



EgyptERA PEER REVIEW CASE STUDY



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We aim at setting conditions for the establishment
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EgyptERA PEER REVIEW

How MEDREG empowered
the Egyptian energy regulator
to protect consumers
in a liberalised
electricity market

CASE STUDY



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◆ Overview

Following the adoption of the law 87/2015 in 2015, the Egyptian electricity regulator (EgyptERA) was empowered to become an autonomous institutional entity in charge of handling and developing electricity activities involving producers, transmission operators, distribution companies and end users.

The new law specified EgyptERA's powers, missions, decision-making processes and reinforced the regulator's transparency, independence and impartiality. Although EgyptERA was already enjoying important prerogatives and executing most of its mandates, it **wanted to further enhance its capacities to take on the additional responsibilities** granted by the new law and, in particular, the power to define and impose incentives or penalties to the market players. The Egyptian regulator had been **encountering difficulties in setting cost-effective tariff mechanisms** that could support the Egyptian economic growth strategy and consumer friendly policy while considering the cost of the service provided.

In an attempt to face those challenges and overcome those difficulties, EgyptERA **sought support** to reinforce its institutional capacity in the areas of **tariff setting, prevention of conflicts of interest, consumer disputes settlement** as well as **market opening and competition measures**, in line with the international standard and EU best practices.

In June 2015, **EgyptERA volunteered to undertake an assessment of its independence, duties and enforcement powers, accountability, transparency, and internal organisation.** This assessment, carried out by fellow Mediterranean regulators, was **accompanied by tailor-made recommendations.** With this MEDREG peer review, EgyptERA aimed at harmonising its implementation methodologies in accordance with the standards of the Mediterranean community.

In 2018, **at the end of two years of implementation** of MEDREG's recommendations, **EgyptERA saw its regulatory prerogatives become effective** and its **power significantly strengthen** in:

- ENHANCING TARIFF METHODOLOGY
- SETTLING DISPUTES
- IMPLEMENTING MARKET OPENING AND COMPETITION MEASURES
- INTRODUCING PUBLIC CONSULTATIONS
- IMPLEMENTING TRANSPARENCY TOOLS

This is the story of how we achieved this...

◆ About EgyptERA

EgyptERA, which is the Electric Utility and Consumer Protection Regulatory Agency, is the body responsible for regulating the electricity market in Egypt.

◆ What were the challenges it faced?



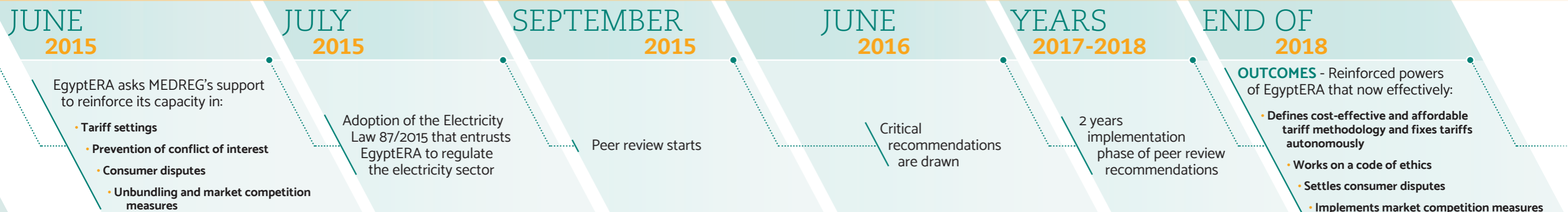
◆ Why did it call on MEDREG?

On a voluntary basis, EgyptERA turned to MEDREG to address those challenges by asking for a peer review.

Through a discussion among equals, EgyptERA solicited an evaluation on its independence, competences, accountability, transparency and internal organisation from other regulators. It aimed to **identify its strengths** and to **receive suggestions** through proposed measures **to improve its regulatory action.** Ultimately, the Egyptian regulator requested support to **make its legal powers and competences fully effective** in order to ensure that **fair rules applied to all electricity market players for the benefit of consumers.**

In particular, it sought recommendations to address the challenges identified above.

PEER REVIEW TIMELINE



◆ How MEDREG helped

MEDREG put together a team of energy regulatory experts from its members with the mission to analyse five regulatory aspects of the Egyptian regulator. **Regulatory peers** from **Algeria, France, Greece** and **Turkey** provided a comprehensive and solid evaluation of EgyptERA's



Each chapter was analysed with reference to a set of “good regulatory principles” established at the Mediterranean level through the use of questionnaires, country reports and a constant dialogue with EgyptERA.

The peer review for EgyptERA resulted in a **tailor-made report** containing **critical suggestions and recommendations** that the Egyptian regulator **implemented over a period of two years**.

◆ What are the Good regulatory principles that EgyptERA wanted to comply with?

PRINCIPLE	DESCRIPTION
INDEPENDENCE	Independence from national and regional government and from the industry guarantees regulatory stability and neutrality and helps avoid situations in which the decisions of the regulator are constantly modified or can be influenced.
COMPETENCES	Duties and powers should constitute a minimum set of competences defining the specific responsibilities of a regulator in order to promote competition and empower consumers.
ACCOUNTABILITY	Accountability refers to how the regulator takes on the responsibility and is able to demonstrate outcomes and results of its regulatory action.
TRANSPARENCY	Transparency in the regulatory process that helps others understand the regulator's work and is beneficial for a proactive stakeholder engagement.
ENFORCEMENT	Enforcement is to ensure market participants' and regulated entities' compliance with rules in order to obtain the public benefit that regulation provides.
INTERNAL ORGANISATION	Effective organisation means having clear decision-making processes and an operative internal structure with distinctions of roles and responsibilities.

◆ Achieved result

As a direct result of the peer review, EgyptERA effectively became competent for:

TARIFF METHODOLOGY

EgyptERA became responsible for **defining the tariff methodology** for the network, end-users, domestic customers and renewable energy sources installations. The tariff methodology was approved by the Government, and EgyptERA ended up **autonomously performing the calculation of tariffs** that were **cost-reflective and affordable** for consumers.

TARIFF SETTING

In light of reports on the cost of services developed by the regulator, **Egypt started a comprehensive reform of its tariff setting**. This progress was supported by the EU technical assistance program in the country and followed a first round of reforms that were implemented in 2014.

PREVENTION OF CONFLICT OF INTEREST

Currently, EgyptERA relies on a **Code of Ethics developed by the government for all public agencies**. Taking stock of this positive step, MEDREG, however, invites EgyptERA to define a specific code that is adapted to the potential conflicts of interest in the energy sector.

CONSUMER PROTECTION AND DISPUTE SETTLEMENT

EgyptERA is now able to **effectively settle disputes**. The procedure in place will be improved according to the EU best practices in consultation with consumers and other stakeholders and with the help of Italian and Greek regulators (ARERA and RAE) through a twinning project. The twinning project, an EU instrument for institutional cooperation, was carried out in 2017 and addressed specific EgyptERA needs that had been identified in the peer review.

MONITORING OF UNBUNDLING AND MARKET COMPETITION

Through the **twinning project** conducted with the Italian and Greek regulators, EgyptERA **identified the different phases that are necessary to open its electricity market**. EgyptERA **set and designed the different market phases and monitoring processes** that will facilitate the implementation of Egypt's power sector reform.



Mr. Hatem Waheed

EGYPTERA EXECUTIVE CHAIRMAN AND FORMER PRESIDENT OF MEDREG

“The analysis and recommendations provided by MEDREG’s peer review activity have empowered EgyptERA to support the opening of a competitive Egyptian Electricity Market, for the benefit of both consumers and industry.”

In addition, MEDREG's recommendations proposed in the peer review contributed to the improvement of other regulatory aspects of EgyptERA:

REGULATORY PRINCIPLE / COMPETENCE	STATUS BEFORE THE PEER REVIEW	ISSUES IDENTIFIED	RECOMMENDATIONS	RESULT AFTER THE PEER REVIEW	BENEFIT TO CONSUMERS AND ENERGY PLAYERS
1 TARIFF METHODOLOGY	The tariff methodology and the calculation of tariffs applicable to the network, domestic customers and renewable energy sources were set by EgyptERA and approved by the government .	EgyptERA needed to enhance its tariff methodology to ensure tariffs that are both cost-reflective and affordable to consumers at the same time. Additionally, although the government approval was necessary at the time due to energy subsidies, it could have hampered EgyptERA's independence .	<ul style="list-style-type: none"> ➤ Define and apply a tariff methodology that ensures fair tariffs for consumers while reflecting the real production, transport and supply costs. ➤ Grant EgyptERA an ex-ante endorsement on tariff methodology in order not to need any ex-post governmental approval. 	The tariff methodology was enhanced , resulting in the adoption of cost-reflective and consumer-friendly energy tariffs . EgyptERA defines the tariff methodology that it submits for government approval. It is also working with the government to reform the tariff setting towards an autonomous calculation and enforcement of tariff performed by the regulator.	Fair tariffs facilitate new investments, which in the long term will contribute to provide safe, reliable and affordable energy to consumers.
2 PREVENTION OF CONFLICTS OF INTEREST	Members of the Board are appointed by the Prime Minister. The Minister acts as Chairman of the Board. There were no cooling-on/cooling-off periods for Board members and no deontology provisions as regards their employment in the regulated energy industry. There was no legal provision that prevented Board members or EgyptERA's staff from holding shares in the energy sector when occupying leading political functions or working at the regulator.	Rules to ensure impartiality and independence from the energy industry and from the political sphere could be strengthened for Board members and staff.	<ul style="list-style-type: none"> ➤ Define a clear policy to prevent potential conflicts of interest in order to limit the exposure to political interference and prevent multiple mandates or professional activities or holding of shares in the energy sector. 	Although EgyptERA does not have a sectorial code of ethics, it relies on the regulation in the public sector . A correct code of ethics should contain rules and guidelines to prevent abuse and corruption and simplify compliance to an ethical behaviour of staff members.	The decisions taken by the regulator are generally neutral and taken free of private or political interest guaranteeing public interest.
3 CONSUMER PROTECTION AND POWER TO SETTLE DISPUTES	EgyptERA was responsible for electricity consumer protection through a complaint management system .	Despite the existence of legal dispute settlement provisions, no dispute settlement mechanism was in place and consumer associations were not involved in the decision-making process .	<ul style="list-style-type: none"> ➤ Consumers should be involved in all phases of the decision-making process through public consultation of draft documents. ➤ An effective procedure should be in place to settle disputes between market participants and consumers. 	Operational procedures for dispute settlement have been developed . Following the twinning project with the Italian and Greek regulators, EgyptERA defined and developed the operational procedures for dispute settlement . Those procedures were approved by the Board of Director, enabling and empowering the regulator to effectively carry dispute resolution .	Consumers have a means to solve their complaints against and disputes with their suppliers in an accessible and affordable way.
4 ABILITY TO REGULARLY REPORT TO THE GOVERNMENT AND THE GENERAL PUBLIC ON UNBUNDLING AND MARKET COMPETITION MEASURES	Once operational, TSOs should be required to submit reports to EgyptERA on market activities and on the challenges and irregularities in the competitive market. EgyptERA is responsible for monitoring the market and ensuring the compliance of the TSO, generators and distributors with the rules of trade and settlement that are proposed by the TSO and approved by EgyptERA's Board of directors.	While some competences can only be used partially due to the immaturity of the Egyptian electricity market, several measures might strengthen EgyptERA in reporting to the government and the general public on unbundling and market competition measures. EgyptERA's responsibility to monitor the market and supervise the unbundling process should increase, moving from the role of a "reviewer" to that of a "decision-maker" .	<ul style="list-style-type: none"> ➤ Set and design different market phases and monitor the unbundling process through the twinning project. 	EgyptERA board of directors were introduced to the different phases that should lead to the liberalised market. The data provided by the utilities is stored in a database. The twinning project with the Italian and Greek regulators (ARERA and RAE), held in 2017, helped EgyptERA to identify the different phases that are necessary to open the market . The Egyptian regulator is currently working with such outputs on a market simulation model.	Consumers should have the choice between different energy suppliers offering competitive services and should be able to choose the option that suits their expectation accordingly.

REGULATORY PRINCIPLE / COMPETENCE	STATUS BEFORE THE PEER REVIEW	ISSUES IDENTIFIED	RECOMMENDATIONS	RESULT AFTER THE PEER REVIEW	BENEFIT TO CONSUMERS AND ENERGY PLAYERS
5 CONSULTATION PROCESS	EgyptERA used different tools to consult stakeholders such as public hearings, written consultations, workshops and meetings with service providers.	<p>Consumers and other stakeholders were not involved in all phases of the decision-making process through public consultation on draft documents.</p> <p>The process to set network tariffs involved stakeholders only through working groups: No obligation on public consultation was set out by the law or by EgyptERA's internal rules. Furthermore, in case of end-user tariff setting, stakeholders were not involved at all.</p>	<p>➤ EgyptERA shall develop a consultation process:</p> <ul style="list-style-type: none"> Regularly consult the main stakeholders on draft decisions before taking the final decision when appropriate, Support the involvement of consumers and their associations in the decision-making process, Actively use the website for disseminating information on regulatory decisions. 	<p>A consultation process has been adopted and should be fully applied once the current reform of the energy sector is completed.</p> <p>Currently, consultations are being conducted on different regulatory issues:</p> <ul style="list-style-type: none"> preliminary consultations on the market, deep consultations on Renewable Energy FIT projects, other consultations were conducted on industrial tariff. 	<p>Consumers participate in the decision-making process and have a say in the definition of rules affecting them.</p> <p>Consumers are able to understand the reasoning behind EgyptERA's actions on one hand and can express the problems they face with the regulated entities, on the other hand.</p>
6 ESTABLISHMENT OF A MORE REGULAR, FORMAL AND RIGOROUS COMMUNICATION WITH CONSUMERS, THEIR ASSOCIATIONS AND THE PRESS	EgyptERA provided information about its role, activities and reports through its website, newsletters, annual reports, flyers, publications, press releases, social media and mobile applications.	<p>All the communication channels of EgyptERA were built independently one from the other.</p> <p>There was no established procedure for regular communication and exchange of views between the regulator and end-user consumers.</p>	<p>➤ Increase the coherence of the various communication tools</p> <p>➤ Actively use the website for disseminating information on regulatory decisions.</p> <p>➤ EgyptERA should publish templates for standardised contracts for users and clearly detailed procedures for licensing.</p>	<p>Through a project implemented with the German international cooperation for sustainable development, GIZ, in the context of the overall restructuring of EgyptERA, the regulator envisages to create two streamlines of work, one devoted to internal communication and the other dedicated to relations with external stakeholders.</p> <p>EgyptERA now also publishes templates for standardised contracts for users and clearly detailed procedures for licensing.</p>	<p>Increased public acceptance of regulatory decisions and of EgyptERA.</p>

◆ Can the peer review be replicated to other MEDREG members?

Members are encouraged to undertake a similar peer review on the aspects of the regulatory powers they would like to see improved and aligned to the best practices and rules adopted among MEDREG members.

In 2018, the Jordanian Energy Regulatory Authority EMRC followed the steps of EgyptERA and initiated a review of its electricity licencing procedure currently being carried out by MEDREG members. The final analysis and recommendations are expected at the end of the year.

Interested members are invited to contact the MEDREG Secretariat at info@medreg-regulators.org

Members can use:

- ✓ the **critical recommendations** drawn for EgyptERA and try to follow them
- ✓ the **Good Regulatory Principles** to self-assess how close or how far they are in respecting and applying these principles and to define what they wish to achieve in the future
- ✓ compare their regulatory characteristics and extend their competence with other MEDREG members in the **Regulatory Outlook** or the **Booklet**, thus showing the MEDREG members' competences at one glance.



State of play of the Egyptian energy market



EgyptERA



Egyptian Electric Utility and Consumer Protection Regulatory Agency

Status

- Established in 2000, EgyptERA became an **independent entity in 2015** and is currently in charge of regulating the **electricity market**.

Independence

- EgyptERA's missions, powers and autonomy were **strengthened by a 2015 law** and **improved** as a result of a **twinning project** led by the Greek and Italian regulatory authorities,
- It **executes its own budget**, made of **mixed financial resources** including public budget, licensing and permit fees and fees for services provided to energy stakeholders, autonomously,
- It is **audited** by an independent third party,
- It applies a clear recruitment procedure although its Board members are appointed by the Prime Minister and although some of them are related to the Energy Ministry,
- Its budget is prepared and approved by the Parliament.

Competences

- It can **access** all the necessary **information** from regulated entities,
- It **sets the tariff methodology**, subject to governmental approval, and **calculates the tariffs**,
- It approves **network access** and **connection** but is not competent to approve or adopt cross-border capacity allocation rules,
- It monitors the **market**:
 - it approves market rules and launches reparatory measures and amendments,
 - it is currently mainly devoted to assessing the existence of the required conditions to allow market opening, with particular reference to competition on the supply side of the market,
 - it observes the compliance of the licensees with the terms and conditions of their licences.
- It **grants all permissions and licenses** to establish, manage, operate and maintain electricity production, distribution and supply activities,
- It ensures electricity **consumer protection** through a complaint management system and initiatives aimed at increasing consumer awareness while vulnerable consumers are subsidised,
- A procedure for **dispute settlement** is in place, but it is meant to be improved and aligned to the EU best practices,
- It is involved in the different phases of the **unbundling process** required by law.

Internal Organisation

- EgyptERA comprises **80 staff members**.
- It decides on its main structure and **recruits its own staff** following procedures set by the Egyptian governmental bodies.

Enforcement

- EgyptERA **issues decisions and regulatory measures** as well as **imposes sanctions** and penalties, ranging from fines to aggravated imprisonment, on supervised entities,
- Its decisions are **binding** and **appealable**.

Transparency and accountability

- EgyptERA disseminates information on its regulations and rules to **inform electricity actors and customers** about their rights and duties,
- It publishes information about its internal organisation, missions, duties and reports on its **website** and through **annual reports**, newsletters, flyers, publications, social media and smart services programs such as mobile applications,
- It organises **public consultations**, public hearings and other meetings. **A consultation process has been adopted** and should be fully applied once the current reform of the energy sector is completed.

Why are regulators important for consumers?

Energy regulators are established to regulate the monopolistic activities in the electricity and gas industries and to prevent conflicts of interest between market participants in generation and supply activities. **Regulators are key institutions to ensure stable, secure and affordable electricity and gas delivery to consumers. Therefore, regulators' capacities and competences are crucial for well-functioning energy markets.**


























What is a peer review?

A peer review is an **analysis undertaken by fellow energy regulators ("peers") of another regulator**.

MEDREG's peer review of EgyptERA comprised of assessing the Egyptian regulator's independence, duties and enforcement powers, accountability, transparency and internal organisation. In other words, the peer review evaluated the compliance of the Egyptian regulator with the Good Regulatory Principles defined by MEDREG.

This analysis was carried out by a team composed of experts from EU and non-EU regulators, all members of MEDREG. **The assessment was accompanied by recommendations aimed at addressing the most important regulatory lacks identified in the review.**

MEDREG members

Albania		ERE	ALBANIAN ELECTRICITY REGULATORY AUTHORITY
Algeria		CREG	ELECTRICITY AND GAS REGULATION COMMISSION
Algeria		ARH	HYDROCARBON REGULATORY AUTHORITY
Bosnia and Herzegovina		SERC	STATE ELECTRICITY REGULATORY COMMISSION
Croatia		HERA	CROATIAN ENERGY REGULATORY AGENCY
Cyprus		CERA	CYPRUS ENERGY REGULATORY AUTHORITY
Egypt		EGYPTERA	EGYPTIAN ELECTRIC UTILITY AND CONSUMER PROTECTION REGULATORY AGENCY
Egypt		GASREG	EGYPTIAN GAS REGULATOR
France		CRE	REGULATORY COMMISSION OF ENERGY
Greece		RAE	REGULATORY AUTHORITY FOR ENERGY
Israel		PUA	PUBLIC UTILITIES AUTHORITY - ELECTRICITY
Israel		NGA	NATURAL GAS AUTHORITY
Italy		ARERA	ITALIAN REGULATORY AUTHORITY FOR ENERGY, NETWORKS AND ENVIRONMENT
Jordan		EMRC	ENERGY & MINERALS REGULATORY COMMISSION
Jordan		MEMR	MINISTRY OF ENERGY AND MINERAL RESOURCES
Libya		ME	MINISTRY OF ELECTRICITY & RENEWABLE ENERGY
Malta		REWS	REGULATOR FOR ENERGY & WATER SERVICES
Montenegro		REGAGEN	ENERGY REGULATORY AGENCY
Morocco		MEM	MINISTRY OF ENERGY, MINES AND SUSTAINABLE DEVELOPMENT
Palestine		PERC	PALESTINIAN ELECTRICITY REGULATORY COUNCIL
Portugal		ERSE	ENERGY SERVICES REGULATORY AUTHORITY
Slovenia		AGEN-RS	ENERGY AGENCY OF THE REPUBLIC OF SLOVENIA
Spain		CNMC	NATIONAL COMMISSION ON MARKETS AND COMPETITION
Tunisia		MEMER	MINISTER OF ENERGY, MINES AND RENEWABLE ENERGIES
Turkey		EMRA	ENERGY MARKET REGULATORY AUTHORITY

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