

NGI101x - Regulation

Well, regulation tries to modify the behavior of people, of companies. We are talking now about infrastructures. So the companies that provide infrastructures in a certain sector. So that in general you try to achieve common good.

The lack of regulation is also regulation because people will be incentivized to do one thing or another. And what we try with regulation is to steer to drive the behavior, if needed, of companies in a certain sector, as I said. Well I think that, I try to explain to my students in the classes of the regulations of the power sector that I teach, that regulation has to be long, loud and legal. By loud, what I mean is that the regulation has to be strong enough. So the signals, the incentives that are provided have to modify behavior. So if the prices are too low, let's say, of CO2 in the European Emissions Trading system, then you don't change behavior, the clean technologies will not be developed for instance. So loud is important. Also long, so the regulation has to be for infrastructures that have a long economic life, people are going to invest if they think that the regulation is going to last for decades. So it has to be stable, and in order to be stable it has to be legal. So legal means that it's orthodox, that it's not tilted that it creates a level playing field among the different stakeholders. So it's a regulation that could stay. So loud, long and legal make good regulation.

It's true that the sector of regulators are looking for the sector. So they're trying to do the best that they can in gas and electricity but they ignore for instance transportation. Or they're telecommunications, but they ignore electricity. In some cases they have tried to have a regulatory commission that encompasses all the regulated sectors. I don't think this is a good idea. I've been a regulator in two countries. I've been a regulator, a commissioner, in Spain for electricity, I've been a regulator in Ireland, also for the wholesale market and this is difficult enough. So, trying to have experts in telecommunications, transport, water and electricity and gas at the same time is impossible. I think that it is better to have some connection between the regulatory commissions so that they try to smooth out the differences between the different regulatory agencies, but it is better to have sectorial ones, in my opinion.

Well, I think that the regulator should try to, I mean the role is not to establish public policy, so energy policy for instance, which is my field, I mean the major guidelines, the major targets have to be established by governments. Sometimes they come from international relations, and the regulators are looking at secondary regulation and try to implement it. So typically, at that level of values they don't have much freedom, so the values have been decided for them. But it is also true that regulators could take a proactive stance with the respect to for instance clean technologies. They could be neutral and do nothing, or they could realize that secondary regulation is critical to achieve the purposes of the main regulation and then they should to, try to have also a soul. So regulators should not be agnostic. I think that they should also be interested in promoting sound regulation in terms of values, but it is difficult.

The regulation at high level will determine that, let's say the European Commission will agree on some directive to approve on a certain CO2 target. And then, well if the CO2 target is stringent enough the prices of CO2 will be high and those prices will make that the clean technologies will become more competitive with the other, with respect to the other ones, or that practices like for instance driving vehicles that are very polluting, I mean that they consume a lot of fuel and well they are inefficient, they will be penalized. The same thing that is that power plants will be penalized etcetera, etcetera. Or the cleaner ways of transportation will be more successful, more competitive, but as I said those targets are typically established at the international level, or national level and this is not the realm of the regulatory agencies. The regulatory agencies, typically, are working at a lower level, implementing those measures.

Well, I am working now in projects for universal access to electricity in India, in Peru, Kenya, looking at other countries also, and what I would say is that we have to think about regulation in a different way when we are trying to approach these problems. One thing that we have to realize is that in developed countries, in my own country Spain, or I've seen that in the United States, I would say that in all countries in Europe, universal access to electricity in maybe in the forties or the fifties was achieved by subsidies from the people who had access to electricity, that paid a surcharge so that it was possible to extend the grids, provide electricity to everybody and then people were able to pay to maintain, and to pay for the charges, but not for the infrastructure that was needed to reach them. So that means that a certain volume of subsidies will be always needed to reach to the people who don't have access to electricity in many parts of the world. So this is one issue.

Another one is that in many cases we are dealing with countries that have companies that are bankrupt. And, trying to bring, I mean to create conditions for those companies, electricity companies, to invest will be difficult. And sometimes the solution comes from micro grids, or individual solar systems, and those require specific regulation. In many places, I know in India, some other places in Africa, those micro grids are, or standalone solar systems, are appearing without regulation. Companies that realize that people are willing to pay a lot per kilowatt-hour to have a very basic access to a couple of lights and a telephone charger. And then they are, without any subsidy, they are doing their business in providing very basic electricity. I think that regulation there should take care of standardizing those practices to make sure that when electricity through connection to the grid could be provided or later if those people are able to consume more electricity, that they will be able to upgrade those networks, or those systems so that they could have not only the very basic tier one service, but tier two, three, four and have access to a better life. The vast majority of micro grids, except in developing countries, will have to come, I mean will be connected to the grid. So it is, I mean the micro grids, with vocation to be autonomous, all people could do that, or they want to be independent, or they hate the electric utility that is fine. But from economic and environmental reasons, I would say that micro grids make a lot of sense in developing countries when you have long distances from the main grid and make sense in order to reduce vulnerability in developed countries. If people want to have a system, well in case of emergency could be autonomous.