



MEDREG'S RESPONSE TO THE JOINT CONSULTATION PAPER "TOWARDS A NEW EUROPEAN NEIGHBOURHOOD POLICY"

1. A few facts about MEDREG

The Association of Mediterranean Energy Regulators (MEDREG) started in May 2006 as a voluntary working group to establish cooperation among the public bodies regulating electricity and gas of the Mediterranean basin. It became a permanent regional organization in November 2007. MEDREG currently counts 24 member regulators of 21 countries in the Mediterranean.

Since its creation, the European Commission (EC) has been continuously promoting the Association, most notably through the active involvement of the DG Energy and DG NEAR. MEDREG is financed through the European Neighborhood Instrument (ENI) with the aim to improve and stabilize the energy regulatory framework of the Mediterranean area. MEDREG is therefore a direct beneficiary of the European Neighborhood Policy (ENP) and actively contributes to the implementation of the EU external energy action.

The joint consultation paper repeatedly refers to the importance of the regional component in the promotion of cooperation in the Mediterranean basin. The paper states that it is important to identify specific areas of the ENP that may be in need of reform. It suggests to evaluate the ENP based on differentiation, focus, flexibility, ownership & visibility. Because of its status of ENP beneficiary and its combination of EU and Mediterranean Partner Countries (MPC) member regulators, MEDREG would like to address its response to the focus and ownership aspects of ENP.

2. Connectivity in the energy sector: the relevance of projects and targets

MEDREG shares the view expressed in the paper that connectivity in the field of energy is a crucial matter for the region. In June 2015 the Association issued a paper, which underwent a public consultation, mapping the current and planned infrastructure investment projects for electricity and gas in the region. This assessment shows that, in spite of the existence of several South-South Mediterranean interconnections, electricity trade among these countries has remained modest. The average level of use is not more than one third of the total capacity. This can be mainly attributed to the political and regulatory barriers at national and regional levels. In several cases, technical issues also add to the problem.

Concerning the North-South interconnections, there are several projects that have the potential to contribute in enhancing the region's security and environmental goals by diversifying its energy supply and increasing trade of RES-generated electricity. However, in order to successfully carry the significant flow of energy forecasted for these interconnections, a significant reinforcement of the corresponding South-South interconnections is required, in particular the underexploited electricity cross-border interconnection between Algeria and Morocco and a clear plan to export the newly explored Eastern Mediterranean gas resources to Europe as well as to the Middle Eastern countries.

The challenge of connectivity could be better reflected in the ENP objectives, which may include the realization of specific interconnection pilot projects and on the achievement of agreed targets, both at national and cross-border level. Energy regulators are uniquely placed to support these projects and targets, because of their technical expertise and their independent and neutral role with respect to regulated industry and governments. Partnership among energy regulators such as MEDREG are key to enhance South-South and South-North market integration through proper governance, rule harmonization and best practices exchanges. ENP should consider the advisory role that regulators play with regard to new infrastructure, particularly when this has a repercussion on consumers by means of tariffs that integrate these new costs.

MEDREG advocates that these common energy projects and agreed targets should be developed between the EU and the partner countries involving all the energy stakeholders, including regulators, TSOs, operators, financing institutions and the civil society. Indeed, increasing security of investment in domestic and cross-border power and gas lines demands for a multilateral approach that integrates technical needs of countries and facilitates the participation of international investors.

3. Governance of the energy sector: The application of a bottom-up approach

Sector cooperation in the development of the Mediterranean energy infrastructure requires a political consensus and investment bankability, thus the definition of an appropriate regulatory framework is a pre-condition that the EU should continue to strongly support. The consultation paper underlines the governance and ownership challenges faced by the MPC and the energy sector makes no exception. In order to support the reinforcement of energy cooperation in the Mediterranean region, MEDREG believes it is important that the ENP focuses on non-politicized issues that can bring convergence forward, prioritizing projects and associations that have step-by-step and concrete working plans.

The main scope of regulators is monitoring the application of market rules and the interaction with policy-makers should only take place through advice and consultation. For this reason, in the implementation of the energy chapter of ENP, MEDREG suggests to carefully separate policy from regulation, distinguishing governmental issues from the technical and regulatory ones. This distinction would avoid that political issues hinder and affect the integration process of energy markets. In this sense, the ENP should more decidedly address the needs and constraints of partner countries, thus better harmonizing its tools and objectives with those of the recipients of the Policy.

With the aim to increase the participation of EU Member States and promote a better coordination between the relevant stakeholders, the ENP could replicate what it has recently started in the energy field and support the development of sector platforms where EU and non-EU shareholders are equally represented and whose agenda builds more strongly on inputs from partner countries. This is likely to favor the partners' perception of an equal and meaningful process and increase the chances of delivering concrete results.

Regional associations such as MEDREG and Med-TSO work to bring together countries from the Southern and the Northern shore in a spontaneous manner, debating best practices and favoring technical integration through a bottom-up approach. In the experience of MEDREG, this approach entails mediating among the perspectives and positions of the different regulators involved and synthesizing the best possible minimum common denominator. The process is led in a prejudice-free environment, where each member regulator has the opportunity to advance its interests and express

its consideration. This has allowed MEDREG to develop into an advanced cooperation platform that is not perceived as the means to 'Europeanize' energy regulation in the region. At the same time, the pure bottom-up approach applied in a regional platform does not allow to concretely implement the decision taken. To make good use of bottom-up deliberations, MEDREG is in favor of institutionalizing objectives that are of particular relevance for the common interest of EU and partner countries. In the case of energy regulation, the objective could be the creation of independent regulators for electricity and gas in all the countries participating in the MEDREG project.

4. MEDREG's strategy: A plan for changing energy scenarios

To increase the effectiveness of ENP in the Mediterranean energy sector, it would be useful to design plans of action that build on the common needs of Mediterranean countries and provide differentiated implementation options, based on the specific market characteristic of each country. The ENP should therefore enhance the role of technical assistance to properly accommodate the aspirations of partners in the energy sector. Technical support should be provided in particular to those countries expressing a willingness to reform their national energy sector. MEDREG considers to be in the position of driving the definition and delivery of capacity-building activities for Mediterranean regulators and other interested energy stakeholders.

Concerning the regulatory aspect, MEDREG identified five objectives that will guide its activity in the decade 2020-2030. These objectives will be attained through five main tools. MEDREG expects this strategy will lead to a substantial evolution in the responsibility of the Association and hopes it can be considered in the definition of the new ENP. The full MEDREG strategy is available on the Association's website at www.medreg-regulators.org.

MEDREG's Objectives for 2020-2030

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

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

Functioning, competitive and transparent electricity and gas markets: 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.

Efficient consumers protection taking into account the particular situation of vulnerable consumers: Consumers can choose between different suppliers. They have access to necessary information regarding billing and their rights. Vulnerable consumers are efficiently protected.

Intensified regional cooperation and setting up of pilot projects: Regional coordination and cooperation is intensified. Common principles for market integration are defined and pilot projects are set up to test their implementation.

MEDREG's tools

Solid institutional basis: MEDREG will develop a reliable financial basis and become more institutionalized, strengthening its structure. MEDREG's ambition is to evolve towards being a reference organization in the Mediterranean region, raising the quality of regulatory frameworks and helping market integration.

Capacity building, training courses and exchanges of experience: MEDREG will keep on proposing regular training opportunities to its members on issues related to the activities of the Working Groups and it will provide scholarships for specific training courses organized by other institutions. The Association will expand the organization of capacity building seminars, where regulators learn from the experience of other regulators and exchange on best practices and lessons coming from different national approaches

External dialogue and institutional building to create strong relations with other institutions and stakeholders: MEDREG will keep developing its external relations with all interested institutions to create synergies. This will take place through regular meetings with stakeholders with the view to create a community of interests in the Mediterranean energy sector.

Action plan and regular update of deliverables: MEDREG will reinforce the quality and coherence of the deliverables produced by its Working Groups and Task Force.

Pilot projects and roadmaps: Based on its strategic objectives, MEDREG will develop ideas on different sub-regional pilot projects and roadmaps that could foster and speed up the integration of the region through a step-by-step basis.

In order to realize these objectives, MEDREG strongly invests in its bilateral and multilateral relations with the major energy stakeholders of the Mediterranean region. MEDREG is actively engaged in the Euro-Mediterranean Energy Platforms on Electricity (REM), Gas, and Renewable Energy Sources and Energy Efficiency (REEE) promoted by the European Commission in cooperation with the Union for the Mediterranean (UfM). The Association is the main responsible for the drafting of the Terms of Reference and the Roadmap of the REM Platform in cooperation with the Mediterranean Transmission System Operators for Electricity (Med-TSO). It also provides advice and contribution to the GAS and REEE Platforms, with the aim to provide a solid regulatory backbone to the technical discussions held in the Platforms.

With the aim to reinforce its regional institutional relations, MEDREG recently signed a Memorandum of Understanding (MoU) with the Parliamentary Assembly of the Mediterranean (PAM). The Parties intend to develop common activities and deepen institutional relations with the scope to facilitate the work of national Parliaments in designing energy laws, most notably regarding the competences of Energy Regulators and the liberalization of energy markets. The promotion of the public and institutional role of Energy Regulators to national Governments and the identification of joint studies, initiatives and capacity-building activities of interest for the members of both organizations are also part of the protocol.

Integrating energy markets is a long term process, which could however effectively contribute to ENP, since physical interconnections and integrated markets are excellent opportunities to create and strengthen the bridges among neighboring countries.

Considering the great differences among the institutional arrangements in the energy sector as well as in the socio-economic context all around the Mediterranean, MEDREG envisages to promote this process starting from the integration of sub-regional markets, or even single borders, building on the experiences derived from the EU energy markets and pilot projects such as the Integration of Electricity Markets of the Maghreb Countries (IMME). This approach would work in favor of the concrete harmonization of the regulatory framework on specific topics (e.g., transmission lines and capacity allocations) among interested countries and could be progressively extended in order to get, in the long-term, to regionally integrated energy markets.

5. MEDREG's effective approach for a common energy regulatory framework

As the only association representing independent public authorities responsible for the electricity and gas sector from nearly all countries in the Mediterranean, MEDREG works to address the needs and combine the priorities of European and non-European Mediterranean countries in the energy sector. MEDREG considers that a 'regional approach' with the aim to improve the stability and transparency of rules is key to succeed in strengthening cooperation between the two shores of the Mediterranean. MEDREG has the potential to act as a bridge between the energy agenda of the European Commission and those of the Mediterranean partner countries and support the identification of shared tools to create a coherent, transparent and accountable energy regulatory framework that supports investments and protects consumers.

The progressive harmonization of technical aspects related to the energy markets is therefore the appropriate starting point for a broader cooperation on energy regulation. Building on the increasing cooperation with Med-TSO in the context of the REM Platform, MEDREG has the expertise to further assist in the deployment of common technical rules for grid codes, most notably for the West-Mediterranean region. The technical advancement provided by grid codes has the potential to boost the economic and social development of the Mediterranean region and can only take place when strong and independent regulators for the electricity and gas sectors are in place.

Through the constant application of a bottom-up approach in the definition of its working priorities and decisions, MEDREG is uniquely placed to identify the most suitable mechanisms to gradually open energy markets and improve the quality of supply to energy consumers. MEDREG considers that the results and challenges so far identified in the energy regulation of the region can provide useful ideas to the energy chapter of the ENP and be of interest to achieve the full potential of the Policy.

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