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Electricity policy integration: The role of market regulators

Electricity policy in most countries is guided by three objectives: Economic efficiency (low electricity prices), environmental protection and security of supply. This paper analyses the integration of these objectives through electricity market regulation.

In the late 1980s, the general move towards privatisation and competition started affecting the electricity supply industry (ESI). Most countries that have liberalised their ESI have set up a regulator. Yet the portfolio of tasks regulators have been assigned vary widely. While some focus on ensuring non-discriminatory access to the electricity network to promote competition in generation and supply, others have much broader competencies, overseeing the ESI as a whole rather than just the network part and taking into account environmental and security of supply objectives.

As opposed to other EU member states, Germany is only now – six years after the market has been liberalised – setting up a regulator. Its tasks will, however, be mainly restricted to regulating rules and charges for network access. The German regulator is all about promoting competition, while environmental and security of supply objectives do not play a role.

The paper argues that in order to achieve the three objectives of electricity policy, market regulation should not be restricted to economic aspects. The paper first elaborates on the strong interdependencies between economic grid regulation, environmental policy instruments and sustainable development of the sector as a whole. It will then give an overview on the German discussion on ESI regulation, explaining the competencies of the new regulator and how its narrow focus is being justified. It will finally contrast the German set-up with the international discussion, focusing on the development in the UK, where the electricity regulator has been in place for almost 15 years and where its initial objective to promote competition has been widened significantly to include environmental objectives.