



TRILOGUE
on Market Design
Directive and Regulation

CEDEC Key Priorities

22 May 2018

MARKET DESIGN DIRECTIVE

Key priority 1 - DSO & flexibility

FLEXIBILITY SERVICES - Due to the decentralisation of the energy system, with distributed generation in electricity and renewable gases, the management of the distribution grid will be confronted with temporary local unbalances between supply and demand and with local congestion in the distribution grids. To tackle these new challenges on local grids, DSOs must be allowed to organise the flexibility they need.

→ CEDEC proposes changes in article 32 Electricity Directive

STORAGE - 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 storage resources in the energy distribution systems, strictly for grid management purposes. These can cost-efficiently contribute to the local security of supply and facilitate the further development of renewables. DSO shall turn to market offers only if they bring precise answers to the local needs in the grid and if market prices are competitive.

→ CEDEC proposes changes in article 36 Electricity Directive

EV CHARGING INFRASTRUCTURE - In order to contribute to the market uptake of electric transport, to the geographical coverage of public charging infrastructure, and to the use of electric vehicles (EV) as a flexible storage solution, DSOs can guarantee the regional coverage when deploying public charging infrastructure for EV. DSO shall turn to market offers only if they guarantee full geographical coverage in his distribution area and if market prices are competitive.

→ CEDEC proposes changes in article 33 Electricity Directive

NEW DSO ACTIVITIES - DSOs are expected and have the will to operate as neutral market facilitator in a crucial economic sector in full transition. They see the need to develop smart grids and to make sector coupling a reality. While investments in innovative solutions will therefore be absolutely necessary, the new article 36a – forbidding new activities for DSOs as a general rule – kills any drive to innovate as DSO and introduces insecurity that will scare off shareholders to invest in the future distribution grids.

Furthermore, given the current formulation, it seems legally questionable to prohibit - by EU law on the electricity sector – the development of any new activities in DSO companies that are submitted to legislation of other economic sectors.

→ CEDEC proposes changes in new article 36a (EP proposal) Electricity Directive

Key priority 2 - DSO & data

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 the European Commission 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 Commission's own Impact Assessment.

The European Parliament and Council both propose the determination of interoperability requirements in cooperation with the Member States: this is a reasonable and cost-efficient alternative, but valid only if taking into account the national situations and if limited to cross border issues.

→ CEDEC proposes changes in articles 24 and 34 Electricity Directive

Key priority 3 – Local energy community

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 all actors in the market - same rights and obligations;
- Align standards and requirements for security and safety for the LEC grid operator and for 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 connection capacity elements in distribution tariffs.

→ CEDEC proposes changes in article 16 Electricity Directive

Key priority 4 – Demand response

As a principle, aggregators must have balancing responsibility.

Compensation payments between aggregators and balance responsible parties have to be verified on their structural (and not 'exceptional') character.

→ CEDEC proposes changes in article 17 Electricity Directive

Key priority 5 – Smart meters

New requirements for smart metering systems should be carefully assessed before being imposed, and only for future smart metering systems in order to avoid costly retrofitting of already installed systems.

→ CEDEC proposes changes in articles 19, 20, 21 Electricity Directive

Key priority 6 – 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.

→ CEDEC proposes changes in article 11 Electricity Directive

Key priority 7 – Market-based and regulated prices

Public service obligations concerning prices should continue to be part of the regulatory options. In the interest of the customer, Member States shall decide on the conditions for application of forms of regulated prices (like social tariffs or tariff reductions) for clearly defined categories, especially vulnerable customers.

When considering public service obligations concerning prices, the current competitive situation in the Member State (measured for example through the HHI-index) can be taken into account.

→ CEDEC proposes changes in article 5 and recital 14 Electricity Directive

MARKET DESIGN REGULATION

Key priority 1 – EU DSO Entity

Given the key role of the distribution grids in the decentralisation of the energy system and in the energy transition, CEDEC supports an efficiently structured representation of DSOs for electricity and gas at EU level – as a counterpart for the TSOs through Entso-e and Entso-g.

However, CEDEC questions the effectiveness and the respect for the necessary subsidiarity in case an EU DSO entity will develop initiatives on all strategic DSO issues, and moreover will focus on electricity only. Furthermore the European Commission & ACER would acquire almost exclusive control over future distribution-related Network Codes, with the additional risk of a dominating influence of a very small group of very large DSOs.

In a European Union with very diverging national energy market landscapes and varying potential energy resources, and in the context of decentralising and more integrated energy systems, CEDEC does not consider the Commission proposal as the appropriate answer to the future DSO's challenges.

All the DSOs should have the right to be included in the DSO entity, with the possibility – especially for the more than 2000 SME-type DSOs - to be represented by the European association of their choice. Their voting rights in the different governance structures should ensure that small, medium-sized and large DSOs have a comparable influence on the strategic and technical outcomes of the Entity's initiatives.

For example, a Board composition of 9 seats for the less than 100.000 customer companies, 9 for the less than 2 million customer companies, and 9 for 2 million+ companies would ensure that the future outcomes of the EU DSO Entity will be effective and efficient for the different types of DSOs in the European Union.

CEDEC supports the consensus between the European Parliament and the Council on this point, as reflected in the new article 50a that they both have voted as an amendment to the initial Commission proposal.

Finally, given that the basic rights of the large majority of DSOs (the SME-type DSOs) in the new DSO Entity are heavily contested by the largest DSOs in Europe, the governance structure and related rights shall be guaranteed and ensured in the text of the Market Design Regulation and shall not be deleted there and transferred to the statutes. If the text would be transferred to the Statutes, the Commission could later decide alone to change fundamental elements, without having to take into account the clear positions of the Parliament and the General Approach of the Council.

→ CEDEC proposes changes in articles 49, 50, 51 and 52 Electricity Regulation

→ CEDEC support for new article 50a (identical proposals from Parliament and Council) in the Electricity Regulation.

Key priority 2 – Charges for access to networks – Grid tariffs

The energy efficiency first principle, the targeted rise of decentralised renewables and active customers and energy communities will have a huge impact on the way the grid will be used in the future.

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

→ CEDEC proposes changes in articles 3 and 16 Electricity Regulation

Key priority 3 – Network Codes

The existing Network Code (NC) procedure formally involves the European Commission, ACER and Entso-e, as well as the Member States through the cross-border committees.

However, it is now proposed that the Commission will adopt NCs as *delegated acts*: this implies that Member States will be excluded from contributing to the new NC process as the so called “comitology procedure” will disappear.

Therefore, given the diversity of the market and distribution design in the EU member states, the adoption of NCs for distribution issues should be allowed only through *implementing acts* that involve the Member States.

Furthermore, the Commission proposal foresees - in different parts of the Package – a large extension of the range of NCs, going far beyond the cross-border dimension and impacting directly in fields (like electricity distribution) with no cross-border aspects and where Member State currently have the competence to decide.

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

→ CEDEC proposes changes in articles 55, 56 and 63 Electricity Regulation

Key priority 4 – Priority dispatch

One of the declared objectives of the Package is to become global leader in renewables. In a non-level playing field like the European electricity generation market, reducing priority dispatch only to small-scale sustainable generation (like renewables and high-efficiency cogeneration) 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.

→ CEDEC proposes changes in article 11 Electricity Regulation

CEDEC - Background information

CEDEC represents the interests of more than 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 small and medium-sized local and regional energy companies have developed activities as local 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.

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