



REPUBLIC OF ESTONIA  
COMPETITION AUTHORITY

# Regulatory Policy in Estonia

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Director General

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# General Information about Estonia

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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

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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

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- ❖ **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

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## **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

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**DIRECTOR GENERAL**



**EXTERNAL AND PUBLIC RELATIONS (5 employees)**

**COMPETITION DIVISION (19 employees)**

**COMMUNICATIONS REGULATORY DIVISION (11 employees)**

**ENERGY AND WATER REGULATORY DIVISION (20 employees)**

# Different Types of Agencies

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



# Management

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## **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

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**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

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## 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

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## **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

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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 =  $RAB \times WACC$
- Efficiency demand on operating costs

# Electricity and Gas

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- ❖ 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

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- ❖ 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

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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

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- ❖ 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

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



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# Thank You!

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