



**Mediterranean Working Group on
Electricity and Natural Gas Regulation**

ACTION PLAN

2008-2009-2010

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I. MEDREG's Mission: Professional Development & Training

MEDREG has been created to promote the achievement of a consistent harmonized and investment-friendly regulatory framework aimed at providing the maximum benefits to energy consumers of the Mediterranean region. MEDREG's role is crucial to guarantee the existing of permanent collaboration between the Regulatory Authorities of the EU, of the Energy Community Member States and those of the Mediterranean Countries.

MEDREG, particularly, focuses on the promotion and exchange of know-how, expertise exchange, specialised training and studies in the field of energy regulation, notably in collaboration with the Florence School of Regulation (FSR), created by CEER and the European University Institute, and with the support of the European Commission.

II. Current Status of Energy Regulation in the Mediterranean Region

During the discussion taken in 2006 MEDREG members noted that important infrastructure interconnection projects are under development, which will boost exports of natural gas and electricity from Southern and Eastern Mediterranean countries to Europe and eventually lead to the completion of electricity and gas Mediterranean rings, as foreseen by the European Commission's Guidelines on Trans-European Energy Networks. Such new links will strengthen the security, continuity and economic efficiency of energy supplies on both shores of the Mediterranean.

Regulators remark that the implementation of a stable, harmonized, transparent and consistent regulatory framework for the electricity and gas sectors, inspired by EU rules, and the development of regional markets will greatly facilitate the financing of large infrastructure projects. Such regulatory framework should aim at the gradual integration and opening of national markets. Since the achievement of these goals can only be based on shared regulatory, organisational and institutional knowledge and competencies among regulators and regulatory institutions of the Council of European Energy Regulators and those of Mediterranean countries, enhanced and permanent collaboration between all Regulatory Authorities of the Mediterranean Basin is necessary.

Independent regulators have been established in all EU Member States following the Directives 2003/54/EC and 2003/55/EC. Moreover, due to the Treaty establishing the Energy Community for the integration of the Balkan energy Market into the EU one, new regulators have been also established in South East Europe. In the remaining countries of the Mediterranean Basin some regulatory authority have also been already set up.

The actual role and independence of such institutions varies and the benefits of stable and performance-based regulation are generally accepted. Regulators (Authorities, Ministers, Agencies) already in place in the Mediterranean basin have different powers and competences, nevertheless a very important step should be to have harmonised rules in place so to have a unique platform in terms of rules in order to promote and facilitate energy integration and exchanges.

All the above mentioned remarks have led MEDREG to pursue the following main objectives:

- ❖ information exchange, common analysis and comparison of existing energy legislation and regulation;
- ❖ organization of shared specialised training, technical assistance, exchange of know-how and experience;
- ❖ development of common positions on the regulatory issues, including criteria for those issues related to cross border electricity and gas trade;
- ❖ promotion of Euro-Mediterranean regional electricity and natural gas markets towards their respective integration, taking into consideration and building upon the projects already under development;
- ❖ promotion of harmonized, transparent and non discriminatory market rules.

III. MEDREG structure and activities organisation

MEDREG activities shall develop as follows:

- ❖ A plenary session of MEDREG will be held, at least every 6 month, to discuss and approve high level developments, guidelines for operational work, detailed annual Work Plan and Budget, and position papers submitted by ad hoc groups and task forces.
- ❖ Ad hoc Groups (AGs) have been set up to analyse institutional, technical and market aspects., They will particularly deal with aspects concerning markets development , energy exchanges, infrastructure, information and training, environmental issues, quality of service and price regulation . AGs will be permanent and include representatives from all participating institutions. They will meet at least twice a year. Task Forces will be set up, if necessary, by the AG on a voluntary basis, have a temporary character and may meet as necessary. Both ad hoc groups and task forces would report to the MEDREG General Assembly.

The first structure of the Ad hoc Groups should be as follow:

A. Ad hoc Group on institutional issues (INS AG):

The Ad hoc Group on Institutional Issues (INS AG) has been set up with the aim to enhance closer coordination through mutual knowledge, information exchange and training tools between Mediterranean regulators. Moreover it will assess:

- the current status of regulatory institutions, their competences, resources and expertise. The group will define and approve the terms of reference of the comparative study and discuss its results;
- the needs of know- how, training and experience exchanges, as tools of institutional building.

Training courses will be organised on the basis of specific needs by the FSR. The training needs of the energy regulatory institutions belonging to MEDREG could be address by the FSR in the following ways:

- Guarantee a number of places in the annual session of the FSR Basic Course on Regulation of Energy Utilities, and in the session of the advanced training courses. This formula promotes the development of a network among regulators belonging to EU and non-EU countries. Since 2005 the FSR has already hosted 22 participants from non-EU Mediterranean countries (Albania, Algeria, Bosnia & Herzegovina Croatia, Israel, Jordan, , Turkey,). Their participation in the courses has been supported by the EU Commission (through the technical assistance projects), the CEER and USAID;
- Organise special sessions of the Basic Training Course or of the Advanced Training course for staff of regulatory institutions of MEDREG;
- Develop special advanced training courses for staff of regulatory institutions of MEDREG. This approach may ensure that the courses address issues of particular relevance for the participants.

Expected Output:

- Benchmarking Study
- Memorandum of Understanding presenting the minimum competencies necessary to have independent National Regulatory Authority (NRAs) in the Mediterranean area.

The Group started already its activity during 2007 working on the Terms of Reference of the Benchmarking Report. The benchmarking study will be finished in 2008. The conclusions of this study will be used to identify the basic criteria to implement a shared regulatory system in the Mediterranean area. A set of minimum competences and organisational structure of Euro-Mediterranean Regulatory Authorities will be defined in a Memorandum of Understanding which will be signed in 2009.

Training needs: in order to better achieve the goals set up above is necessary to study in depth:

- general philosophy of regulation;
- organisational principles of regulatory authorities (financing, jurisdiction, conflict of interest, etc...);
- European regulation and other experiences;
- specific regulatory matters (settlement of disputes, licensing...).

B. Ad hoc Group on electricity (ELE AG):

The objective of this Ad hoc Group is to promote the integration of member countries electricity markets. Starting from the assessment of the current status and expected evolution of MEDREG electricity markets, the AG on electricity will identify the basic requirements to harmonize and improve regulation in the MEDREG countries. Better regulation is needed to develop an integrated, competitive and functioning electricity market in the region. To this aim the AG on electricity will examine and, in case, will propose common positions on the following subjects:

- present and future interconnections infrastructure needs from the technical, economic, and financial perspectives, to reach the final goal of the establishment of a regional integrated electricity market;
- unbundling of sector activities;
- operational issues concerning cross border exchange and congestion management practices;
- market design;
- transparency of market information and services;
- non discriminatory TPA to infrastructure and services;
- tariff methodologies
- price regulation

The aim of the ELE AG is to establish an investor friendly environment in MEDREG countries in the field of electricity generation, transmission and trade as well as to harmonize the legal and technical framework. Moreover, it will:

- monitor electricity exchange activities among member countries;
- study the present and the future interconnections infrastructure needs;
- study the present rules and practices governing exchanges among member countries;
- propose unified/general rules/guidelines for electricity exchanges among member countries;

Expected Output:

- Report on the present and future needs on interconnections infrastructures investments necessary to integrate the electricity MEDREG market.
- List of recommendations to achieve better and harmonised regulation necessary for the development of an integrated, functioning and competitive market in the region.
- Proposals on common rules /guidelines to be set up in the MEDREG countries

In 2007 a questionnaire has been circulated to assess the current status of the electricity market and regulation within MEDREG countries. In 2008 the activity will focus on studying and reporting the present rules and practices governing exchange of information among member countries. In 2009 the AG will concentrate on identifying the regulatory needs for further interconnections and infrastructure.

Training needs: in order to better achieve the goals set up above is necessary to study in depth:

- non discriminatory TPA to electricity infrastructure;
- market design;
- tariff principles and methodologies;
- security of supply and consumer protection in liberalized context;

- development of new electricity infrastructure and interconnection capacity among countries.

C. Ad hoc Group on gas:

Starting from the assessment of the current status of natural gas and LNG markets, of sector regulation in the MEDREG countries and its expected evolution, the AG on gas will highlight the basic requirements of harmonization and improvement of regulation in the MEDREG countries that are needed in order to develop an integrated, competitive and functioning gas market in the region. To this aim the AG on gas will examine and, will propose common positions on the following subjects:

- gas market structure;
- unbundling of supply, transmission, storage and distribution;
- transparency of market information and services;
- non discriminatory TPA to gas infrastructure (including definition of gas transport/transit services, congestion management, UIOLI provisions, operational issues, role, responsibilities and rights of the shippers and system operators);
- tariff methodologies;
- security of supply and consumer protection in liberalized context.

It will also explore the development of new gas infrastructures, in particular new gas pipelines, LNG terminals and new storage capacity, defining common regulatory provisions that may be needed for their construction and management. In that respect, it will start from existing developments and studies, explore difficulties encountered by operators, and outline common steps including guidelines for regulation aimed at facilitating the development of new facilities. A study could be undertaken and could be articulated over several stages and extended over two or more years, with periodical reporting to the General Assembly; the study could be awarded if necessary to specialised researchers. The AG will define and approve the terms of reference of the study and discuss its results.

Expected Output:

- Study providing the assessment of the current status of gas markets, of sector regulation in the MEDREG countries, and its expected evolution;
- Recommendations on the improvement and harmonization of the regulation of the sector that are required for the development of an integrated, functioning and competitive market in the region. The recommendations will cover the subjects listed in the above and should possibly lead to a proposal concerning common rules/guidelines to be implemented in the MEDREG countries

After a first step activity related to the definition of a questionnaire concerning the current status and the evolution of market structure, infrastructure and regulation in the MEDREG countries, by October 2007 will be issued a report on the present and expected evolution of the situation in terms of gas

resources, infrastructure, market structure and regulation within member countries. In 2008 the subjects listed above will be discussed and examined preliminarily under their general terms and principle in order to share a common understanding and to identify difficulties, arising from legal, technical and economical aspects, of reaching an harmonisation of the regulatory framework concerning the same subjects. A report to the GA should be prepared by October 2008. In 2009 each of the subjects will then be discussed in more detail in order to define recommendation on the improvement and harmonization of the regulation of the sector that are required for the development of an integrated, functioning and competitive market in the region. A report to the GA should be prepared by October 2009.

Training needs: in order to better achieve the goals set up above is necessary to study in depth:

- non discriminatory TPA to gas infrastructure;
- market design;
- tariff principles and methodologies;
- security of supply and consumer protection in liberalized context;
- development of new electricity infrastructure and interconnection capacity among countries.

D. Ad hoc Group on environment, renewable energy sources and energy efficiency (RES AG):

The RES AG will explore the issues related with environment, Kyoto commitment, renewable energy sources and energy efficiency, focusing on the opportunities arising from existing and future partnerships in the Mediterranean Basin.

The objectives of this Ad hoc group are:

- to promote the exchange of information, knowledge and experiences;
- to analyze main regulatory mechanisms on:
 - environment protection;
 - promotion of Renewable Energy Sources (RES) and Combined Heat and Power (CHP);
 - energy efficiency promotion;
- to evaluate the results of the different mechanisms in the national contexts, analyzing success factors and critical issues;
- to analyze the possible effects of the introduction at a national level of successful mechanisms adopted in other countries;
- to evaluate the possibility of extending the functioning of national mechanisms to a supra-national level (green certificates market, markets for energy efficiency);
- to evaluate the possibility of collaboration as regards the flexible mechanisms introduced by the Kyoto Protocol;
- to study the effects of linking the European Emission Trading Scheme with schemes introduced in third countries.

Expected Output:

- analysis on the status quo in the different countries, regarding the structure and organization of the electricity system, the trend of national emissions of greenhouse gases, the legislative and regulatory framework concerning renewable sources support schemes and energy efficiency promotion;
- the definition of an Executive Summary of the environment, RES and energy efficiency benchmarking exercise.

In 2008 the activity will be focused on the issuing of both a Report on main regulatory mechanisms and experiences focussed on the assessment of the pros and cons of different national mechanisms (by the first quarter 2008) and a Paper on the valuation of the effects of the introduction of successful mechanisms in third countries, considering the importance of the different context in terms of market structure and regulatory and legislative framework (third-fourth quarter 2008). The goals to be achieved by the end of 2009 are to elaborate a Paper on the valuation of the effects of extending the functioning of national mechanisms to a supra-national level (first quarter 2009) and to prepare a Paper to analyze collaboration as regards flexible mechanisms and possibility of linking the ETS Scheme with schemes in third countries (provisional scheme by the first quarter 2009, final report by the third-fourth quarter 2009).

Training needs: in order to better achieve the goals set up above is necessary to study in depth:

- tariff regulation to promote generation from renewable sources;
- regulation to promote and support energy efficiency (e.g. experiences on white certificates, others);
- emission trading;
- European legislation and regulation.

The MEDREG may call on one or more Fora or Seminars to be set up, involving national Governments, the European Commission and other stakeholders in order to agree with concerned parties the conditions for further development of Mediterranean market integration and evaluate possible involvement of MEDREG members.

Information exchange and Networking

In order to facilitate the exchange of information and to promote training projects, MEDREG activities will profit from the support offered by the Florence School of Regulation (FSR), REMEP (Rome Euro-Mediterranean Energy Platform) and the International Energy Regulation Network.