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SSE response to ACER's consultation - PC_2014_O_01:

“European Energy Regulation: A Bridge to 2025” – June 2014

About SSE

1. SSE is a UK listed company with a wide interest in the energy markets of the UK and Ireland including the generation, transmission, distribution, storage and supply of electricity as well as the production, distribution, storage and supply of gas. SSE welcomes the opportunity to respond to ACER's consultation looking at energy regulation up to 2025, and given the breadth of our operations are very interested in its conclusions.
2. The consultation document accurately identifies most of the key trends in energy markets, and raises important questions that policymakers and regulators at the European, national and regional level need to account for to ensure the implementation and development of the internal energy market to deliver a low carbon, secure and affordable energy system for all consumers.
3. SSE supports the responses of Energy UK, the Energy Networks Association and Eurelectric and this response should be seen as in addition to the points raised in these responses.

Market design and market distortions

4. One of the most significant challenges going forward for the electricity system is ensuring market design places value on the energy, capacity and flexibility components that different technologies and services provide to a fully functioning electricity system. There should be emphasis on ensuring a coordinated and harmonised approach to electricity market design and operation and ACER should use its role to advise policymakers in order to avoid national markets and regulation moving away from the Single Electricity Market.
5. As electricity markets become increasingly interconnected, any market distortions will have an increasing impact leading to inefficient investment decisions, barriers to cross border trade and suboptimal operation of the market. To allow Europe to utilise its available resources most efficiently, ACER is well placed to advise the European Commission on guidance and potential intervention to allow the efficient functioning of the electricity market.
6. We are therefore very disappointed that in ACER's recent opinion on the harmonisation of generator transmission charges (G-charges) under Part B of Commission Regulation 838/2010, that ACER effectively opted to maintain the status quo on capacity-related G-charges. This opinion was especially disappointing given evidence from Frontier Economics noting that maintaining the current system would lead to a loss of up to €22 billion in economic welfare over the next 20 years¹.

¹ Frontier Economics (2013) – Transmission tariff harmonisation supports competition
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Distribution Systems Operators (DSOs) as neutral market facilitators

7. Our main concern in regard to this consultation is the assertion that for DSOs to act as a neutral market facilitator “the most effective long-term model to deliver such an outcome is ownership unbundling”, a statement to which we strongly disagree.

8. We note the recognition in the consultation of the growing role of DSOs in facilitating active network management and the development of smarter, more innovative energy solutions. This is something that we fully support and indeed we are already moving towards as a DSO, with a number of highly innovative projects already underway, such as Thames Valley Vision under Ofgem’s Low Carbon Network Fund (LCNF) and DISCERN, a project funded by the EU’s 7th Framework Programme for Research and Technological Development (FP7).

9. However, we do not believe that there is strong evidence to support the suggestion that the most effective way for DSOs to deliver this role in the long term is ownership unbundling. To the contrary, we would contend that the existing arrangements in the Great Britain electricity market that active DSOs can thrive within a robust regulatory framework that promotes innovation and competition.

10. Comprehensive business separation provisions have existed for some time in Great Britain as part of an open and transparent energy sector overseen by a strong independent national regulator. Specifically, Section 9 of the UK Electricity Act 1989 places an overall legal obligation on distribution companies in Great Britain:

“It shall be the duty of an electricity distributor—

(a) to develop and maintain an efficient, co-ordinated and economical system of electricity distribution; and

(b) to facilitate competition in the supply and generation of electricity.”

11. These existing, long standing arrangements in Great Britain mean that the role of ‘neutral market facilitator’ as set out in the consultation is already being met within the existing regulatory framework. There is no evidence that change is required, indeed the projects that we have already been involved in and the innovative solutions that we have been instrumental in implementing demonstrate that this role is already being carried out. Importantly, we note that stakeholders support this view, with responses to the European Commission’s recent consultation on retail market design confirming that EU stakeholders across the board do not see the current DSO unbundling arrangements as unsatisfactory or a barrier to the operation of the internal energy market.

12. Fundamental changes to the ownership structures of DSOs, when there is no evidence that current structures are acting to the detriment of customers, would be an unnecessary distraction and potentially delay the development of the DSO role that this consultation seeks to promote. Where DSOs are in private ownership, as in the UK, this would raise significant issues around property rights and the value of deployed equity. In particular, this could put at risk important investments, and also constrain the future development of the DSO role.



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