

Regulatory Risk in Gas and Power Markets

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The Honorable Branko Terzic
Managing Director, Berkeley Research Group LLC



Biography



Speaker:

Branko Terzic

Managing Director

Berkeley Research Group LLC

Distinguished Fellow, Council on Competitiveness

Senior Fellow, Atlantic Council

Former:

- Commissioner, US Federal Energy Regulatory Commission
- Commissioner, Wisconsin Public Service Commission
- Chairman President and CEO of Yankee Energy System, Inc.
- B.S. and Honorary Doctor in Engineering from University of Wisconsin – Milwaukee
- Chair, United Nations ECE Expert Group on Cleaner Electricity Production

**Risk = Probability x Consequence
of event of event**

Regulatory events include laws,
orders, rules, decisions, non-
action and agency practices

Risk Categories

- Regulatory
- Execution
- Safety
- Reliability
- Economic
- Environmental
- Technical
- Financial

Regulatory Risk

Regulatory risk is the risk that a change in laws and regulations will materially impact a security, business, sector, or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of an investment, or change the competitive landscape.

Ref: https://www.investopedia.com/terms/r/regulatory_risk.asp

Regulation Objectives

- I. Align financial regulation with infrastructure development policy objectives to foster investment for current and future generations
- II. Create a stable but demanding regulatory framework for infrastructure project procurement that takes in account optimum risk transfer and availability of funding

Thierry Déau

- <https://www.ifw-kiel.de/institute/events/conferences/global-economic-symposium/>

Power Market Requirements

1. “...sufficient number of independent suppliers for a competitive market to be possible...”
2. “...a forward market for electricity where *privately* owned firms are able to sell long term commitments to supply electricity.”
3. “...active involvement of as many consumers of electricity as economically feasible in operation of the wholesale market.”
4. “...a transmission network...[which] must have **sufficient capacity** so that all suppliers face significant competition.”
5. “..a **credible regulatory mechanism** as early as possible in the restructuring process.”

Designing Competitive Wholesale Electricity Markets for Latin American Countries by Frank Wolak, Stanford University April 7-8, 2003

Regulatory Risk Centers

- Legislation

- Federal
- State

- Independent Regulation

- Federal
- State

- Judicial Decisions

- Federal
- State

- International Authorities

- Treaties
- Agencies
- NGO

Trader's Regulatory Risk

Area

- Supply
- Demand
- Market Rules Changes
- Access to Markets

Regulatory

- State (Access, RPS) Fed (DOE),FERC DER DSM)
- State (CA),PUC(CA), Technology (EV,Storage)
- FERC (ISO),CFTC
- FERC & State (Pipelines, Transmission, Courts)

Regulatory Strategy

- “First and foremost, regulatory requirements and/or industry standards applicable to the company are explicitly documented.
- Second, an agreed-upon operating model is in place that addresses the roles, responsibilities, expected control activities, and cadence for each of the identified self-assessment activities.
- Third, findings and observations from the assessments are captured in a report—with ongoing tracking of the corrective actions necessary to further strengthen the control environment for the organization's first line of defense.”

Deloitte <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/regulatory/us-energy-regulatory-outlook-2019.pdf>

Thank you for your attention.
Questions?

Branko Terzic
Managing Director
Berkeley Research Group LLC
bterzic@thinkbrg.com Mobile (703) 919-0164