



# National Governance of Electricity Market Design

---

Randi Kristiansen  
Oslo April 4<sup>th</sup> 2019



IEA 2019. All rights reserved.



“The electricity sector is experiencing the most dramatic transformation since its creation more than a century ago”

World Energy Outlook 2018



IEA 2019. All rights reserved.

## Governance – why is that important?



- Electricity is approaching 20 % of final energy consumption (WEO 2018)
- With changing production mix in electricity flexibility is increasingly important
- Highly regulated markets are at risk of over investment – i.e. North Africa has an estimated overcapacity of more than 25 % (WEO 2018), which can make investments inefficient
- Governance is important to ensure an efficient and transparent way to decarbonize the world electricity system

## What is governance?



“The way in which an organization is managed at the highest level and the systems for doing this”

Cambridge Dictionary

## What is changing that governance has to deal with?



- Technology – the generation mix changes the behaviour of producers
- Networks – grid codes needs to be updated and transmission tariffs fit for purpose
- System Operation – the need for a flexible system changes the ways the transmission system is operated
- Markets – markets evolve and so should regulation, an example is block chain technology
- Uncertainty – with all the changes governance helps systems deal with the uncertainty

## National governance best practise



- In vertically integrated markets governance is very different from restructured markets
- Vertically integrated markets governance is often political decrees and within company policy
  - Building a new power plant in a vertically integrated market means following your own companies rules and guidelines
- Within a restructured market network codes need to be in place
  - Connection codes
  - System operation codes
  - Market codes
  - Market abuse regulation

## How then to organize national governance?

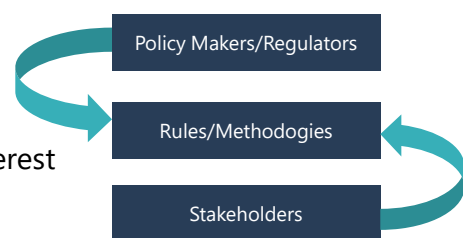


- The most important thing is a truly independent national regulator
  - The regulator must be able to ensure continuity between changing policies and government
  - Good governance provides higher certainty for investors → foresight for investors and a process for change
- Stakeholder involvement is crucial
  - Consumers
  - Producers
  - TSOs
  - Manufacturers
  - Academia

## Bottom up vs top down approach to governance



- Large changes start from the political layer
- When the course is set stakeholders take over
- Chair of the work must not have a conflict of interest
- Chair should also have the final say
- Careful consideration must be taken when to invite regulators and when not to invite them
- Regulators will have the last say of approval



## Regional integration is important



- Integrated markets are becoming more and more common
  - Bilateral trading
  - Secondary trading – national markets clear first
  - Primary trading – no national markets
- Regionally integrated markets are vital integrating renewables in a cost efficient way
- Cross-border trading is an efficient way of sharing capacity and tackling the overinvestment problem
- This requires that countries are willing to rely on each other for security of supply

## When national governance turns regional



- The more integrated national markets become the more national governance becomes regional
- Regional governance creates the need for regional regulators
- Regional regulators can act as a dispute resolution mechanism when national regulators cannot agree on regional matters
- Politically regional regulators can be difficult to accept, but they are needed and their jurisdiction can be adapted to the context
  - Europe vs Australia



Governance is important to ensure an efficient and transparent way to decarbonize the world electricity system



[www.iea.org](http://www.iea.org)

