity, Gas and Water Distribution as well. With yesterday's and today's presentations we think that, more or less, we live in the same environment and the problems faced in one country probably have similarities to other countries so there is a huge opportunity for us all to learn from each-other's success factors or even failures sometimes.

So I can't value more the opportunity to be a member of this very honorable association and it is always on our agenda to have some of our colleagues, either from my department or other departments, to attend and see and learn from the activities and events.

How would you say the ERRA conference differs from other conferences you may have attended in the past?

I think the other conferences will normally talk about challenges and operational issues but the

ERRA conference – because it is mainly for regulators – it talks about regulations, policies, customer empowerment and matters which are at the core business for regulators.

Mr. Fayez Al Jabri, Technical Director, Electricity & Co-generation Regulatory Authority (ECRA), Saudi Arabia

So it is very concise and to the point, I would say, and you have a chance to have a one-to-one relationship with other regulators which we may think have something we can learn from. ■

PANEL DISCUSSION ON SECURITY OF SUPPLY

by Prof. Matthias Finger, EPFL

Panel participants (Giorgi Pangani, Georgian regulator; Maria Manicuta, Romanian regulator; Dietmar Preinstorfer, Austrian Regulator and Mehmet Ertürk, former Turkish regulator) under the moderation of Professior Matthias Finger focused on the relationship between market liberalization and security of supply.

While it was stated that, in principle, security of supply was supposed to be ensured by market forces, several shortcomings of the market in regards to security of supply were identified: first, competition leads to the complexification of the energy system and the multiplication of the involved actors, with security of supply not always being in the interest of all involved actors.

Secondly, security of supply being also defined in terms of affordability, the price signal incentivizing investments does not always work. This, in turn, leads, thirdly, to all kind of capacity remuneration mechanisms which furthermore contribute to market distortion.

Session IV Panel Members (left to right) Dietmar Preinstorfer, Giorgi Pangani, Maria Manicuta, Mehmet Ertürk and Matthias Finger

Ultimately, it was agreed, security of supply remains a public policy objective. ■

POSTER EXHIBITION

The purpose of Abstracts and Posters within the ERRA Energy Investment and Regulation Conference was to present new and ongoing research in the energy sector, particularly related to energy regulation and development of energy markets.

Abstract publications submitted to ERRA's Conference Poster project were presented in the coffee break foyer area.

Abstract Winner #1 (left to right) Shareef Al Barrak, Fayez Al Jabri, Mohammed Al Ghwazi

The best 2 abstracts were presented during the Conference:

ECRA's Regulatory Approach to Maintaining Security of Supply (by Fayez Al Jabri, Mohammed Al Ghwazi and Shareef Al Barrak, Electricity and Co-Generation Regulatory Authority (ECRA), Saudi Arabia) and

The Role of Association "NP Market Council" in Support of New Technology Development in Russian Wholesale Energy Market (by Oleg Barkin and Vladislav Berezovsky, Association "NP Market Council", Russia).

Abstract Winner #2: Oleg Barkin ■

NEW ERRA MEMBERS

During the 2018 Ad-Hoc General Assembly Meeting of ERRA on October 11 E-Control, Austria and the Energy Regulatory Office of the Czech Republic joined ERRA as new full members. ***ERRA now lists 33 Full and 10 Associate Members.***

ERRA is looking forward to working together with these new member organizations!

New Members joining ERRA (left to right) Jana Haasova (ERO, Czech Republic), Mart Ots (ERRA Chairman), Dietmar Preinstorfer (E-Control, Austria) ■

WOMEN IN ENERGY REGULATION

ERRA has been gathering women energy regulators since 2007 providing them with a relaxed platform for discussions and exchange of experiences. Participating women regulators met again in the peaceful environment of Hotel Xanadu for the traditional small talks on the roles and challenges faced by women in the public sector.

ERRA Member Women Regulators

THANK YOU FOR JOINING US IN TURKEY IN 2018, SEE YOU IN LATVIA IN SEPTEMBER 2019!

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