

CEER consultation on its 2018 draft Work Programme

A EURELECTRIC response paper

July 2017

EURELECTRIC is the voice of the electricity industry in Europe.

We speak for more than 3,500 companies in power generation, distribution, and supply.

We Stand For:

Carbon-neutral electricity by 2050

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

Competitive electricity for our customers

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

Continent-wide electricity through a coherent European approach

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

EURELECTRIC. Electricity for Europe.

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A. CEER proposes that the 2018 Work Programme should continue to focus on the same four priority areas which have also been priorities in recent years. These are: consumers and retail markets, new legislative and policy developments, the role of distribution system operators and international work.

Do you support that these areas should be the priorities or should some areas be deleted and others included?

Comments

EURELECTRIC generally supports the 4 areas of priorities proposed by CEER.

B. Within each priority area, do you think the Work Programme focuses on the right deliverables or should some be deleted or added?

B1. Regarding priority area 1

We are pleased with the increased focus on consumers in CEER's work and generally agree with the proposed deliverables.

As mentioned in our response to CEER's 2017 Work Programme, there are a few other issues for which guidelines from CEER would be particularly welcome:

- **Billing:** In most EU Member States, bills are heavily regulated and billing is one of the top complaints of consumers. While many consumers report that there is too much information on their bills, making them difficult to read, suppliers are often not allowed to simplify or improve them. We do not think that adding EU minimum requirements through the Clean Energy Package will alleviate the problem. We would rather encourage CEER to take a leading role on this matter by promoting exchange of best practice between NRAs through CEER and developing Guidelines of Good practice on Billing.
- **Retail prices:** It is now widely acknowledged that the ever-growing share of policy support costs and levies is the main factor behind the increase of retail energy prices – an increase of 71% from 2008 to 2016. This has a detrimental impact on consumer trust and engagement in the market. Whilst customers' seek real savings from switching, in reality about two thirds of the bill (on average across Europe) are outside suppliers' control and comprising the collection of taxes and policy support costs, as well as network charges. EURELECTRIC supports well-functioning retail energy markets and consumer empowerment, we and think that the issue of ever increasing policy and taxes costs should therefore feature higher on CEER's agenda.
- **Credit risk:** We urge CEER to address the growing issue of credit risk and so called "bad debt", i.e. situations arising when customers default on their bill payments and yet retailers have to settle all payments with grid companies and national authorities for grid charges and taxes and levies respectively. The cost of unpaid bills can have a knock-on impact on final prices, to the detriment of all customers, including those with low incomes, even if they have good payment records. It also impacts the financial stability of suppliers and inflates the cost of supply activities, thus creating a market entry barrier. Considering the growing share of regulated costs in consumers' energy bills, we think regulatory authorities should put in place effective policies to mitigate the risks and costs associated with the single bill model.

B2. Regarding priority area 2

The new market design initiative must lead to credible long-term investment signals which ensure security of supply and the efficient remuneration of firm and flexible capacity. We encourage CEER to continue taking a pro-active role in these discussions.

B3. Regarding priority area 3

We welcome the continuous efforts of CEER to define the changing role of Distribution System Operators (DSOs) as neutral market facilitators and active system operators, and especially their role in flexibility, how to better define network tariffs and their incentive schemes.

DSOs are key players for enabling a successful energy transition while providing a high-quality service to all customers. We believe that DSOs must act as neutral market facilitators and guarantee distribution system stability, power quality, technical efficiency and cost effectiveness in the future evolution of energy networks towards a smarter grid concept. As the distribution landscape is quite different across Member States, there will not be a one-size-fits-all-solution when it comes to regulatory frameworks.

Energy regulators should recognise the broadening role of DSOs as neutral market facilitators and set out the most appropriate regulatory frameworks to encourage efficient technological innovation. They should implement mechanisms which create incremental incentives for innovative grid projects, since new elements connected to the distribution grid will require more active grid management, for example, distributed generation, storage facilities, demand-side response, smart charging and ICT solutions and security.

Flexibility is an important aspect of the new, more active way in which distribution grids will have to be managed. National legislation and energy regulation need to be adapted to make sure that flexibility develops to its full potential. Several possibilities must be examined (also in regulatory terms), on a case-by-case basis, before choosing between the different ways of using flexibility by DSOs, including via aggregators.

Network tariff structures must incentivise actual customer behaviour and choices which are economically efficient. They should be cost-reflective over time, non-discriminatory, and must exclude non-related costs which distort price signals and as a consequence provide inefficient investment signals for distributed energy technologies affecting overall welfare.

B4. Regarding priority area 4:

No specific comment.

C. On the individual CEER deliverables in Section 5

C1. Consumers and retail markets: Follow up of the Clean Energy Package (regarding retail markets and consumer empowerment)

The Clean Energy Package is expected to be approved by the beginning 2018. During the forthcoming legislative process many changes on the Package can be expected. Therefore CEER will follow up the process and (if necessary) inform the decision makers of concerns and make recommendations regarding consumer empowerment and retail competition aspects.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes we do, as active participants.

Further comments:

EURELECTRIC is pleased to see that our analysis and vision of future retail markets largely converge with CEER's.

C2. Consumers and retail markets: ACER/CEER Market Monitoring Report on Consumer Empowerment and Protection Chapter

As in previous years, this work will cover the monitoring of consumer protection and empowerment at European level from a legal and practical perspective.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes we do, as active participants.

C3. Consumers and retail markets: Report on Retail Market Monitoring

CEER will continue to develop its activities relating to the monitoring of retail markets and will publish a report on retail market monitoring.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes we do, as active participants.

C4. Gas: Follow up of recommendations emerging from CEER Study on Future Role of Gas (FROG)

The 2017 CEER study on the future role of gas examined regulatory implications which may result from the changing role of natural gas. The study outlined a set of policy actions and regulatory measures that NRAs may seek to apply in different scenarios. As a follow up to the study, CEER will consider whether it should provide further recommendations or advice related to applying these policy actions and regulatory measures.

How important is this deliverable?

C5. Gas: Follow up of any recommendations and findings from the ‘Removing LNG Barriers on Gas Markets’ study

In 2017, CEER has investigated the liquidity of the LNG market and how LNG services can be improved. The findings of this study can be found in the report on “Removing LNG Barriers on Gas Markets”. As a follow up to the study, CEER will consider whether it should provide further recommendations or advice related to applying these policy actions and regulatory measures.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

C6. Cross sectoral: Regulatory aspects of new practices such as self-consumption and Local Energy Communities

The development of practices like self-consumption or Local Energy communities raise a range of regulatory questions. CEER will develop a regulatory approach to address these developments. NRAs will be asked to describe the current and near future situations of renewable energy communities and local energy communities from a regulatory and consumers' perspective. This will create a number of case studies.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes, we do, as active participants.

Further comments

The market regulatory aspects are as important as this item suggest, but there is also a wider issue at play: the increased incidence of self-consumption (including by Local Energy Communities but also prosumers et al) is beginning to have a significant impact on the roles and activities, as well as on the revenues, of DSOs. It is important to be able to assess the extent of this impact and to debate this issue arising from this increase in self-consumption.

C7. Cross sectoral: Report on Investment conditions 2018

This is an annual report which delivers a general survey about the implemented regulatory regimes, the demanded efficiency developments and analyses the overall determination of capital costs. In 2018, it will be the 7th edition of the report. The investment conditions report was for the first time published in 2016.

How important is this deliverable?

Important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

C8. Cross sectoral: Report on the unbundling and certification of TSO's - where are we now and what's new in the Clean Energy for All Europeans?

The report will assess developments in the certification of the TSOs at national level since the previous unbundling & certification report. What has changed? How many NRAs certification decisions have been modified, renewed or withdrawn? What are the consequences for the unbundling? What is the possible impact of the Clean Energy for All Europeans proposals on unbundling?

How important is this deliverable?

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

C9. Cross sectoral: Guidelines of Good Practice on Flexibility Use at Distribution Level

Flexibility is a crosscutting issue that needs to be considered with regard to both markets and networks. The purpose of producing these CEER guidelines is to assess flexibility from a distribution network management/development perspective. This will contribute to a comprehensive approach to the flexibility issue. The aim of the document is to provide guidelines for NRAs on how to stimulate flexibility use by DSOs when it is most efficient, but with minimal distortion to markets and competition, and in co-ordination with the needs of TSOs. This deliverable is part of developing a toolbox for the regulation of DSOs.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes.

C10. Cross sectoral: Report on New Services and Associated Activities for DSOs

The deliverable will look at and consider the impact on regulation of emerging services and associated activities that may impact the role of DSOs. This deliverable is part of developing a toolbox for the regulation of DSOs.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes.

C11. Cross sectoral: Distribution tariffs

CEER will continue to work on the issue of distribution tariffs to build on the report published in 2017 as part of the regulatory toolbox.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes.

C12. Cross sectoral: DSO Benchmarking Report

Annual update of the quality of electricity and gas supply report (Version 6.1) published August 2016.

How important is this deliverable?

Very important.

For the deliverables with consultations, hearings, workshops etc. do you intend to actively participate?

Yes.

C13 Do you have any specific comments on any of the individual deliverables?

We believe that getting the regulatory framework right, for local energy communities, energy consumers, prosumers etc., is important for the orderly functioning of Europe's energy system. With the Commission's intention to foster the concept all across Europe it is important to provide regulatory certainty for existing electricity system stakeholders and users. There are questions to address which impact on the financing conditions for the electricity system.

EURELECTRIC and its membership stand ready to actively contribute to CEER's analysis for deliverable C6. Given our extensive reach through electricity companies all across Europe, we are confident to be able to provide valuable industry insight which will enrich the stakeholder engagement sessions.

The Commission proposals for self-consumption and local energy communities have the potential to accelerate active consumers to become self-sufficient in their electricity use. Whilst this is desirable for consumer engagement and from a climate change targets point of view, it raises issues regarding the recovery of system costs and aspects of fairness of the resulting impact on distribution network charges for users.

As the incidences of self-consumption increase, there is a risk that future network costs may be met by disproportionately affected customer groups which would give rise to broader social questions. All customers connected to the system enjoy security of supply. In order to deliver that there are some fundamental network costs which should be borne by all users of the system, irrespective of individual degree of usage. This is a tariffing matter and ought to be addressed in this Work Programme.

For LECs, operational areas, business purposes and functions that these can perform require clearer definition in order to shape a clear regulatory framework and guarantee these entities can partake in the energy market efficiently. Further consideration should be given with regards to the impact of LECs on neighbouring DSOs as the emergence of LECs may give rise to additional investment needs and consequently increase the cost base. It is also important to identify the impact on the DSO network and any additional requirements required by the DSO to manage their network arising from a LEC's active participation in the energy market, including their ability to provide DSR services. Accordingly, DSOs and LECs need to agree a *modus operandi* at the interfaces.

We should remember to properly define contractual relationships between LECs and other market participants (for instance in the balancing market or the customers themselves). These relationships should guarantee the non-discriminatory treatment of all market participants in term of operational activity as well as cost sharing and acquired revenues.

D Are there areas where CEER should give more focus as a result of the Clean Energy for All Europeans European Commission proposals?

- Alongside other topics (local energy communities, new roles of DSOs, billing, and demand response) aggregators could be addressed as well. CEER could give its opinion on ideal regulatory framework, to help Member States in their eventual implementation of the Clean Energy Package.
- The impact of LEC's development on DSO activities (network, tariffs, costs, and investments), RES development, and future changes in the energy market structure should be addressed.
- The proposal to harmonise the Imbalance Settlement Period to 15min by 2025 in all control areas at wholesale and retail level is welcome as it will ensure a level playing field between all market parties. However, ISP harmonisation will trigger adaptation costs across the value chain in Member States where smart meters for retail customers with a different metering interval have already been rolled out. Special attention should be placed on the impact and costs of such transition (changes needed in metering, IT and commercial infrastructures).
- Advanced forms of dynamic pricing are likely to further develop in the near future but imposing an obligation for suppliers to offer dynamic pricing on some or all retail offerings contradicts various parts of the proposal on common rules for the internal market in electricity, and will be detrimental to competition and innovation, as it could create entry barriers for small suppliers. Such obligation would not be consistent with the broader framework that advocates for complete market liberalisation.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



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