ACER Consultation on « Energy Regulation : Bridge to 2025 »

EDF Response

17th December 2013

EDF agrees on the importance of developing both a longer term and broader thinking on energy markets in order to prepare the most adequate regulatory framework that can be anticipated at a 2025 horizon. EDF therefore welcomes this ACER consultation and understands that this is a first step towards more precise proposals that will be submitted to consultation next year in order to finalize a Green Paper by mid-2014.

Energy policy and energy market developments are closely linked though the objectives pursued are slightly different. Furthermore, the sharing of competences between the EU and Members States also differs on these issues. Energy Policy objectives are to ensure security of supply, competitive energy supplies, and sustainable development. Internal Energy Market objectives are the promotion of competition (efficiency, competitiveness, customer choice, etc.) and of integration (fostering cross-border exchanges, market coupling) in order to contribute to a secure and competitive supply. Currently there is no unique solution that achieves all three of these policy goals simultaneously, suggesting that tradeoffs are necessary.

The development and functioning of energy markets has in recent years been highly impacted by the ambitious energy policy objectives EU and national policies have defined. One should not forget that one of the main objectives remains the decarbonization of the economy. In this respect, the carbon price should be the main driver to achieve the target in the most cost-efficient way. In the same economic perspective, RES support schemes can only be consistent with the internal market as long as the related volumes are consistent with system needs.

While current policies have resulted in CO_2 emissions falling in Europe over the past five to ten years, the current policy mix remains inconsistent and not cost effective. Current polices have in fact led to significant regulatory/political national interventions in various parts of the internal energy market making it more fragmented, undermined and increasingly irrelevant. For instance, the increased RES generation and Energy Efficiency measures have undermined the EU ETS price and thus encouraged increased emissions in other parts of the electric generation mix (for example from increased coal generation). The emissions reductions achieved by RES have as a result been offset by higher emissions elsewhere. Similarly, the investment climate in Europe has become either very generous (for subsidised investments paid through higher prices) or very unattractive (for conventional/backup generation). This

increases the threat on security of supply because of potential capacity shortages as conventional generation closes.

In this context, we would like to stress that it is of the utmost importance to define a clear and stable policy framework with non-conflicting objectives while keeping the energy rationale and economic efficiency in the scope. Indeed, one major objective of regulation is to improve economic efficiency. Regulatory tools can however not solve incoherence resulting from conflicting political objectives. EDF believes some structural issues for policy makers remain to be dealt with (structural reform of the ETS, RES support schemes, capacity mechanism,etc.). The regulatory framework shall also be clear and stable and it shall incentivize economically efficient decisions. Continuous efforts should be undertaken to establish **a process of structural adjustments with roadmaps and milestones to build a sustainable and predictable European framework** and deliver a robust carbon price signal in the medium and long terms, preventing the volatility which generates stop-and-go effects and makes investment decisions difficult.

The already ongoing integration process (target models) and the existing legislation shall not be forgotten. They still have benefits to deliver. Considering the complexity and diversity of the wholesale and retail markets, one should maybe question whether integration goes along with total harmonization or just the adequate level of harmonization needed to deliver the most of the efficiency or of the gains expected (in other words are uniform solutions the best and the most cost-efficient ones?).

Europe needs to make efforts to adapt its energy system and reduce its emissions. Developing the adequate regulatory framework for the future implies coming back to the basics by promoting economic and cost efficient measures. It means prioritizing discussions, opting for pragmatic approaches, and assessing regulatory proposals through cost-benefit analyses. EDF is convinced the best way to achieve these goals is to have a relevant and stable CO_2 price signal that encourages investment in low carbon technologies. This would help set Europe on a path towards an efficient and "clean" economy that over time becomes less dependent on imported fossil fuels with potentially high and volatile prices. An appropriate bridge to 2025 should, at a manageable cost, help avoid potentially much higher costs and risks of shocks to the economy in the future. At the same time it would also give Europe an opportunity to develop into a global clean technology leader.

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

ACER presents a threefold diagnosis at a 2025 horizon, identifying a need for (i) more flexibility, (ii) more competition and (iii) a smarter world.

- Flexibility may probably be of growing importance in electricity (both upstream and downstream) and in gas. However, **flexibility is just one aspect of the adequacy issue, the other being the capacity issue**. None is more important than the other. Both are necessary and the

regulatory answer will have to be based on a level-playing field for all technologies and contributors (whether generation, demand side or storages).

- By more competition, we understand a stance towards economically efficient solutions while avoiding distortions.
- The smarter world requires the development of a proper regulatory framework. Smarter meters are expected to encourage consumers to be more active on the market. Smarter networks will help network operators better manage their networks, for the benefits of all. The framework should clearly define the roles and responsibilities of all, so as not to create additional confusion and add complexity to a market where the consumer is expected to play a part.

Question 2: Do you agree with this broad analysis and/or do you have further suggestions?

The exercise proposed by ACER is not simple. A lot of undergoing initiatives (implementation of target models, of network codes, etc. both in electricity and gas) will help tackle many of the challenges identified by fostering integration and delivering the expected benefits. **It is therefore difficult at present to look beyond the enforcement of existing legislation and implementation of the target models that have not been fully implemented and therefore that have not delivered yet all the expected improvements (notably the flexibility needed but also the competition).**

The 3rd Package adopted in 2009 for example, crucial piece of legislation in many aspects (whether regional integration, consumer rights, etc.), only starts (after 3 years) delivering some results. Things are improving both on the wholesale and the retail market, but the legislative provisions still have to be properly implemented everywhere.

Question 3: Do you think the list of suggested measures is complete or do you have further suggestions? Do you think that the requirements for infrastructure investment in gas are the same as in electricity? What further ideas do you have on the future role of consumers?

Once the proper policy framework is set, regulation can indeed accompany and adjust market developments. In this respect we do agree with the possible contribution of regulators listed in the document.

Electricity

E1. Although adequacy issues are not likely to disappear completely, do you agree that the current primary focus on levels of adequacy will likely be expanded to emphasise a later priority focus on flexibility?

Capacity and flexibility adequacy are both necessary to deliver, through market mechanisms, the level of security of supply desired by public authorities. They are two different issues that need to be addressed separately.

- Sufficient flexibility is needed to match shifts in both supply and demand

  Flexibility is the ability of power plants and demand-response to ramp up and down, to frequently compensate power deviations generated by load or generation close to real time. Most capacities are flexible but to a different extent, with different constraints and a different level of control. Sufficient flexibility is needed by TSOs to ensure requirements regarding the operational security in the grid.

- Sufficient overall capacity is needed to meet peak demand with low enough risk

  Each generation plant or demand-response installation has a maximum generation capacity and an expected performance at peak load (e.g. due to planned and unplanned availability for power plants). Sufficient capacity is needed into a system to control the risk of supply-demand imbalance within minimum security standard. However, unlike flexibility, total capacity is usually used only a few hours each year, even though it contributes to lowering the risk every day.

ACER itself acknowledges that Generation Adequacy implies both (i) Resource Adequacy (providing « Enough Capacity ») which is the existence of a « sufficient » level of capacity in the system to meet demand all along the year including peak and (ii) Operational Reliability (providing « Enough Flexibility ») meaning maintaining a « sufficient » level of flexibility to balance the electricity system in response to demand and generation variations (sudden).

The market alone cannot guarantee that the capacity spontaneously developed by investors facing pure energy markets provides the requirements for “capacity adequacy” neither “flexibility adequacy”. The market will deliver a certain result but this might not be the level required by public authorities (level of security of supply) or TSOs (reserves dimensioning).

Uncertainties and needs for both capacity and flexibility may differ from one country to another (amplitude, timeline) but each Member State is facing or may face both issues in the future.

With the growing share of intermittent renewable energy sources, the need for flexibility in the grid may increase in the future. Current initiatives (e.g. the future application of European network codes) are expected to tackle this issue. Consequently, the later priority should focus on existing initiatives and their practical implementation rather than additional measures.

When considering flexibility, we believe that all different sources of flexibility (generation, demand response, storage and interconnections) should be considered on a level-playing field with the objective of delivering flexibility in the most cost-efficient way. This should obviously not exclude a focus on capacity nor does it imply a shift in priority focus from adequacy to flexibility.

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?

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

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

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?

The implementation of the current target model should provide adequate tools to tackle the "flexibility" issue.

- Integration of balancing requirements mechanisms (NC Balancing)

  The development and the integration of market-based balancing requirements mechanisms across Europe should enable TSOs to procure and activate the required volume of balancing services in the most cost-efficient conditions. With the growing share of intermittent renewable energy sources, the need for flexibility in the grid is expected to increase in the future, which might lead to reinforce the constraint and consequently the value of flexibility. Revealing this value is essential to ensure potential investments required to fulfill the requirement but also to more precisely assess the cost of future energy policies.

  Further integration of renewables into the market by giving them balancing responsibility should also provide additional economic incentives to have better generation forecasts and thus reduce system imbalances and flexibility needs. The integration of growing amounts of RES must in any case go along with the obligation for such facilities to contribute to ancillary services.

- Integration of intra-day energy markets (NC CACM)

  The development and the integration of market-based continuous intra-day markets across Europe, combined with financial imbalance settlement mechanisms applying to balancing responsible parties, should incentivize market players to reduce physical deviations that affect operational security in real time.

EDF fully supports the Commission's approach of extending market coupling (i) geographically and (ii) to intraday and balancing markets. The electricity markets are a really successful instrument which, given the infrastructure constraints, ensure optimal use of available capacities and thus deliver energy to the customers at the most cost-efficient conditions. Market coupling is a pragmatic and efficient solution to make the most of existing interconnection capacities.

DSOs should be responsible for monitoring their local network. DSOs should consequently be in charge of carrying out studies to assess the need for future development in this network, providing certification and controlling balancing services capabilities connected to this network. DSOs should indeed better coordinate with TSOs in terms of exchange of information but the provision of services should be left to the market.

E6. How should regulators facilitate demand side participation (including demand side response and electricity storage)?

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?

First, it is essential to distinguish demand side participation to flexibility (demand side response, ability to one-time curtail or postpone the load) from demand side participation to energy efficiency (energy savings, ability to structurally reduce the load). Energy savings do not provide any services with regard to flexibility issues.

All balancing services, provided from both generation and demand side, should participate to the same "technology neutral" playing field to promote competition and thereby cost-efficiency in the system. The regulatory framework shall facilitate the development of demand side response and storage facilities if cost-efficient while revealing the value related to their contribution to fulfill flexibility adequacy requirements.

Fostering demand response implies a clear definition of roles and responsibilities of the various stakeholders.

Subsidies should be focused on fostering R&D to promote the emergence of a promising technology for smart networks and demand side participation. Technology specific aid, when necessary to foster this innovation, should be granted to a limited number of installations.

E8. How should NRAs influence the competition debate, for example on support schemes, regulated tariffs, capacity remuneration mechanisms, etc?

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?

E10. How should regulators remove barriers to entry for new supply sources?

E11. What actions, identified in these papers, should regulators prioritise?

National measures complementing European rules appear legitimate from member States' point of view. These measures should be designed in such a way that they do not harm cross-border trade or negatively impact the internal energy market.

- **Support scheme to meet energy and climate objectives:**

Current support schemes need to evolve or to be reshaped as some of them are no longer sustainable or justified. EDF believes that costly support policies need to be phased out as soon as practicable beyond 2025. Until then, a clear monitoring and control of the related public subsidy remains necessary. EDF strongly believes that the only way out to ensure the success of the current energy and climate policies is to give priority to the carbon price signal and to market integration so as to follow the most cost-efficient decarbonisation path.

Technology specific subsidies may be still needed to bring innovation to mass production. EDF supports a clear, stable, market-based and targeted approach, which enables the emergence of promising technologies still not commercially viable in large series. The approach needs to be refocused towards R&D and targeted measures such as demonstration projects. However, for each technology, this aid should be granted to a limited number of installations.

As a matter of fact

- Among all technologies emerging from R&D, it is necessary to target the most promising solutions & control the volume of subsidies during this intermediate phase.
- Adequate instruments (e.g. tendering processes, contracts strictly limited to a limited volume of installations) should be used to foster demonstrators, "first of a kind" and "n of a kind" projects.

Even with improved or targeted support schemes, it should not be forgotten that the development path of renewables – as of any other generation means – must stick to system needs. The disconnection between subsidies and real system needs results in overcapacity and stranded costs. The way renewables are integrated in the market must indeed be improved so as to restore a well functioning merit order. As for any other generation type (and as this variable production cannot be stored on a large scale), RES facilities should be operated when economically efficient and disconnected when they are not (negative prices on spot markets). From a system point of view, the integration of these growing amounts of RES must in any case go along with the obligation for such facilities to contribute to ancillary services, and thereby to a secure system operation.

- Capacity adequacy

Security of supply is the most important requirement for the majority of customers. An "energy-only" market (even with greater interconnection capacity, no price caps and more efficient wholesale markets) cannot guarantee the balance between supply and peak demand at a controlled risk level. Considering the political and economic impacts of power shortages on their citizens and companies, it is legitimate for Member States to make sure that this issue is addressed by creating an obligation the energy industry will have to comply with. Solutions should be promoted to ensure this obligation is satisfied in the most cost-efficient way by revealing through a market-based mechanism the scarcity value of the capacity.

Well-designed capacity mechanisms should:

- create a level playing field for all actors, all different technologies, and all capacities (be it demand-response, storage, new or existing, peak, mid-merit or baseload generation).
- be market-wide. Any capacity providing the system with the same contribution to security of supply should play an equal role into the mechanism.
- be based on a transparent and consistent capacity adequacy obligation assessment.

In particular, methods and criteria to assess capacity adequacy and the contribution of cross-border exchange capacities to reduce each national capacity needs should be taken into account on a consistent and transparent way between Member States.

Regulation has an important role to play in promoting transparency and good practices in this respect.

- **Support for the development of interconnections**

Interconnection is a key component to contribute to the internal energy market efficiency. The development of interconnections should be promoted when it is economically efficient: cost-effectiveness is a decisive parameter to ensure the sustainable competitiveness of the energy supply in Europe.

In this respect, the current process of prioritizing Projects of Common Interest (PCIs) must ensure a pragmatic and efficient approach. It is indeed essential to ensure that the selection of these projects does not hinder the development of more cost-effective solutions (generation, demand-side management, or storage)) which would in the best case generate inefficiency and in the worst case distort the market or constitute a hidden cost favoring some type of generation (e.g. variable generation). To do so, the use of transparent Cost and Benefits Analyses (CBA) should be ensured in all cases.

- **Regulatory actions related to increasing interactions between gas and electricity markets**

Current interactions between short-term electricity markets (balancing and intraday) and downstream gas supplying conditions may undermine the ability to benefit from cost-efficient flexibility available on gas power plants. EDF agrees introducing more coordination between regulatory actions on both markets should be considered in the long run to solve this issue.

Gas

As a preliminary comment, EDF would like to stress the importance of the coherence between the gas target model review process and the bridge to 2025 as they address very similar issues. In this regard, the reason why two different processes are used is not completely clear.

G1. Do stakeholders agree with our view of the gas specific strategic context and in particular with our views on:

- Declining demand for gas, and in which sectors such decline is seen;
- Increasing role of imported gas and uncertainty surrounding unconventional gas supplies in Europe; and
- Increasing role for a flexible gas supply to support growth of renewable electricity generation.

EDF's views on gas fundamentals are quite similar to those developed by ACER.

G2. Are concerns about competition in gas markets and concerns that liquidity at most hubs is insufficient to achieve functioning wholesale markets sufficient to warrant some form of intervention?

G3. Should increased market integration be sought to address issues of non-competitive markets and a lack of liquidity? Are there other more effective measures to be sought in this respect?

First, EDF considers that market liquidity has significantly improved in Europe recently. EDF believes that the more liquid gas markets are the better it is. However, EDF wonders if all European hubs are supposed to follow the same development path and eventually play the same role. Indeed, EDF observes that two kinds of hubs are today developing in Europe, in particular in the North-West region: those only used for balancing purposes (most of existing hubs today) and those that also have a hedging role (NBP and TTF). This specialization is not necessarily a problem for the development of the European market as long as gas flows are possible which is allowed by market integration and infrastructures availability.

Therefore, EDF considers that all kind of barriers should be removed in order to enable an efficient functioning of gas markets. For instance EDF believes that several balancing zones within a same country hamper market liquidity and attractiveness. In that respect EDF advocates for a single national balancing zone which will foster market integration and liquidity thus helping the achievement of functioning wholesale markets. Besides, EDF supports the use of local market's index in order to improve the attractiveness of multiple hubs and thus foster competition between market places. We also believe that a better liquidity of markets will come from a 100% marked-based balancing. Finally, ensuring security of supply through gas markets is also a way to develop their functioning.

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

EDF believes that a clear distinction should be made between infrastructure built within Europe such as transmission systems or storage facilities on the one hand and infrastructure built at the limits of Europe on the other hand.

EDF considers that gas demand will continue to decrease in the coming years but that gas imports will increase. Therefore, EDF believes that new infrastructures allowing to import gas could be useful for the diversification of supply sources. However, EDF is not convinced that this is the most crucial element to facilitate competition between gas producers.

G5. Can upstream competition be improved with physical infrastructure redundancy or is it an issue of market structure (oligopoly)?

EDF does not have any opinion on that issue.

G6. Should regulatory incentives be placed on TSOs to improve the efficient use of existing gas infrastructure?

EDF considers that the efficient use of existing gas infrastructure relies first and foremost on shippers and suppliers which role is to optimize gas flows. EDF believes that the role of TSOs is to transport gas and to offer a reliable and qualitative service at a cost reflective price. In that respect, EDF considers that efficient operations of the TSOs shall be incentivized so that, e.g., maximum level of capacity is offered to the market, system costs are minimized, accurate and timely information is provided, etc. In most North-West European countries, these kinds of incentives are already implemented. In those cases, EDF considers that new/more incentives are not needed.

G7. What are your views on the future investment climate for new gas infrastructure in Europe? What are the major challenges ahead?

As mentioned previously, EDF does not forecast an increasing gas demand in the following years and considers that the EU is well equipped in gas infrastructures on its territory (see G4).

However, EDF considers that, in some regions (*e.g.* the South Zone of France), some investments are needed for market integration reasons as only investments will help fostering market liquidity attractiveness. Some investments may also be needed for security of supply reasons.

EDF would like to stress that today's framework where the development of new gas infrastructures is mainly based on shippers' long term commitments, may not last. Indeed, shippers experience more and more difficulties to provide that kind of commitments and the security of supply investments are not necessarily based on shippers' commitments. Therefore, the development of these infrastructures will particularly rely on public authorities, in particular NRAs.

Moreover, the future investment climate for new gas infrastructure in Europe will be strongly linked to the rules for incremental capacity currently developed by ACER and ENTSOG. Therefore, EDF advocates for a clear, market-based and non-discriminatory framework.

G8. Should regulatory frameworks recognise externalities in order to improve investment decision making?

Recognizing externalities seems indeed a useful way to improve investment decision making. Nevertheless, it is important to keep in mind that including externalities within the economic cost-benefit analysis requires being able to monetize them. So, when this monetization is not possible, EDF would recommend not to include the externalities within the cost-benefit analysis but to use them as complementary information.

G9. Are cross-border market zones or regional trading zones practical ways to integrate market zones?

In our opinion, a first prerequisite consists in having a single market zone per country in order to facilitate market integration. In this respect, the role of NRAs to launch, orientate and make sure that these orientations eventually happen, are of the utmost importance.

Then, when this prerequisite will be fulfilled, EDF considers that cross border balancing zones could be envisaged when necessary and economically efficient. This could be particularly the case for very small countries unable to constitute a proper market.

G10. Are there other ways one may envisage to enhance the liquidity of European markets?

The cases of isolated and/or congested zones need to be addressed in order to improve liquidity of European markets. As mentioned previously, carrying out the necessary investments enabling each country to have a unique national gas market place with a single balancing zone is of paramount importance to enhance the liquidity of European markets.

Indeed, EDF sees at least three benefits:

- The development of competition: national balancing zones will allow for the development of competition with more visibility for new entrants;
- The development of market liquidity: the merger of all balancing zones at national level should enhance the global liquidity of the wholesale gas market. This is a prerequisite to any further step involving other market places.
- The improvement of security of supply.

EDF believes that liquidity cannot be obtained through regulatory intervention. However, a stable regulatory framework and market environment are really important to foster liquidity.

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

EDF is skeptical on the efficiency and the sustainability of contractual mechanisms (e.g. flow commitments) to further integrate market zones in the long run. Indeed we believe that these types of mechanisms create a contractual price risk that the market cannot handle. In that respect such a mechanism is more likely to hamper liquidity than improving market integration.

However, as transitional tools, they could be useful in particular when taking into account the lead time needed for infrastructure investments.

G12. Does a lack of coordination between intra-day gas and electricity markets expose gas-fired generators to significant imbalance risks?

G13. Does the level of risk exposure create sufficient concern that it could hamper efficient market operation to warrant intervention?

G14. How should coordination of intra-day / balancing gas and electricity markets be improved?

The Balancing network code foresees a balancing mechanism primarily based on market-based title transfer. Under such a system, CCGTs facing a sudden ramping up or down may be exposed to significant imbalance risks without having the possibility to manage their position.

Such a significant imbalance risk stems primarily from a lack of coordination in the design of gas and power market under their respective target models. A gas-fired power generator willing to ramp up or down the output of its plant close to real time (H-1), also as part of a valuable contribution to providing flexibility to the power sector, will not be able to adjust the gas supplies needed for its plant as the Balancing network code allows network users to re-nominate only until two hours before the actual gas flow, whereas the Electricity Target Model foresees the possibility to trade up to one hour before real time and also plant outages can occur at any time, even in real time.

To add a further level of inconsistency, power generators will not be able to adjust their gas transmission capacity booking according to the Gas Target Model because the last auction for intraday gas products will only be run 3.5 hours before real time, according to the Capacity Allocation Mechanism (CAM) network code.

EDF is of the opinion that appropriate mechanisms should be put in place to mitigate these inefficiencies and these significant imbalance risks. These can be:

- Improve load forecasting requirements for generators of variable renewable sources
- Push forward the deadline for gas re-nomination to H-1 whenever it is technically feasible
- Avoid the application of within-day obligations and hourly balancing charges unless this is duly justified by network safety or system stability concerns (even if imbalances are calculated on an hourly basis, the imbalance settlement could be on a larger time period especially if gas

nominations are not flexible enough to allow gas power plant to offer their technical flexibility to power markets)

- Encourage TSOs to offer linepack flexibility services in a manner that prioritize gas-fired power generators (and ensure that the linepack flexibility is not kept unoffered)
- Allow TSOs to keep some sort of last resort balancing role and offer balancing services to gas-fired power generators
- Allow the pricing of day-ahead and intra-day capacity at levels compatible with an economic sourcing of gas for power plants

EDF believes that most of the above measures are consistent with the regulatory framework set out in the gas and electricity target models. Further intervention may however be required at a later stage depending on how TSOs implement these rules.

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

EDF considers that the demand response possibilities are very limited in gas. Indeed, EDF does not see any potential for domestic customers using gas mainly for heating and cooking. Regarding, industrial customers, demand response is already possible today in particular for daily-metered customers but remains limited due to a lack of interest from the customers.

Consumers/Distributors

The customer issue is at the heart of the retail market. Energy customers usually expect – like in other sectors – a good deal which implies an affordable price with a good quality of service. EDF notes that customers' and many Member States' priority is the affordability of energy, raising the issue of the level but also the various components of end-user prices.

Regarding the consultation document, at first, it raises the question of the respective competences of ACER and CEER on the customer issue. Our understanding was that the customer issue is CEER's business and indeed a very large part of the paper is rather a description of CEER's recent or planned work on energy customers. Furthermore, only the last part addresses future challenges.

Regarding the content, EDF believes the key priority here again is to implement and enforce existing legislation. EDF does not see at this stage the need for additional measures. Regulators should help enforce consumer rights by, as they already do, (i) producing benchmarks not only on the implementation but also on the impacts of the measures and consequently (ii) spreading best practices whenever possible and relevant.

Given the diversity of retail market processes, EDF supports the CEER and ERGEG "guidelines of good practices" approach, which provides valuable guidance.

Retail markets throughout the EU are so diverse that the level of harmonization pursued must clearly be based on a cost-benefit assessment. In this respect, rather than seeking uniform rules, the regulatory framework should ensure that the rules governing the retail market are transparent, clear, simple and cost-efficiently implemented for the benefit of all customers.

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

The benefit of domestic customers is today primarily a matter of price and affordability of energy. It can be, under some circumstances, a matter of security of supply. These issues are the very first concerns of European consumers.

Enhancing the operation of retail market can help to reach this goal but it is not a goal in itself. Enhancing does not mean more legislation at European level because there is already a lot of legislation: three Internal Energy Market Directives, the Energy Efficiency Directive, the Unfair Commercial Practices Directive, the Consumers Rights Directive, the Alternative Dispute Resolution Directive… All this calls for a better implementation, at national and local levels, of existing legislation.

Implementation does not mean European harmonization either. There is no need for harmonization of retail market organization from Portugal to Poland and the resources used for this harmonization could be used in a more efficient way, for instance in enhancing information relating to demand side management.

The best way to enhance the operation of retail market may be to do nothing new but stabilize legislation and regulation in order to allow the consumers to be familiar with the rules and to use them properly.

Smart technologies will bring benefits both for the system and customers. They should however not be seen as the panacea that will help tackle all the challenges identified. They will certainly enable new services but customers' needs in this field should be clearly identified and the privacy of their data protected.

C2. Can you suggest ways in which we could enhance the voice of consumers in the development of Europe's energy market?

It is a fact that the development of the European energy market has not been governed by the "domestic customers' concern". A first reason for that might be the technicality of energy economics but the main reason was that the creation of the Internal energy market (IEM) has firstly focused on industrial consumers' interests, not on the domestic ones.

Despite the London Citizens' Energy Forum, the European Energy Policy itself has, for a long time, been far from being focused on domestic consumers' interests. The first IEM directives fundamentally aimed at building an open European energy market, not at upgrading the domestic consumers' experience.

For some years, things have been changing and EDF welcomes this move. To continue and go further, this change requires some rules to be followed:

- Simplicity: If we want domestic customers to play a role in the market, market rules must be simple. We should not believe that consumers will try tomorrow to buy energy on the spot or forward markets. Furthermore, simple and transparent rules will contribute to increase consumers' awareness and trust more rapidly.
- Visibility: Market players must be easily recognizable and each one must play its own role. The supplier is in charge of the supply and shall remain the direct interlocutor of the customer in most circumstances. The DSO is a technical player and, except for technical problems, he usually does not need to be in direct contact with consumers.
- Consideration: Assessments, habits, consumer wishes must be taken into account. They are not necessarily the same in different countries. We should not try and impose the same rules everywhere, because in doing so we show that nobody cares about national or regional specificities. For instance, in some countries, consumers feel protected by the existence of regulated tariffs. So, it is probably more efficient and more useful to ensure the costs are covered by these tariffs that prohibit them for doctrinal reasons. In other countries, consumers prefer staying with well known local suppliers rather than switching every two months, etc.

Consumer organizations are among the best placed to convey consumer whishes and they should be largely involved in the development of regulatory measures of direct impact on consumers (information, service, etc.). However involving them on all aspects of energy regulation might be wishful thinking given the complexity of many issues and the resources needed. Besides, regulators themselves recognize that consumer organizations may not always have the adequate resources to be properly involved.

One should not forget that suppliers can also provide valuable feedback on customer demands.

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?

The general organization of the electricity sector has been defined and re-defined three times over the last 20 years. In this context, vertically integrated companies have been replaced by various actors to whom specific functions have been assigned. DSOs are among these new actors and they have begun to implement this new function.

In some countries, the common understanding of the DSO and his function is far from being perfect. So, it might be far too early to change things again by reassigning new functions. Moreover, at this stage, nobody knows exactly what the future role of DSOs will be, nor the way in which the management of data will be operated.

Will the DSOs act more and more like TSOs? It highly depends on how the national markets are organized.

Will the DSOs be in charge of management of protection of data? Maybe, but maybe not, as it can be understood from the last works of the EG3 of the Smart Grids Task Force.

As long as these issues have not been settled, it appears more sensible to stick to the current organization, without changing the rules of unbundling, without changing the tasks assigned to the different actors, without adding complexity to a landscape already difficult to understand for the consumer.