



ACER Public Consultation
Discussion Paper on Energy Regulation: A Bridge to 2025

CEDEC Answer

Brussels, 17 December 2013

CEDEC welcomes the opportunity to comment in this pre-consultation phase on Acer policy priorities until 2025. CEDEC believes this consultation is timely, with regard to the manifold structural changes in the energy sector.

Question 1: Do you agree with this overall approach? Would your emphasis be any different?

In general, CEDEC much appreciates the integrated approach taken by ACER. Against the background of the changing energy system, an integrated and all-encompassing stance is needed to tackle the challenges ahead.

However, CEDEC misses the aspect of reliability in the document. Reliability is essential to consumers. Reliability of services is furthermore a major concern for actors in the energy system, such as local energy companies and hence a main policy objective, which should be addressed.

Consumers and Distribution networks

C1. Do you think that further European level measures should be taken to enhance the operation of retail markets to the benefit of consumers?

In general, in CEDEC's view there is currently no need for further measures at European level to enhance the operation of retail markets to the benefit of consumers. With the Third Energy Package, a broad legislation has been implemented leading to i.e. more transparency to the customer through wide information given on the energy bill. Moreover, CEDEC considers the 2020 vision for energy customers from ACER and BEUC a good guideline for the future energy retail market. This document is endorsed by CEDEC as it sets the ground for future efforts by all actors to arrive at a retail market based on the guiding principles; reliability, affordability, simplicity, protection and empowerment.

For vulnerable consumers, there is a number of energy policy and social policy measures in place in Member States. Local public utilities also offer different services for this group of customers, such as energy efficiency advices, payment by instalment to the installation of pre-paid meter. In order to

react on customer needs, it is important that the supplier is free to decide which instrument is used to support vulnerable customers. It would be counterproductive if these measures were regulated by additional legislation.

C3. What are the main questions that you consider the proposed CEER review should address with regard to the future role of DSOs and also to ensure that the regulation of distribution networks remains fit for purpose in 2025?

As the agency correctly outlines in its paper, an increasing decentralisation of the energy supply, new technologies and their application, such as smart grids and meters and growing electrification of the heating and transport sectors as well as a greater activation of the demand-side and the emergence of new actors in the energy markets, contribute to an ever-increasing complexity on the distribution level. Distribution system operators (DSOs) face extended tasks and responsibilities which will contribute to making them even more active managers of this very dynamic and complex system.

DSOs need to be equipped with the right tools in order to fulfil their responsibilities. Under the premise of network security and integrity as their main responsibility DSOs should be responsible for the management of the data emerging in a smart grid environment. For this, increasing quantities and quality of data about supply and demand is becoming indispensable. Most of the data is deriving from the meters, which is in most countries the DSO domain and needs to be obtained primarily to ensure grid stability. Additionally, it will be of interest for third (commercial) parties, such as aggregators, ESCOs and suppliers to offer their services. Consequently, a non-discriminatory access for these parties must be ensured. A regulated DSO is ideally placed for this. At the same time, it can ensure data privacy for the consumer, which is an essential safeguard for consumers and will enable consumer trust.

Apart from data management, DSOs will be confronted with many additional tasks in order to ensure a smooth grid and market functioning mainly due to a changed generation landscape (charging stations for electric vehicles, ancillary services, etc).

Unbundling: In CEDEC's view the unbundling rules from the Third package –correctly implemented, applied and reviewed - are sufficient for guaranteeing a satisfying response of DSO's in view of the future challenges. As established by the CEER status report 2013, DSOs are making good progress in implementing current rules. Therefore, before considering new steps, a full implementation of the Third package and a complete and coherent assessment should first be achieved.

Network tariffs: In CEDEC's view, in most countries, incentive regulation schemes are not fit for future challenges. The focus on steady cost-reduction does not reflect the reality of massive investment needs in distribution level infrastructure¹. They also do not recognise the great needs for research and development as well as changing costs structures (ICT vs copper).

¹ The IEA estimates the necessary investments in European distribution grids to amount to 480 billion by 2030.



Therefore, CEDEC considers it useful for the agency to address this issue in its future work and to come up with recommendations for national regulators to innovate their incentive regulations schemes to effectively and efficiently support the transition to a smart energy system.

Infrastructure for electric vehicles: CEDEC believes that DSOs already have and can continue to make a contribution to the uptake of electro mobility by providing the necessary charging infrastructure for electric vehicles. While there is currently no business case for deploying public charging infrastructure that sufficiently covers larger geographical areas, DSOs shall be allowed to roll out the infrastructure as part of their regulated asset base.

Managing the grids to which the charging points are connected, this will also give them the opportunity to closely monitor the effects the EV charging will have on the networks and counteract any negative consequences. In many Member States, regulatory barriers remain for DSOs to deploy this infrastructure. CEDEC would appreciate if the agency addresses this issue in its green paper.

Electricity

The completion of the internal market should be focused, especially the further development of cross-border points. But not only the development of cross-border points, but also the extension of the transmission network within some member states plays a vital role. The present discussion regarding bidding zones is reflecting that. To split existing bidding zones or to reduce the size of bidding zones will decrease liquidity and lead to higher prices for consumers. The problem of loop flows can be solved in the short and medium terms by implementing (virtual) phase shifter and cross-border re-dispatch rules. As far as the transmission grid will be developed based on the national grid development plan, loop flows will be reduced.

E2. Should we seek to further define, measure and develop flexibility in addition to the initiatives that are underway? If so, how could this best be done and in which market time periods?

In order to create more demand-side flexibility (DSF) in the system, in the short-to medium-term CEDEC's sees the potential on the medium voltage level. To advance DSF, the development of demand-response could be facilitated through more structure initiatives, for example through the provision of better information for customers about the advantages, definition of responsibilities and obligations, customer conformity checks and local network checks. In the longer-run as more smart appliances will be in pace, CEDEC sees increasing potential on household level.

E3. What are the market-based routes for flexible ‘tools’ to participate?

In principle, flexibility should be market-based. However, for DSOs the stability of the grid is the central concern. Therefore, if a problem occurs at grid level, DSF can be an important tool for DSOs to solve these and in this context, should, not be seen as a market-based tool.

E4. What measures may be required to ensure that the market receives the most appropriate signal for the value of flexibility?

Allocating a value to flexibility is currently quite difficult as, primarily households, lack flexible equipment. At present, night storage heating could count as flexible consumer equipment, which already has different tariffs, for example in Germany. However in the future, electric vehicles could provide additional flexibility. CEDEC’s German member, the association of public utilities, VKU, published a detailed study for a future market design, which addresses the issue of allocating a value to flexibility.²

E5. Do you think that other, for example institutional arrangements should be considered? Is greater TSO and DSO coordination required? If so, what should NRAs do to facilitate this?

Institutional arrangements may be required to define clearly the scope of the DSO’s action field in the domain of flexibility, i.e. what services should the DSO facilitate for other parties to use the flexibility on the distribution grids; how can the DSO use flexibility for its own grid management; should all flexibility from consumers connected to the distribution grid only be available through a flexibility market, or could it also (to a certain capacity level) be made enforceable.

Greater coordination between DSOs and TSOs seems obvious, especially in the case where services from consumers/prosumers (via aggregators, ESCOs,...) connected to the distribution grids are delivered to TSOs. Here, DSOs have an important role to play to make sure this service will be physically delivered to the TSO within a certain time-frame. The NC LFCR and NC EB provide a first step for the DSO involvement in the form of a prequalification.

Close coordination, but also enhanced cooperation with TSOs will be needed in case other market participants use flexibility on the distribution grids, since this will also have an impact on the transmission lines. In this context, DSOs will have to know what is happening on their grids and should therefore always be aware of all information exchange with consumers on their grids. Preferably this information passes through the DSO data systems.

² VKU, 2013, Integriertes Energiemarktdesign, English version available here: <http://www.vku.de/energie/energiemarktdesign0.html>

TSOs should however acknowledge that a distribution grid is not built and managed in the same way a transmission grid is, and as a consequence cannot simply be seen as an extension of the former. The distribution grids differ widely through Europe and should also be recognized as such.

The facilitating role of the NRAs could be to watch and protect the DSO's role in placing flexibility on the distribution grids at the disposal of all interested parties.

E7. How can NRAs support, or incentivise TSOs and DSOs to invest in 'smart networks'.

What actions are needed, in particular from regulators, to promote more active distribution networks? Do we sufficiently reward avoiding 'dumb' investments?

In many European countries, network tariffs are 100% volume-based, meaning network tariffs are charged for each used kWh. With an increasing share of prosumers and through successful energy efficiency measures, less electricity, gas and heat are transported through the networks. While this is contributing to the EU energy and climate objectives, it decreases the revenue for DSOs dramatically. At the same time, however, the network needs to be maintained, reinforced and extended and even consumers with micro-generation will continue to be dependent on the grid during certain times of the day and seasons. Moreover, for DSO's the cost driver of the network is supply of (peak) capacity rather than the volume.

Consequently, a mixed tariff structure based on the capacity of the connection and the volume used, may constitute a feasible alternative, allowing network operators to recover their costs in a more balanced and consistent way (see for example in the Netherlands). In order to incentivise the necessary investments for the deployment of smart grids in Europe, CEDEC advocates for cost-reflective regulatory frameworks that recognize investments in innovative technologies, adapt to changing CAPEX/OPEX structures and minimize the time-delay between investments and adaptation of revenue caps.

Apart from adequate incentive regulation frameworks, supporting funding for smart grid demonstration projects has been provided by some NRA. As DSOs will be the main actors in the deployment of smart grids at distribution level, they are leading in pilot projects for smart grids deployment and especially with focus on consumer behavior. Regulators could incentivise the R&D activities with funding mechanisms. Ofgem's Low Carbon Network Fund providing £500 million over five years for smart grid pilot projects is a good practice example, for regulators in this regard.

E9. To what extent should the relationship between competition in electricity and gas markets influence regulators' activities? Could regulatory action on the gas market, help solving the flexibility problem of the electricity market?

We need to develop an energy approach instead of a separated Electricity and Gas approach, a holistic, integrated view is best to reach energy and climate objectives.

Gas

G4. Would efficient use of existing infrastructure and the building of efficient new infrastructure facilitate competition between gas producers?

An efficient use of existing infrastructure as well as the extension where necessary might help to facilitate competition. However, with the currently limited numbers of big gas producers it is not a guarantee for competition. Hence, it is also very important to diversify supply through the stimulation of the use and production of local biogas.

G11. What actions could be taken to further integrate market zones, given the uncertainty regarding costs and benefits of integrating market zones?

First of all, the existing Gas Target Model should be completely implemented as it would increase liquidity. As a first step, the integration of entry/exit zones is necessary for a well-functioning and effective market which should be introduced in each Member State.

A creation of a trading region covering more than one country does not seem effective and should not be taken into account, especially if the trading region model contains “national end-user zones”. Regarding distribution and balancing, CEDEC is concerned that the common virtual point could be seen as two different points from an economic point of view. A national distribution is likely to have the same effects as “limited assignable capacity” in large existing market areas, such as Germany. For the utilisation of the grids, it would appear as two market areas. It is not seen that a trading region provides conditions for the creation of a homogenous market. CEDEC believes that the mentioned points are not suitable to achieve the goal of a single market.

A possible enlargement of market areas beyond national borders (creating cross-border market areas) is, in general, seen as a positive issue, as this could lead to a higher liquidity and additional trading possibilities. For a smooth implementation, technical, legal and regional barriers should be addressed. Furthermore it should be made sure that the amount of socialised costs (e.g. due to higher transmission costs or apportionment of system energy costs) does not diminish the advantages created through additional competition. An integrated consideration of costs also applies for the reliance of services, such as transportation.

G15. What concrete possibilities for demand response in gas do you envisage?

In general, the potential for demand response is much smaller on household level, due to the limited availability of sizable shiftable loads. A limited potential can be expected for small- and medium-sized enterprises.



CEDEC Background information

CEDEC represents the interests of local and regional energy companies.

CEDEC represents 1500 companies with a total turnover of 120 billion Euros, serving 85 million electricity and gas customers & connections, with more than 350.000 employees. These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid & metering operators and energy (services) suppliers.

The wide range of services provided by local utility companies is reliable, environmentally compatible and affordable for the consumer. Through their high investments, they make a significant contribution to local and regional economic development.