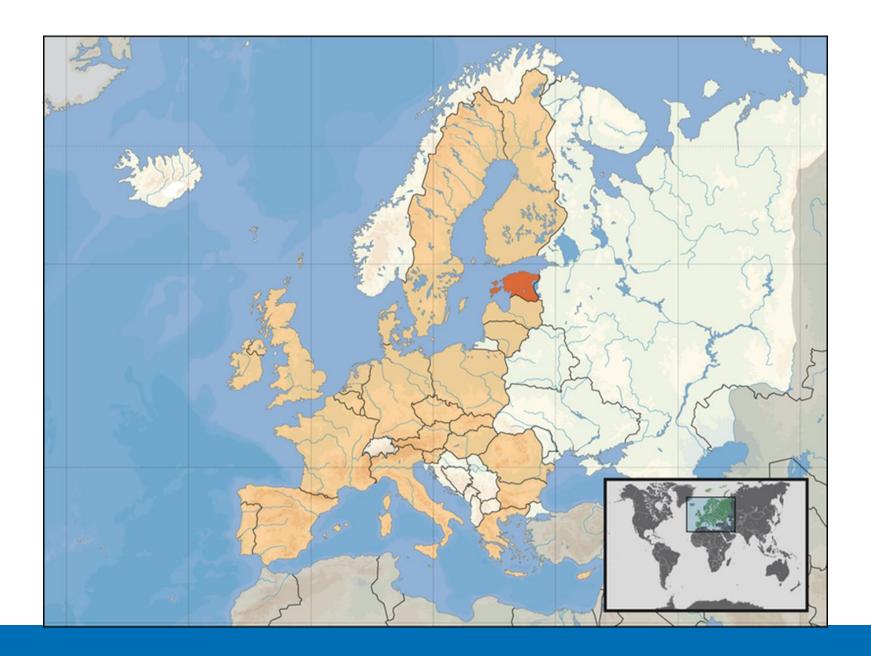


Regulatory Policy in Estonia

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General Information about Estonia

Small country:

area: 45 227 sq km;

population: 1 290 000

Independent state before the World War II (1918-1940)

Member of EU since 2004

Member of eurozone since 2011

Administrative Reform

Merger of different authorities in 2008:

- Competition Authority
- Energy Market Inspectorate (electricity, gas, district heating)
- part of the former Communications Board (telecom, postal sector)
- Railway regulator (functions of the Railway Department of the Ministry of Economic Affairs and Communications)

Objectives of the Merger

General objective - to save costs on state administration

As of 2014 main support services (book-keeping, IT) have been centralised

Administrative staff of 5 people out of the total 55 employees

Synergies on different regulations – overlapping functions

Concentrating the economic regulation to one single administration: water; airport services, pharmaceuticals being discussed

Creating a bigger, more powerful authority – too small authorities with 10 to 20 employees

New Duties since Merger

2011

Regulation of small district heating undertakings

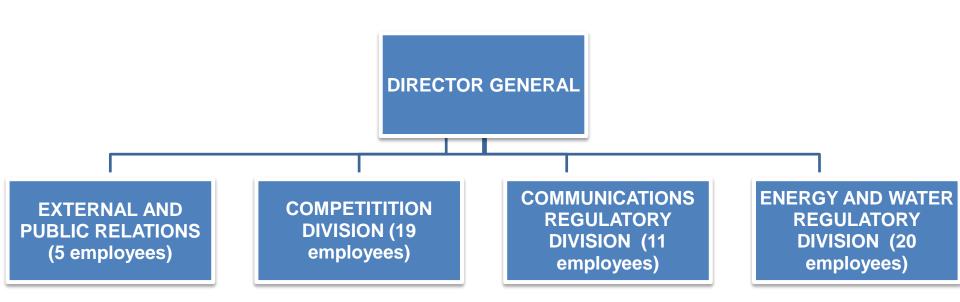
Regulation of water sector (former task of local governments)

Regulation of airport tariffs (based on EU legislation)

2014

Transferring telecom regulation to the Technical Surveillance Authority

Structure of the Authority



Different Types of Agencies

- Multisector regulator
- Competition + multisector regulator.
- Competition + consumer protection.
- Competition + multisector regulator + consumer protection.

Management

Head of the agency: Director General (DG)

Appointed and dismissed by the minister. Fixed term max 2 times 5 years. Dismissal only possible by serious misuse

The heads of the divisions are also deputy DGs.

The first deputy is the head of the competition division.

The DG may take personal decisions, but the decisions need to be **signed both by the head of division and by the DG.** The right to make personal decisions has not been used.

Independence

The Agency is independent in decision making process.

The decisions can be appealed to the court (administrative court, the district court, the supreme court)

Number of court cases per year: 5-6

The decisions can not be revoked or changed by the government, minister, etc

Financing

Financed from the state budget

- Annual budget 1,9 million EUR.
- The budget is approved by the Ministry of Economic Affairs and Communications.
- Independent in spending, the budget adopted by the parliament.
- Rules for the next year's budget are set by the Ministry of Finance. General rule, the same amount as previous year + additional tasks set by the law.

Divisions

Competition

anti-cartel activities, control of market domination, control of concentration, market analyses

Energy and water

sector regulation of electricity, natural gas, district heating and water

Telecommunications and railway

sector regulation of telecom, post, railway and airports

Specific Aspects in Regulation

Small country, small organisation, but large number of regulated utilities:

- 1 power TSO + 35 DSO's
- 1 gas TSO + 25 DSO's
- 150 district heating utilities
- 70 water utilities

Cost+ type of price regulation – "strong handed regulation".

- Operating profit = RAB×WACC
- Efficiency demand on operating costs

Electricity and Gas

- The third EU energy liberalisation package (directives 2009) puts a number of competition tasks on the regulators
- Monitoring the level on competition and market opening on both wholesale and retail level
- Very liberal market design in electricity: no price regulation on generation nor on households tariffs. Strong cross-border connections
- In principle the regulator should deal with network issues only: price regulation, third party access, cross border capacity allocation, network development plans, service quality, etc

Water and District Heating

- No EU rules on price regulation, in many Member States regulated by to the competition act, in some Member States "municipal services"
- Water natural monopoly. Clear need for price regulation. Conflict of interest before - local government both the owner and regulator. The prices were too low.
- District heating "DH zoning" in Estonia. Today ongoing discussion on sector liberalisation.

Telecom

Well functioning competitive market in Estonia.

Sufficient number of service providers

- 3 mobile operators
- A number of fix line service providers
- 4G connections

EU regulation foresees the existence of the telecom regulator

- Regulation of mobile termination rates
- Regulation of access to the transmission lines, etc.

Depending on market situation, in Estonian case the sector could be ex-post regulated.

Challenges of the Combined Authority

- Cost savings on administration not a strong argument anymore
- More ambitious view from the competition authority. Market is the best regulator. The regulator can never be as efficient as the market is.
- Sector liberalisation instead of stronger regulation.
- Synergies in sector cases (energy, telecom, water, post).
- Avoiding situations where the regulator has no tools, but competition authority lacks interest to deal with regulated sectors.

Challenges of the Combined Authority

Large number of responsibilities – the agency head is an administrator instead of dealing with sectoral issues (competition + regulator + consumer protection)



Thank You!

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