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Enlarging incentive regulation to improve public awareness and trust in infrastructure development

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Acknowledgements

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- European Commission for inviting us to present final results at Copenhagen Forum 24th and 25th of May 2018

Chapter 1: TSO activities

Project level activities include awareness activities that are linked to projects; not controversial



Corporate level activities include activities to raise public awareness and trust beyond specific projects; controversial



Compensation activities to mitigate stakeholder concerns regarding project development; more controversial



Chapter 2: Obstacles for public engagement

C: Transformational change of TSO



B: Legitimacy of the activities

What is the role of the TSO vis-à-vis other key actors in the energy transition

What is the role of the infrastructure projects in the energy transition

What is the role of the activities to develop the projects

A: Cost recognition and incentives

Price cap

Output regulation

Cost plus

Chapter 3: Revisiting incentive regulation

Available toolbox

Cost plus

Simple; but weak incentive to reduce costs



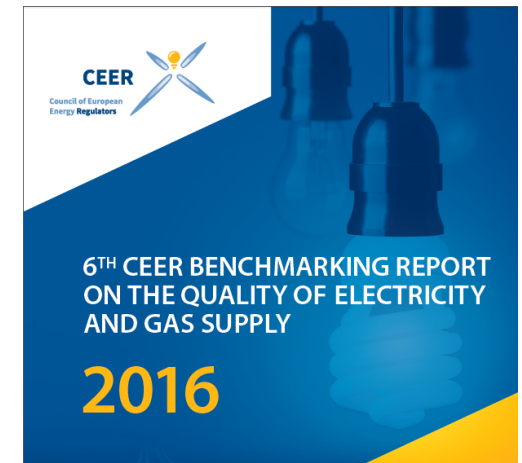
Price cap

Mimicking competition; but only cost efficiency incentives



Output regulation

Incentives extended to service qualities; but not all outputs are *controllable*, *predictable*, and *observable*



Chapter 3: Revisiting incentive regulation

project vs corporate vs compensation activities

Price cap

Price cap is most effective for activities that **bring down costs for TSOs** (within a regulatory period)

➔ Currently applied to most OPEX and CAPEX in EU incentive regulation of TSOs

Some activities **increase costs for TSOs** with the benefits reaped elsewhere in the system or outside of the regulatory period

Output regulation

UK, Belgium, Italy

Cost plus

When the activities are not well controllable by the TSO (e.g. pass-through of compensations that are set by other agency) or they are too unpredictable, cost plus can be applied

Chapter 4: Enlarging incentive regulation to include other regulators (legitimacy)

Environmental, planning and other government agencies

- decide on compensations, TSO and NRA execute (Italy, Germany, France, Ireland have legal framework for compensation costs)
- Impose stakeholder engagement activities as part of consent procedures

NGOs, the public and other stakeholders

- Studies on public willingness-to-pay (National Grid WTP study for undergrounding)
- Developing policies with stakeholders (RTE collaborating with farmer representatives on fair compensation of land value loss)
- NGOs collaborating with TSOs to innovate (ELIA-RTE-Life project & Bird mortality study)

Independent experts to define or assess performance targets

- OFGEM has an expert panel to evaluate the quality of a stakeholder engagement strategy and the score is directly linked to a *financial incentive* and a *reputational incentive*
- Auditing of corporate level performance targets by external expert agencies (Terna is included e.g. in Dow Jones sustainability index)

Preliminary findings

to be discussed with panel

- Activities at corporate and project level to engage with stakeholders, and compensation activities are complementary rather than mutually exclusive; best practices are typically a combination of these three types of activities.
- The three main obstacles considered in this study for TSOs to engage more in these activities, i.e. TSO culture and processes, financial incentives, and legitimacy concerns regarding stakeholder activities, are relevant concerns.
- When revisiting the incentive regulation toolbox, i.e. cost-plus, price or revenue cap, and output regulation, we find that each have pro and cons.
- NRAs have already started to use different combinations of these tools, but too early to identify which approach will prove to work best for stakeholder activities.
- Importantly, application of anything beyond cost-plus framework requires significant regulatory sophistication in terms of resources and skills.
- Enlarging incentive regulation is about
 - TSOs and NRAs coming up with innovative approaches to stakeholder incentives
 - Cooperation between NRAs for energy and other (public) authorities



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Final results of this FSR study will be presented at
Copenhagen Infrastructure Forum May 24-25

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