



# **RECOMMENDATIONS FOR THE CLEAN ENERGY PACKAGE**

**12 June 2017**

## CEDEC - Background information

CEDEC represents the interests of 1.500 local and regional energy companies with a total turnover of €120 billion, serving 85 million electricity and gas customers and connections, with more than 350.000 employees.

These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, as operators of distribution grids and metering systems for electricity, gas and heating & cooling, and as energy (services) suppliers.



The wide range of services provided by local utility companies is reliable, sustainable and close to the customer. Through their investments and local jobs, they make a significant contribution to local and regional economic development.

## RECOMMENDATIONS FOR THE CLEAN ENERGY PACKAGE

CEDEC welcomes the European Union's goal to reconcile **ambitious energy and climate targets in a coherent legislative package** that will put energy efficiency first, stimulate more sustainable energy sources, and change the energy market design where necessary to deliver the energy transition at the lowest societal cost.

That is why CEDEC, the European Federation of Local Energy companies, supports the European Commission's objective of adapting different parts of the existing legislative framework to **deliver a more sustainable energy system**, built on citizens' engagement and customers' trust.

As local energy companies, operating close to citizens and customers, we believe in the need to **boost the local dimension**, not only through political messages but also with a legal and regulatory framework that incentivises decentralised and integrated solutions, linking electricity, gas and heating & cooling.

A particular challenge for a review of the market design is to **create a true level playing field** between established and new market actors, in both the generation and the supply of energy products and services. A competitive and flexible European internal energy market can only function if all actors – big and small – can participate actively, with a **clear definition of roles and responsibilities**.

An incentivising framework and an adequate toolbox have to be available for the **Distribution System Operator (DSO) as market facilitator** in a decentralising energy system : with 90% of renewable energy sources connected to the distribution grids, the balancing of demand and supply becomes an increasingly local issue. Also, detailed information on all grid elements and on the customers connected to the grid becomes essential raw materials for smart grid management.

DSOs must be able to acquire the flexibility they need for the grid management, through **flexibility services** or different forms of **energy storage**. They can procure it on the market when competitively priced and well-targeted services are available; if not, they can contract flexibility directly with interested customers and local generators, or own and operate the necessary storage assets in the grid.

EU legislation must find the right **balance between market-based approaches**, that can contribute to lower costs and innovation, **and effective regulation**, which is at times needed to overcome market failures and to achieve objectives of general social and economic interest.

While considering a European dimension where appropriate, and supporting better interconnections where needed, Member States must be allowed to take into account the characteristics of their national energy landscape, with its current and future energy mix, with the potential of renewable and local resources, and with the existing details of market design.

**Subsidiarity**, along with **proportionality** of EU legislation, will be key to achieving a cost-efficient decentralising energy market that delivers for local authorities, citizens and customers.

## KEY RECOMMENDATIONS

### FOR ELECTRICITY MARKET DESIGN (Electricity Directive & Electricity Regulation)

*Key recommendation 1 - DSO & flexibility*

→ Changes needed in articles 32, 33 and 36 Electricity **Directive**.

*Key recommendation 2 - DSO & data*

→ Changes needed in articles 19.3, 23 and 24 Electricity Directive.

*Key recommendation 3 – Demand response*

→ Changes needed in article 17.3 and 17.4 Electricity Directive.

*Key recommendation 4 – Local energy community*

→ Changes needed in article 16 Electricity Directive.

*Key recommendation 5 – Dynamic price contract*

→ Changes needed in article 11.1 Electricity Directive.

*Key recommendation 6 – Market-based and regulated supply prices*

→ Changes needed in articles 3.1 and 5 Electricity Directive + article 3 Electricity Regulation.

*Key recommendation 7 – Network Codes*

→ Changes needed in articles 55, 56, 57 and 63 Electricity **Regulation**.

*Key recommendation 8 – EU DSO Entity*

→ Changes needed in articles 49, 50, 51 and 52 Electricity Regulation.

*Key recommendation 9 – Charges for access to networks – Grid tariffs*

→ Changes needed in articles 3, 16.1, 16.7 and 16.9 Electricity Regulation.

*Key recommendation 10 – Priority dispatch*

→ Changes needed in article 11 Electricity Regulation.

*Key recommendation 11 – Definition of bidding zones*

→ Changes needed in article 13 Electricity Regulation.

### FOR ACER REGULATION

*Key recommendation 1 – Role of ACER concerning distribution*

→ Changes needed in the ACER Regulation and/or the “Legislative Financial Statement”.

## FOR RENEWABLE ENERGY SOURCES DIRECTIVE (RED II)

*Key recommendation 1 – Target*

→ Changes needed in article 3 Renewable Energy Sources Directive.

*Key recommendation 2 – Support schemes for renewables*

→ Changes needed in article 5 Renewable Energy Sources Directive.

*Key recommendation 3 – District heating and cooling*

→ Changes needed in articles 23 and 24 Renewable Energy Sources Directive.

*Key recommendation 4 – Biomass fuels - Biogas*

→ Changes needed in article 26.7 (delete or amend) Renewable Energy Sources Directive.

## FOR ENERGY EFFICIENCY DIRECTIVE (EED)

*Key recommendation 1 – Target*

→ Changes needed in article 1 Energy Efficiency Directive.

*Key recommendation 2 – Energy efficiency targets*

→ Changes needed in article 3 Energy Efficiency Directive.

*Key recommendation 3 – Energy savings obligation*

→ Changes needed in article 7.1, 7.2 and 7.3 Energy Efficiency Directive.

*Key recommendation 4 – Energy efficiency obligation schemes*

→ Changes needed in article 7a Energy Efficiency Directive.

*Key recommendation 5 – Delegated acts*

→ Changes needed in article 23 Energy Efficiency Directive.

## FOR ENERGY PERFORMANCE OF BUILDINGS DIRECTIVE (EPBD)

*Key recommendation 1 – Energy performance requirements*

→ Changes needed in proposed articles 6 and 7 EPBD.

*Key recommendation 2 - Recharging points for alternative fuels*

→ Changes needed in proposed article 8.2 EPBD.

*Key recommendation 3 – Calculation of the energy performance of buildings*

→ Changes needed in proposed Annex 1 - article 2 EPBD.

## KEY RECOMMENDATIONS FOR ELECTRICITY MARKET DESIGN

### *Key recommendation 1 - DSO & flexibility*

As energy supply becomes increasingly distributed - produced in smaller quantities and closer to customers - the balancing of demand and supply becomes an increasingly local issue. To avoid congestion on local grids, DSOs must be able to organise the flexibility they need :

- If markets deliver flexibility services locally and at competitive prices, DSOs should procure these services on the market; if not, direct contracts with flexibility providers (energy consumers or producers) must be allowed.
- Energy storage – which is more than batteries - is an option for increasing the cost-efficient reliability of smart distribution grids while avoiding congestion and maintaining system stability : DSOs must be allowed to have storage as part of their grids. Member States shall provide the necessary regulatory framework to facilitate the integration and use of cost-efficient storage resources in the energy distribution systems for grid management purposes. This will cost-efficiently ensure security of supply and will facilitate the further development of renewables.
- In order to contribute to the market uptake of electric transport, to the geographical coverage of charging infrastructure, and to the use of electric vehicles (EV) as a flexible storage solution, DSOs can enable the deployment of public charging infrastructure for EV.

→ Changes needed in articles 32, 33 and 36 Electricity Directive.

### *Key recommendation 2 - DSO & data*

CEDEC fully supports the role of DSOs in facilitating data management and data communication between customers, prosumers and market actors, guaranteeing the privacy and security of customer data. All this to enable and facilitate the provision of new data-based energy services in the market. Therefore the following needs to be foreseen :

- A national common data format and transparent procedures for accessing the data are prerequisites for efficient communication between market players, and still have to be realised in many Member States. However, a single EU data format, moreover decided and imposed by EC only, is not appropriate as it would cause prohibitive costs for replacing already existing data communication and data platforms in all EU Member States, as clearly indicated in the Impact Assessment.
- Consumer owns his data and has to give consent for its use by market players. However the data needed by the DSO for managing smart grids have to be kept available for the DSO unconditionally, at any time needed.
- New requirements for smart metering systems should be carefully assessed before being imposed, in order to avoid costly retrofitting of already existing smart metering systems.

→ Changes needed in articles 19.3, 23 and 24 Electricity Directive.

### *Key recommendation 3 – Demand response*

Compensation payments between aggregators and balance responsible parties have to be verified on their structural (and not 'exceptional') character. As a principle, aggregators must have balancing responsibility.

→ Changes needed in article 17.3 and 17.4 Electricity Directive.

### *Key recommendation 4 – Local energy community*

The possibilities offered by distributed generation and new technological applications and the need to stimulate more sustainable energy sources both lead to a large potential for local energy communities. In order to continue to guarantee security of supply for the whole energy system and solidarity between all energy consumers, accompanying measures have to be taken:

- Ensure a level playing field with actors in the market - same rights and obligations;
- Align standards and requirements for security and safety for the local grid operator and DSO;
- Develop a procedure and conditions for approval of the local energy community, including the condition that activities are limited to private domain and should not cross the public domain;
- Guarantee the solidarity between users of the grid as backbone for the security of supply, through adapted financing of distribution grids by introducing capacity elements in distribution tariffs.

→ Changes needed in article 16 Electricity Directive.

### *Key recommendation 5 – Dynamic price contract*

It is proposed that every customer shall be entitled to a dynamic price contract with his current supplier.

However, given the cost for a supplier to develop such an offer, the right should be optional. Also, the right should not be explicitly limited to his current supplier, in order to let the market function most efficiently and to stimulate market development in this field.

→ Changes needed in article 11.1 Electricity Directive.

### *Key recommendation 6 – Market-based and regulated supply prices*

From the perspective of the interest of the customer, Member States can decide on the conditions for application of forms of regulated prices (like social tariffs or tariff reductions) for clearly defined categories of customers, especially vulnerable customers.

When doing so, the current competitive situation in the Member State (measured for example through the HHI-index) can be taken into account.

Public service obligations concerning prices should continue to be part of the regulatory options.

→ Changes needed in articles 3.1 and 5 Electricity Directive, and article 3 Electricity Regulation.

### *Key recommendation 7 – Network Codes*

The concept of 'Network Code' (NC) was introduced in the Third Package (2009) to tackle cross-border issues by developing precise and technically detailed rules for TSOs and wholesale markets.

The current Network Code procedure formally involves European Commission, ACER and Entso-e, and also the Member States through the cross-border committees.

The Commission proposal foresees - in different parts of the Package – a large extension of the range of Network Codes, going far beyond the cross-border dimension and impacting directly in fields (like electricity distribution) with Member State competence and no cross-border aspects.

However, as it is proposed that the Commission will adopt NCs as delegated acts, Member States will be excluded from contributing to the new NC process as cross-border committees will disappear.

The topics to be treated in Network Codes should be strictly limited to those issues that require a technically detailed "1-size fits all" EU approach and exclusive ACER regulatory oversight. As an example, there should be no technically detailed Code on distribution grid tariffs.

If it is only about principles and not technical details (like for grid tariffs and connection charges), they should be included in the legislative package (directive or regulation), thus guaranteeing democratic control through the European Parliament.

→ **Changes needed in articles 55, 56, 57 and 63 Electricity Regulation.**

### *Key recommendation 8 – EU DSO Entity*

The Commission proposal on a new formal EU DSO structure imposes several unacceptable conditions:

- The tasks of the EU DSO Entity would cover all future strategic issues for electricity distribution, including through the instrument of Network Codes, with exclusive competence and regulatory oversight for the European Commission and ACER whereas this is currently an exclusive competence of the Member States;
- As allowed members would only be "DSOs which are not part of a vertically integrated undertaking or which are unbundled according to the provisions of art. 35" (Art 49) - excluding those DSOS which fall under the exemption of article 35.4 along with their national or European associations - the result is that 90% of EU DSOs are excluded from cooperation in this "Entity";
- As members additionally have to register to become a member and will have to finance the new formal structure, probably about 5 % of EU DSOs will effectively control the establishment of the complete future EU policy for electricity distribution and electricity DSOs, going against elementary democratic principles and the decentralisation of the energy system itself ;
- As the focus will be exclusively on electricity, an integrated energy system perspective will be excluded, and the silo-thinking is formally confirmed and anchored in the EU institutions.

As a principle, CEDEC rejects a heavily structured EU DSO entity focusing only on electricity, with almost exclusive EC & ACER control over all strategic DSO issues. It is not considered the appropriate answer to the future challenges for the DSO business in a decentralising but more integrated energy system, in very diverging national energy systems.

→ **Changes needed in articles 49, 50, 51 and 52 Electricity Regulation.**



*Key recommendation 9 – Charges for access to networks – Grid tariffs*

The systematically rising share of locally connected renewables, along with the ambitious raise of energy efficiency, result in systematically less kWh distributed on the grid. At the same time, DSOs must invest in new smart grid components, and will continue to be responsible for security and quality of electricity supply to all citizens and companies.

In order to continue to guarantee solidarity between all energy consumers, there is a need for an adapted financing of distribution grids by introducing capacity elements in distribution tariffs. Principles and rules in the proposed electricity regulation should not make this necessary evolution impossible.

→ Changes needed in articles 3, 16.1, 16.7 and 16.9 of Electricity Regulation.

*Key recommendation 10 – Priority dispatch*

One of the declared objectives of the Package is to become global leader in renewables.

Reducing priority dispatch to small-scale sustainable generation (like renewables and high-efficiency cogeneration) only, in a non-level playing field like the European electricity generation market, will most probably not contribute to that goal.

Especially for high-efficiency cogeneration, that takes its energetic and economic efficiency from the simultaneous generation of electricity and heat (for industrial processes or heating), priority dispatch should be guaranteed regardless the size of the installation.

→ Changes needed in article 11 Electricity Regulation.

*Key recommendation 11 – Definition of bidding zones*

The electricity regulation proposes to allocate more responsibility to the European institutions for defining the configuration of bidding zones.

Adjustments of bidding zones affect directly liquidity, competition and the complex structure of national fees and charges (e.g. renewable energy charge) in the member states. This again has an impact on the retail prices for the customers.

To avoid negative impacts on customers, the decision about the definition of national bidding zones should remain in the responsibility of the Member States.

→ Changes needed in article 13 Electricity Regulation

## KEY RECOMMENDATIONS FOR THE ACER REGULATION

### *Key recommendation 1 – Role of ACER concerning distribution*

The creation of an EU DSO Entity (for electricity only) is proposed in the Electricity Regulation on market design (articles 49-53).

As a principle, CEDEC rejects a heavily structured EU DSO entity focusing only on electricity, with almost exclusive EC & ACER control over all strategically important DSO issues. It is not considered the appropriate answer to the future challenges for the DSO business in a decentralising but more integrated energy system (with clear links between electricity, gas and heating & cooling), in very diverging national energy systems and market architectures.

This proposal constitutes a major transfer of competences on electricity distribution to the European level (European Commission and ACER), away from the Member States, who currently have exclusive competence on distribution.

For reasons of subsidiarity and proportionality of EU legislation, CEDEC opposes to this major transfer of competences.

In the proposed ACER Regulation, nothing is mentioned explicitly on new competences of ACER concerning distribution issues or the EU DSO Entity:

- DSOs are not mentioned anywhere among the tasks of ACER (articles 4- 14), nor in the rules on consultations and transparency (article 15).
- Only in article 5.2 there is a general reference to the Network Code process in Chapter VII of the Electricity Regulation, and to ACER's strengthened role therein.

Only in the "Legislative Financial Statement" to the ACER Regulation (on pages 68-86), there is a paragraph on new tasks and related staff needs (point 1.4.2 on pages 68-70) that explicitly mentions the role of ACER in "establishing" and "ensuring the smooth functioning" of the EU DSO Entity.

It lacks coherence if the tasks of ACER in the Regulation do not mention anything on DSO related issues, whereas an annex mentions tasks on DSO but only to address staff needs.

When addressing staff needs concerning distribution, it is mentioned that 2 FTE will cover all additional competences on distribution : revising all Network Codes on distribution issues and ensuring the functioning of the EU DSO Entity. Is it realistic to cover the complex reality of 28 very divergent distribution systems with 2 FTEs ?

**→ Changes needed in the ACER Regulation and/or the "Legislative Financial Statement"**

## KEY RECOMMENDATIONS FOR RENEWABLE ENERGY SOURCES DIRECTIVE (RED II)

### *Key recommendation 1 – Target*

CEDEC supports an ambitious target for renewable energy sources in 2030, that will cost-efficiently ensure that EU stays on the right track to achieve the politically agreed 2050 targets. Moreover, the package formulates as a clear ambition to become the global leader in renewable technologies. Therefore, an EU target that goes beyond the minimum of 27% renewables by 2030 seems necessary.

Although the use of binding national targets has proven to be successful and created the necessary pressure on national policy makers, the choice has been made for a binding target at EU level, with indicative national targets. In order to stay on track for the challenging 2050 targets, a strong Governance system has to be established, guiding and following up on the individual Member States.

→ **Changes needed in article 3 Renewable Energy Sources Directive.**

### *Key recommendation 2 – Support schemes for renewables*

The opening of support schemes for renewables projects in neighbouring EU Member States seems an adequate response to reach an optimal exploitation of the potential of renewable resources at regional scale. This regional approach is currently already put into practice in some Member States. However, the mandatory character should be limited to a maximum of 5%. Any raise of the mandatory objective should depend on a thorough evaluation of costs and benefits (including effects on the diversity of the type of projects and of the type of actors involved), taking place no earlier than 2025.

→ **Changes needed in article 5 Renewable Energy Sources Directive.**

### *Key recommendation 3 – District heating and cooling*

District heating and cooling is recognised as one of the most promising instruments for contributing to the ambitious targets on energy efficiency and renewable energy sources development. The dimensioning of the initial project and the calculation of its economic feasibility is based on the currently and locally available heat and/or cold, and on the local heat and/or cold demand. There are very precise requirements (in terms of temperature and timing) for the infeed of heat and cold, and for the dimensioning of the pipes and the grid.

However, the proposal to open all district heating and cooling grids for third party access (TPA for RES and waste heat), would render existing projects economically inefficient, and would compromise the development of new district heating & cooling projects. Mandatory TPA on all district heating & cooling grids may be theoretically nice, but technically and economically it is not realistic. Same issues are valid for customers' right to disconnect from the district heating & cooling grid in order to switch to another heat or cold supplier. Thus, the potential of district heating and cooling would be seriously compromised.

To facilitate the integration of RES in district heating & cooling, which is certainly a tool to raise the development of renewables, other and specific incentives for heating & cooling infrastructure operators should be developed. These incentives should certainly also address and reflect the cost of required infrastructural adaptations.

→ Changes needed in articles 23 and 24 Renewable Energy Sources Directive.

--- Related changes are needed in the Energy Efficiency of Buildings Directive (EPBD). ---

Concerning measures to meet energy performance requirements, there are currently elements in articles 6 (on new buildings) and 7 (on existing buildings undergoing major renovation) that oblige Member States to consider high-efficiency alternative systems like district heating or cooling.

The Commission proposes to delete these elements.

The proposed deletion of those elements in articles 6 and 7 should be undone.

→ Changes needed in proposed articles 6 and 7 EPBD.

*Key recommendation 4 – Biomass fuels - Biogas*

Article 26 (2-6) contains comprehensive and strict ‘sustainability criteria’ for biomass fuels, including biogas. These are necessary to guarantee the sustainable character of biomass in view of long term investment strategies.

However, by adding ‘greenhouse gas emissions saving criteria’ in article 26.7 and Annex VI - on top of the sustainability criteria – different types of biomass (even if respecting the sustainability criteria) would be excluded after 2021. Thus, the potential of biogas as a source for flexible generation would be restricted.

This restriction should be avoided in order to reach diversity of sustainable technologies, to link electricity (renewable generation) and sustainable gas, and to make the best use of the existing gas infrastructure (also for storage).

In any case, biogas for use in transport, in electricity generation and in heating should be treated equally in article 26.7.

→ Changes needed in article 26.7 Renewable Energy Sources Directive.

## KEY RECOMMENDATIONS FOR ENERGY EFFICIENCY DIRECTIVE (EED)

### *Key recommendation 1 – Target*

CEDEC supports an ambitious EU target for energy efficiency in 2030, that will cost-efficiently ensure that EU stays on the right track to achieve the politically agreed 2050 targets.

An indicative EU target seems to address correctly the formulated ambitions, given the large number of binding measures foreseen in the reviewed directive.

→ Changes needed in article 1 Energy Efficiency Directive.

### *Key recommendation 2 – Energy efficiency targets*

When expressing indicative national targets, Member States shall continue to have the choice between primary OR final energy consumption (instead of 'and').

→ Changes needed in article 3 Energy Efficiency Directive.

### *Key recommendation 3 – Energy savings obligation*

Several parts of the article should be reviewed :

- Article 7.1 determines yearly end-use energy saving percentages for the 10-year periods beyond 2020. However, the percentage for the period after 2030 should only be determined after a review by EC in 2027, taking stock of the savings already achieved as well as the progress in available technologies.
- Article 7.2 describes different options for energy savings, to which the following should be added :
  - \* NEW c2: upgrade of H&C systems in urban environment;
  - \* NEW c3: savings resulting from energy audits in Art.8;
  - \* Renewable energy generated on/in buildings (all energy, not only "for own use") may be excluded from the savings requirement.
- Article 7.3: The options under paragraph 2 should not represent more than 40% (instead of 25%) of the energy savings in article 7.1. In this case, an additional limit may be imposed : 7.2. (b) (ETS) should not represent more than 25% of the energy savings in article 7.1.

→ Changes needed in article 7 Energy Efficiency Directive.

*Key recommendation 4 – Energy efficiency obligation schemes*

In Article 7a the following changes would be needed in paragraph 5 :

- (a) Member States may (instead of 'shall') include requirements with a social aim;
- (c) Member States may allow 'banking' also beyond the end of the obligation period;
- NEW (d) Member States may count end-use energy savings from efficient H&C infrastructure.

➔ Changes needed in article 7a Energy Efficiency Directive.

*Key recommendation 5 – Delegated acts*

Whereas the Commission requests to dispose of delegated acts for a period of five years that is then automatically ('tacitly') extended, CEDEC prefers a period of five years that is then automatically suspended unless the European Parliament or the Council agree to extend.

➔ Changes needed in article 23 Energy Efficiency Directive.

## **KEY RECOMMENDATIONS**

### **FOR ENERGY PERFORMANCE OF BUILDINGS DIRECTIVE (EPBD)**

#### *Key recommendation 1 – Energy performance requirements*

District heating and cooling and high efficiency cogeneration are among the most promising instruments contributing to the ambitious targets on energy efficiency and renewable energy sources development.

Concerning measures to meet energy performance requirements, there are currently elements in article 6 (on new buildings) and article 7 (on existing buildings undergoing major renovation) that oblige Member States to consider high-efficiency alternative systems like district heating or cooling and high efficiency cogeneration.

The Commission proposes to delete these elements.

The proposed deletion of those elements in Articles 6 and 7 should be undone.

→ **Changes needed in proposed articles 6 and 7 EPBD.**

#### *Key recommendation 2 - Recharging points for alternative fuels*

For non-residential buildings (new or undergoing major renovation) with more than 10 parking spaces, at least 1 of every 10 is equipped with a recharging point for alternative fuels. Technology neutrality must be ensured.

In the same new article 8.2 a possible exemption for small and medium-sized enterprises 'as defined in Recommendation 2003/361/EC' is foreseen. The exemption is reasonable, but the reference to Recommendation 2003/361/EC (considering SMEs only when they are privately owned) leads to the discrimination of publicly owned SMEs (like local utilities).

→ **Changes needed in proposed article 8.2 EPBD.**

#### *Key recommendation 3 – Calculation of the energy performance of buildings*

Annex 1 describes the general framework for the calculation of the energy performance of buildings.

District heating for near zero energy buildings (with adapted temperature levels) should also be taken in consideration.

→ **Changes needed in proposed Annex 1 EPBD.**

FOR MORE INFORMATION

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