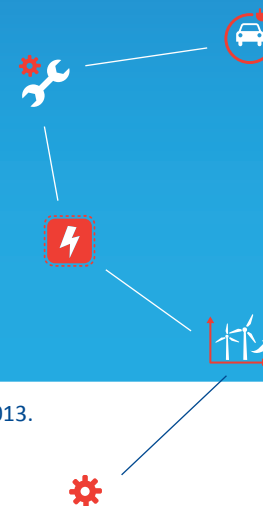


2013

CEDEC ANNUAL REPORT FOR 2013

This report provides the highlights for CEDEC's activities for the period encompassing 1 January 2013 to 31 December 2013. CEDEC is legally constituted as a non-profit international organization (AISBL) under Belgian law.

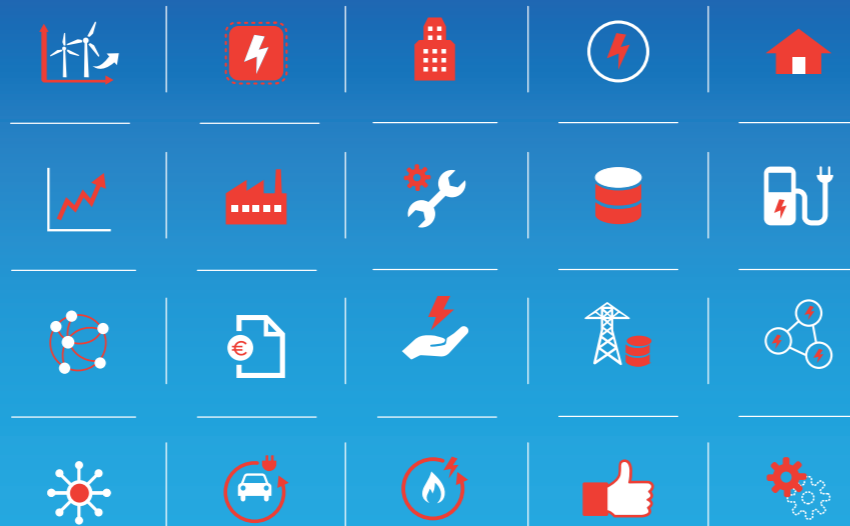


Objective of the annual report

CEDEC worked intensively on European energy initiatives throughout the year 2013. In order to provide a description of its main activities, this report highlights the most important issues to which CEDEC has actively contributed, by a continuous proactive involvement with European instances to further highlight the role of local and regional energy companies in the European energy landscape.

This report shall also stress the positions adopted by CEDEC relating to the major themes of European energy policy.

For further specific information concerning CEDEC's positions or any other communication, we refer you to our website www.cedec.com.



STATEMENT FROM THE PRESIDENT

Ladies and Gentlemen,
CEDEC Colleagues,

A new eventful year has passed. A special focus has continued to lie on the reflection on retail market models (especially the future role of DSOs) in a smart grid environment. The work of the European Commission Task Force on Smart Grids has continued and the Member States have been asked to reflect on their future market design options. CEDEC has certainly remained a driver of this discussion.

A second priority for CEDEC concerned the energy and climate questions and the future energy mix. CEDEC has continued to work on the post 2020 framework for renewable energy, including the European discussions on targets and support schemes, as well as on the structural reform of the European Emission Trading System.

Moreover, CEDEC has continuously played an active role in the development of network codes on gas and electricity. In close collaboration with the experts from its members, CEDEC has represented the DSOs in the discussions with TSOs (ENTSO-E and ENTSO-G), regulators (ACER and CEER) and the European Commission.

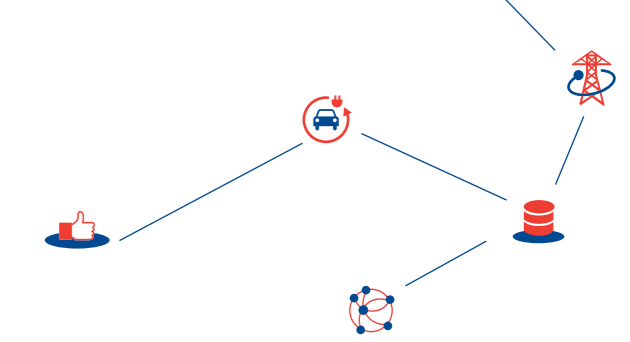
Finally, the implementation of the recently adopted Energy Efficiency Directive has continued to be an important issue for CEDEC. The Commission has developed interpretative notes for key articles, a process which CEDEC has closely monitored.

CEDEC has positioned itself during 2013 as a constructive interlocutor with the European Parliament and European Commission and will continue to closely follow and defend its members' interests in the different European legislative initiatives. Thanks to the credibility gained during more than twenty years of interest representation, CEDEC remains an appreciated actor in the European public utilities sector.

Various uncertainties have thus left their mark in 2013, and the member companies of CEDEC must confront them, on the economic, technical, social and environmental levels.

CEDEC wishes to accompany its affiliated companies in order to rise to these challenges with a single voice.

I wish to thank the directors and collaborators of the national federations and affiliated companies, who bring an essential contribution to the effectiveness of the actions carried out by CEDEC.



Also, we will continue to count, in the years to come, on the experience, know-how and enthusiasm of the CEDEC staff and all its members.

As I pass the Presidency to my successor, I appreciate the personal and professional relationships established with all the interesting persons – throughout several years of my involvement in CEDEC – who were involved in the decision-making bodies of CEDEC.

I would be remiss if I did not seize this last opportunity to tell you to what extent I have appreciated, unfailingly and without reservation, the valuable collaboration of the staff of CEDEC, as efficient as it is dedicated.

The President
Bernd Wilmert



WHO IS CEDEC?

PRESENTATION OF CEDEC

CEDEC was founded as a non-profit organization in 1992 in Brussels and has been actively advocating the interests of local and regional companies active in the field of electricity and gas distribution and supply at European level.

CEDEC represents the interests of more than 1500 local and regional energy companies – mostly in public hands – serving 85 million electricity and gas customers & connections with an annual turnover of 120 billion euros currently, in nine European countries: Austria, Belgium, Bulgaria, France, Germany, Italy, the Netherlands, Norway and Switzerland.

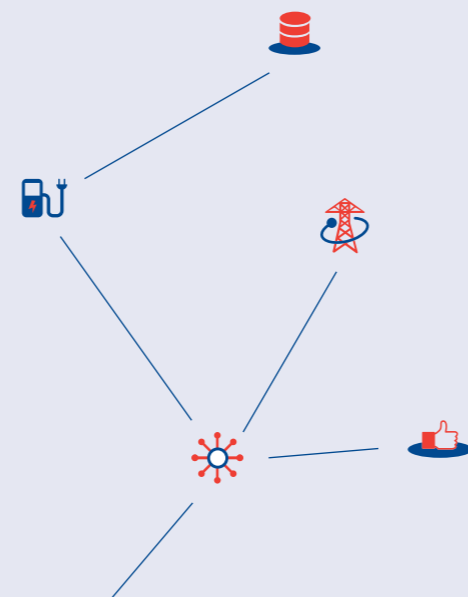
These predominantly medium-sized local and regional energy companies have developed, for many years, activities as electricity and heat generators, electricity and gas distribution grid & metering operators and energy (services) suppliers. Local energy companies provide services which are reliable, sustainable and close to the customer. Through their investments and by employing ca. 350 000 people, they make a significant contribution to local and regional economic development.

The political and regulatory framework applicable to the internal energy market must be set up in a way to exploit the structural advantages of local and regional companies.

As shareholders and management are situated close to their customers, they carefully consider their interests throughout all decision-making processes.

CHARACTERISTICS OF COMPANIES AFFILIATED WITH CEDEC

- They are key players in competitive energy markets: without competitors of different sizes no competition is possible.
- They are small and medium-sized energy companies with local and regional shareholders: key players in regional economic development, investment and local jobs.
- They play an active part in the entire value chain and they aspire to civic value: generation, network operation, management of metering systems, supply and services for energy efficiency.
- They are partners in the transposition of environmental targets: investment in sustainable local electricity production, and efficient and smart grids.



MISSIONS OF CEDEC

CEDEC's missions consist of:

1. Representing its affiliated local and regional companies' interests in their relationship with the European authorities.
2. Promoting knowledge exchange and experience in the energy domain. CEDEC acts as a round table for local and regional companies operating in the energy field. It promotes the exchange of information and technical and economic experience regarding energy distribution between its members on the one hand, and between CEDEC and the relevant international organisations on the other hand.
3. Delivering services to its affiliated companies by monitoring and analysing legislative and regulatory initiatives and communicating relevant subjects to its members. To do so, it publishes, among others, a regular newsletter providing targeted information: CEDEC Brief news. Depending upon the strategic and technical requirements, CEDEC organises congresses and seminars. Its website (www.cedec.com) and information portal enable consultation of a whole series of information online, amongst others CEDEC's position papers and the evolution of the different working groups.

Therefore CEDEC pursues the following activities, via its diverse bodies:

- Inform its members on current political initiatives taking place on a European level;
- Develop common positions on relevant matters;
- Represent the interests of its members in their relationship with European institutions and international and national organisations;
- Organise internal and public meetings to promote the sharing of experience, knowledge and best practices;
- Contribute to studies and research to deepen analyses in the fields of economics, and technologies.



ORGANIZATIONAL BODIES OF CEDEC

EXECUTIVE BOARD

CEDEC's Executive Board is designated by the General Assembly and is composed of representatives of each member association or company. The Board meets regularly, in Brussels or in the Member States.

During 2013, the Executive Board met on 23/1/2013 (Berlin – Germany), 20/3/2013 (Brussels – Belgium), 22/5/2013 (Ghent – Belgium), 2/10/2013 (Rome – Italy) and 4/12/2013 (Brussels – Belgium).

The Executive Board decides on the association's political and administrative strategy and delegates the day-to-day management to the Secretary General.

MEMBERS OF THE EXECUTIVE BOARD

Chairman

Bernd WILMERT, Stadtwerke Bochum, VKU, Germany

Deputy Chairmen

Francesco SPERANDINI, Acea, Federutility, Italy

Laurens KNEGT, Netbeheer Nederland, the Netherlands

Administrators

Lorenzo BARDELLI (Federutility) (until 22 May 2013)

Claude DESAMA (ORES, Intermixt) (until 22 May 2013)

Plamen DILKOV (SPEE-BG) (from 19 July 2013)

Didier DONFUT (ORES, Intermixt) (until 22 May 2013)

Alexandre DUNOYER (RCEM, ANROC)

Joost GOTTMER (Alliander)

Robert GRÜNEIS (Wien Energie, VKÖ)

Marcel HALMA (Netbeheer Nederland) (until 1st December 2013)

René KELHETTER (FNCCR)

Laurens KNEGT (Netbeheer Nederland)

Heidrun MAIER-DE KRUIJFF (VKÖ)

Andréaß ROß (NRM, VKU)

Rudi OSS (Dolomiti Energia, Federutility)

Guido REEHUIS (Netbeheer Nederland) (from 1st December 2013)

Fabio SANTINI (Federutility) (from 22 May 2013)

Francesco SPERANDINI (Acea, Federutility)

Pascal TAVERNIER (GIE, FNSICAE)

Jacques VANDEBOSCH (INTER-REGIES)

Géry VANLOMMEL (Infrax, INTER-REGIES)

Bernd WILMERT (Stadtwerke Bochum, VKU)

Michaël WÜBBELS (VKU)

Assistants to the Executive Board

Pierre BOULNOIS (FNSICAE)

Paul CORTON (Alliander)

Francesco DELFINI (FNSICAE)

Karl FERRARI (SEL-A.G, Federutility)

Thomas FREUDENBERG (VKU)

Luc HUJOEL (Sibelga, Intermixt)

Marc LOISEL (Soregies, ELE)

Patrick PAULETTO (SPEE-BG)

Alain PETIT (Intermixt)

Yves RAGUIN (FNCCR)

Guido REEHUIS (Netbeheer Nederland)

Fabio SANTINI (Federutility)

Guillaume TABOURDEAU (ANROC)

Christian VIAENE (Sibelgas - Intermixt)

Bruna ZANONZINI (Federutility)

College of commissioners

Karl FERRARI (Federutility)

Marc LOISEL (ELE)

Dirk VANSINA (INTERMIXT) takes over from Jos ANSOMS

(INTERMIXT) from 22 May 2013

Day-to-day management

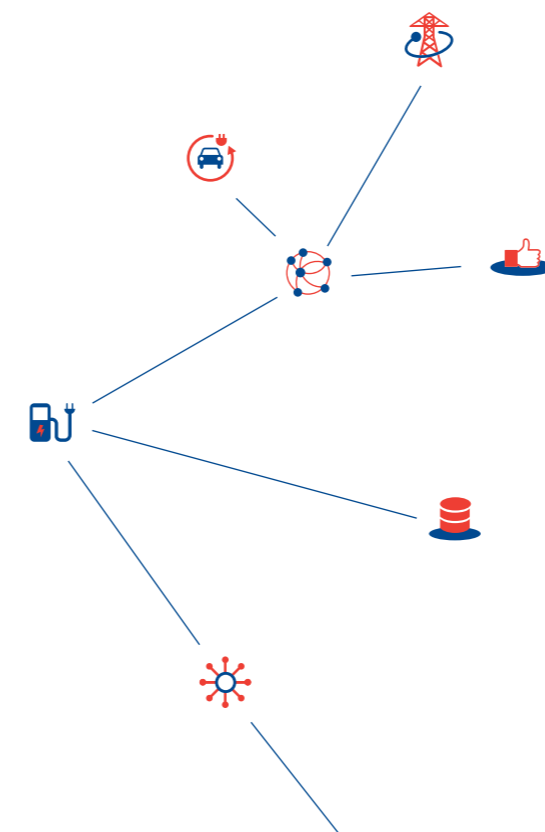
Gert DE BLOCK – Secretary General

Catherine BIREN – Communications Officer

Ann-Katrin SCHENK – Policy Officer

CEDEC POLICY GROUP

The policy group met for the first time on 9 January 2013. This group has as its aim the preparation of the strategic decisions of the Executive Board and facilitation of information flow among members.



WORKING GROUPS

Besides the Executive Board, CEDEC includes several working groups, each one representing a field of expertise. These working groups have as a mission the deeper analysis of specific topics and the elaboration of position papers.

WORKING GROUP "ENERGY AND CLIMATE"

The Working Group "Energy and Climate", chaired by Ann-Katrin Schenk (CEDEC), deals with climate-related energy issues in European Union policies, in particular renewable energy, energy efficiency and the European system on emission exchanges.

WORKING GROUP "TRADING"

The Working Group "Trading", chaired by Dorothea Leidner (Mainova – VKU) handles subjects regarding wholesale markets, in particular MIFID, REMIT and capacity mechanisms.

WORKING GROUP "GRID TARIFFS"

The Working Group "Grid tariffs", chaired by Ilse Malfait (Infrax – INTER-REGIES), analyses the different grid tariff models as well as related regulatory systems throughout the Member States.

WORKING GROUP "SMART GRIDS"

The Working group "Smart Grids", chaired by Gert De Block (CEDEC), focusses on the different strategic and operational aspects of smart grids. The new roles and responsibilities as well as management and communication of data regarding smart meters play a central role in the discussions.

WORKING GROUP "NETWORK CODES ELECTRICITY"

The Working Group "Network Codes Electricity", chaired by Marc Malbrancke (INTER-REGIES), does the follow up on the developments of the European Network Codes for Electricity and the impact of those codes on the Distribution System Operators (DSOs). Experts from the Group participate in meetings with ENTSO-E, ACER and the Commission.

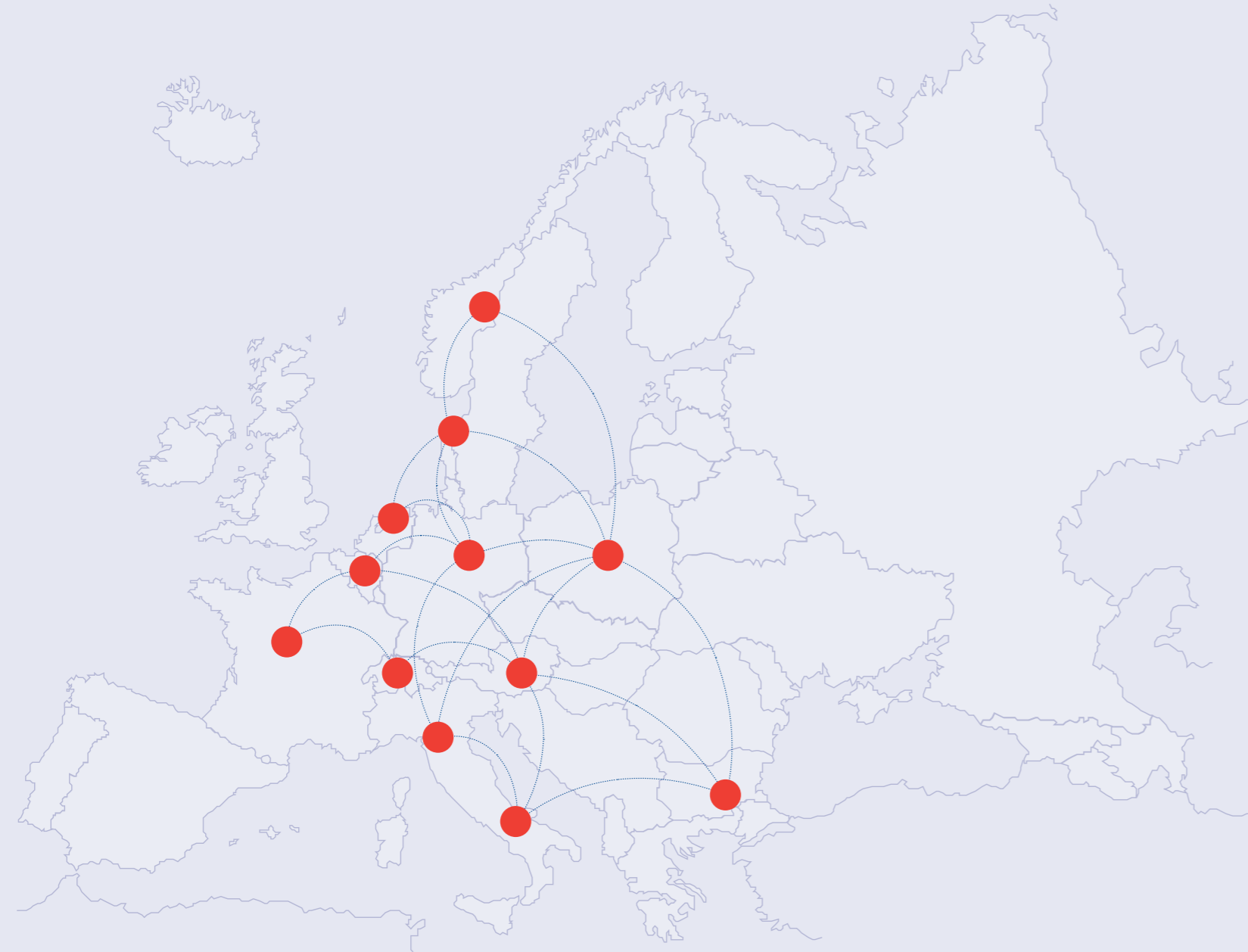
WORKING GROUP "GAS"

The Working Group "Gas", chaired by Joost Gottmer (Alliander – Netbeheer Nederland), focuses specifically on strategic European gas topics relevant for local and regional gas companies and the gas DSOs, including the developments of the European Network Codes for Gas. Experts from the Group participate in meetings with ENTSO-G, ACER and the Commission.

WORKING GROUP "LEGAL FRAMEWORKS FOR DISTRIBUTION"

The Working group "Legal frameworks", chaired by Gert De Block (CEDEC), has been working on the proposal for a directive on the award of concession contracts, that was finalized beginning 2014.

The Group will continue to analyse the current national legal frameworks for DSOs, in the light of the application of the Third Package in the member states.

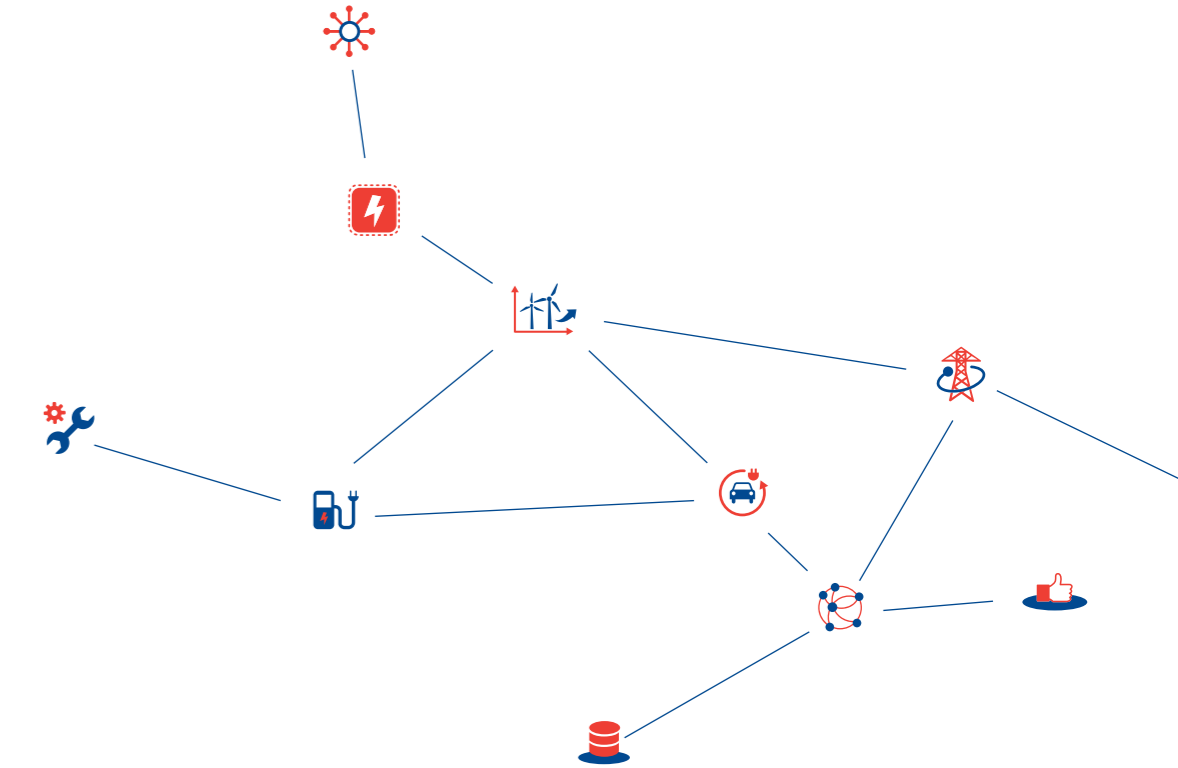


AFFILIATION WITH CEDEC

CEDEC counts among its members local and regional companies or the national federations which represent them, all active in the energy field.

The specific characteristics of the local and regional companies, resulting from their local and regional anchoring, motivate them to have their own specific voice at the European level. A cooperation among all local and regional companies will strengthen their representation and optimize the defense of their legitimate interests.

Companies or organisations interested in joining forces with CEDEC – as an effective or associated member – are free to contact us, or address an application request to CEDEC (info@cedec.com).



2013 KEY EVENTS

CEDEC ANNUAL CONGRESS

The CEDEC Congress, held 19 and 20 March 2013 at the Renaissance hotel in Brussels, brought together ca. 150 policy makers from the European Commission and Parliament, regulatory bodies, executives and top experts of local and regional energy companies from various countries.

The central theme “Connecting customers & climate: how local energy companies invest and facilitate the future?” hinted at the issues discussed, among which were the EU’s energy and climate policies, active engagement of consumers and the facilitating role of DSOs in energy retail.

By confronting European policy priorities with national frameworks and local best practice experiences, the conference gave room for interesting discussions among participants and policy-makers as well as good networking opportunities.

CEDEC “GAS DAY”

CEDEC, in association with Wien Energie and VKÖ organized its 2nd Gas Day in February 2013 in Vienna, Austria.

The Gas Day aims to gather gas experts in operations and regulatory affairs to share ideas on new developments and innovative local gas projects.

“The rules of the internal gas market and the ambitious climate objectives of the European Union have a profound impact on the development of the (smart) gas grid, as well as on the supply of natural gas and biogas. Local gas companies will need to bring together their knowhow, experience and innovative ideas if they also want to be successful in the future gas environment”, said Gert De Block, Secretary General of CEDEC.

WORKSHOP ON “SMART GRIDS: TAPPING SYNERGIES AMONG DSOs AND ICT”

On 6 November 2013, CEDEC hosted a workshop on the synergies between Distribution System Operators and the ICT sector in a smart grid environment.

During this event, existing projects for the exploitation of synergies were presented by CEDEC members from Italy, the Netherlands & Germany, and were discussed with speakers from the European Commission, the Florence School of Regulation, national regulators as well as experts from the ICT, energy and metering sector. The event was organised in order to contribute to the discussions in the Task Force Smart Grids as well as in the context of the Proposal for a Regulation on measures to reduce the cost of deploying high-speed electronic communication networks.

SEMINAR ON SYNERGIES AMONG DSOs AND TELECOM AND SMART GRIDS COMMUNICATION

On 22 May 2013, during a dedicated seminar following its General Assembly in Ghent, Collette Malloney from DG Connect in the European Commission, Ronnie Belmans, Professor, and other experts discussed the possible synergies among the ICT sector and DSOs and the future roles of both in a smart grid environment with the CEDEC members.

2013 KEY TOPICS FOR CEDEC

1. THE INTERNAL ENERGY MARKET

The Energy Council of 7 June 2013 adopted conclusions on the Commission’s communication “Making the internal energy market work” which had been published on 15th November 2012. In light of the goal to complete the internal energy market by 2014, the European Commission presented a comprehensive overview of progress as well as future challenges.

CEDEC endorsed the consumer-centric approach taken by the European Commission in analyzing the achievements and remaining tasks. While much has been achieved, such as more transparency, security of supply and increased choice for consumers, the Commission addressed three key challenges:

- **Implementing the Third Energy Package and ensuring a level playing field;**
- **Helping consumers to take advantage of new market opportunities;**
- **Making Europe’s energy system fit for the future.**

CEDEC agreed with the Commission that all market players should have clear roles and responsibilities in overcoming these challenges and in order to achieve a fully integrated, efficient and sustainable European energy market, with a high level of security of supply.

However, it is important to point out that the energy markets in the different Member States had different degrees of competition, diverging energy mixes, and a different degree and rate of transformation. Hence, a one-size-fits-all solution will not be efficient in advancing a transformation into a competitive market and therefore should not be imposed: some flexibility is needed for Member States to choose the models that suit them best.

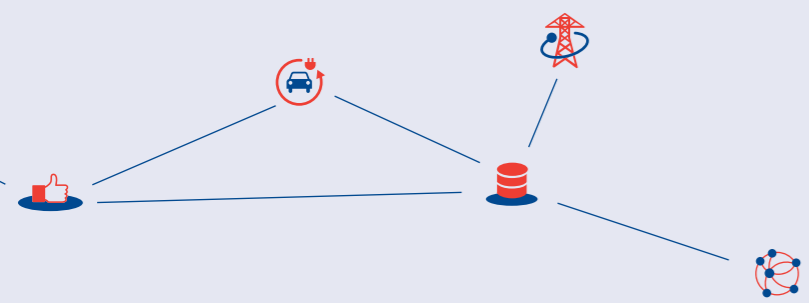
CEDEC and its members further believe that Distribution System Operators (DSOs) as neutral market facilitators represent an essential role in a well-functioning market and in the transition of Europe’s energy system to a secure, sustainable and affordable supply of energy to consumers.

The Energy Council in its conclusions set detailed tasks to be accomplished in order to achieve the 2014 and 2015 deadlines to improve the rights and roles of consumers and the transition to the energy market of the future. The European Parliament contributed to the debate with its own initiative report (rapporteur: Jerzy Buzek) voted at its 10 September plenary session.

In its final report, the ITRE Committee of the European Parliament recognized the central role of DSOs in the internal energy market. It also clarifies that the DSOs are the best-placed actors to securely deliver technical and consumer data to players in a smart market. Moreover, as neutral and regulated actors, DSOs can best ensure consumer’s data privacy, which is obviously essential.

ACHIEVEMENTS IN 2013

- Throughout the process CEDEC actively engaged in the discussions in the European Parliament through written and personal communication, through several meetings with the rapporteur in the European Parliament Jerzy Buzek (European Parliament – ITRE Committee) as well as the shadow rapporteurs and key MEPs. In meetings with representatives of the European Commission, CEDEC outlined its position on the European Commission’s Communication.
- In June 2013, CEDEC was invited to present its views in a hearing on the report organized by the rapporteur in the European Parliament, ahead of the vote in the ITRE committee.
- CEDEC developed an extensive position paper on the European Commission’s Communication and the different drafts of the European Parliament report.



Public interventions in the energy market

Europe's energy landscape is changing rapidly. Based on the overall objectives to reduce greenhouse gas emissions and diversify energy supply and reduce dependence on fossil fuels, the share of renewable energy sources (RES) in European energy supply has been growing rapidly in the past years, reaching 13% in the European final energy consumption in 2012⁽³⁾. As supply is becoming increasingly flexible, the demand-side will be enabled to follow the availability of electricity produced from variable sources. Additionally, flexible back-up capacity from conventional sources will be needed to guarantee security of supply.

The above-described developments have had considerable impact on energy markets. The need for public interventions increased in order to overcome market failures and to promote public policy goals. In this context, **CEDEC welcomed the European Commission's guidance, published on 5 November 2013 on "Delivering the internal electricity market and making the most of Public Intervention"**, elaborating on good practices for public interventions to ensure the accomplishment of policy goals, such as a flexible and secure energy supply in an integrated European energy market, with a growing share of renewable energy sources.

It is outlined that while public interventions in the energy market are both useful and necessary instruments to over-

come market failures and to accomplish policy goals, interventions should be efficient with minimal impact on competition.

For the promotion of renewable energy, the European Commission advocates support schemes that foster competition between technologies, expose them to market signals, avoid overcompensation of more mature technologies and retroactive cuts. **CEDEC does support the gradual market integration of mature and competitive RES technologies. However, in the absence of a level playing field, with continued subsidies for fossil fuels and in order to maximize the potential of locally available resources, it is crucial that technology-specific support schemes for renewables remain in place, contributing to a balanced technology mix. Most importantly, predictability and stability of support schemes are key for investors, such as local and regional energy companies to invest in renewable energy and to make their contribution to the 2020 targets.**

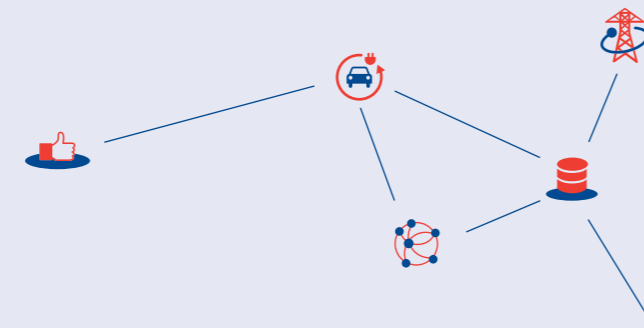
With regard to demand response, the European Commission sees the potential of such measures as largely untapped in enabling an active participation of customers in the energy market, the large-scale integration of renewables and generation adequacy in an increasingly flexible European energy market. **CEDEC welcomes that the Commission puts more emphasis on the demand side and the deployment of enabling technologies, such as smart grids. Intelligent net-**

works are the prerequisite for all demand response activities. It is therefore important to incentivize the deployment of smart grids by cost-reflective and innovation-friendly regulatory frameworks and by adequate funding for research & development and demonstration projects.

For generation adequacy, CEDEC also welcomes the guidance given by the European Commission. CEDEC agrees that all capacity remuneration systems currently in discussion in Member States need to be market-based and technology-neutral. Supply and demand side solutions to generation adequacy should be considered equally. Before introducing mechanisms for generation adequacy, all complementary measures such as existing interconnections between Member States need to be exploited, and a careful assessment of generation adequacy, taking these solutions (i.e. interconnections and supply from neighbouring countries) into account, should be conducted.

ACHIEVEMENTS IN 2013

CEDEC sent its position paper on "Delivering the internal electricity market and making the most of public intervention" to the European Commission as well as other relevant stakeholders in December 2013.



2. ENERGY INFRASTRUCTURE

2.1 Smarter Grids for smart markets

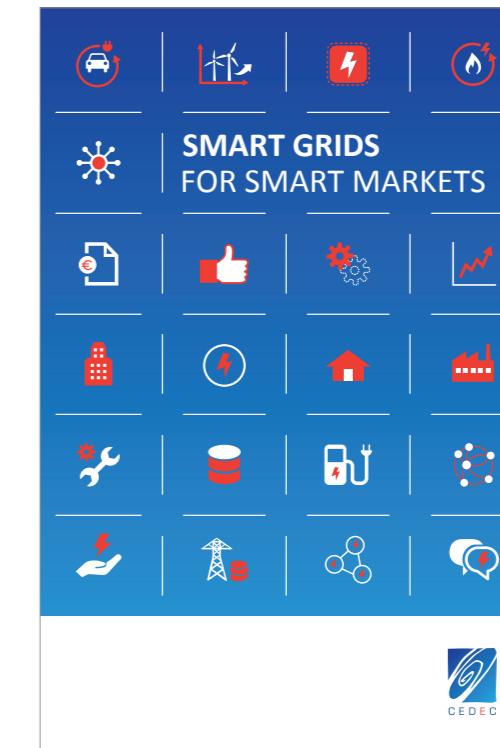
In the recent Communication on the internal Energy market⁽²⁾, the European Commission suggests "reconsidering" the current role of the DSO and endorses a reflection on the future role of the ICT (Information and Communication Technologies) sector in local and regional energy distribution grids. Moreover, it is stated that the DSO activities that involve new technologies should be left to the market.

CEDEC advocates an active role of DSOs in data management in the future smart grid environment - the 'DSO as market facilitator' model - in order to ensure data security and data privacy.

Moreover, CEDEC sees the need for more tasks for DSOs with the distribution system becoming ever-more dynamic through decentralised generation and demand-side measures.

Also, DSOs should be allowed to deploy charging stations for electric vehicles, in the absence of a market which delivers these.

During the year 2013, CEDEC intensively discussed its views on the role of the DSOs with the European Commission and other stakeholders in the debate. Two reports on the future role of DSOs were prepared on behalf of the European Commission, by the Florence School of Regulation and ECN/Eco-ris. CEDEC actively contributed to these reports during the different stages of the stakeholder consultation processes.



ACHIEVEMENTS IN 2013

- CEDEC contributed to the discussion on data management with the organization of a workshop in November on "Tapping synergies between DSO and ICT".
- CEDEC was actively involved in the European Commission Smart Grids Task Force and contributed with input to the reports prepared on behalf of the European Commission on the future roles of DSOs.
- Contribution of CEDEC to the Public consultation on "Energy and ICT – Cost effective deployment of Smart Grids" by DG Connect.
- CEDEC issued several papers on:
 - "Smart grid development: DSOs as neutral market facilitators"
 - "Smart local distribution grids – Successfully linking energy markets with the energy transition"
 - Florence School of Regulation – THINK Study "From distribution networks to smart distribution systems: Rethinking the regulation of European DSOs"

2.2 Directive for the Deployment of alternative fuels infrastructure

In January 2013, the European Commission published a proposal for a directive on the deployment of alternative fuels infrastructure. The European Commission proposal aimed to accelerate the putting in place of sufficient alternative fuel stations in the European Union such as recharging stations

for electric cars and natural gas refueling points. **CEDEC welcomed the European Commission's initiative to promote sustainable transport solutions through a common strategy for infrastructure development.**

The draft report (rapporteur Carlo Fidanza (EPP, Italy), was adopted on 14 November by the TRAN Committee of the European Parliament. MEPs questioned the feasibility and cost of the measures proposed, given that the EC proposal was very ambitious (such as setting up 8 million recharging points for electric vehicles in the European Union by 2020). Each member state would be required to put in place a minimum number of charging points. Moreover, the EC proposal specifically excluded DSOs from operating charging points for electric vehicles. This provision was opposed by CEDEC members and rejected in the report by the European Parliament.

CEDEC members as public utilities have played and are prepared to continue to play a central role in the deployment of alternative fuel infrastructure. Through their experience as distribution system operators, providing infrastructure in response to customer needs, their proximity to customers, municipalities, public transport systems, and their technological know-how, they can take a leading position in the promotion of green mobility. They have been pro-actively engaged in solving the famous chicken-and-egg problem regarding the number of electric vehicles and charging stations, by building publically accessible charging stations.

Notwithstanding, infrastructure development can only be one part of the approach and needs to be accompanied with the promotion of affordable and consumer-friendly vehicles.

The deployment of alternative fuels infrastructure is at very diverging stages in European Member States and the national and / or regional structures vary considerably. CEDEC be-

lieves that all national and / or regional measures already taken should be recognized.

CEDEC was actively involved in the process in the European Parliament and presented some points of concerns with the Commission proposal in a written position which was widely distributed as well as in several personal meetings with MEPs and the European Commission. CEDEC was also represented in the Clean Fuels for Transport Working Group of the European Commission.

2.3 Directive on measures to reduce the cost of deploying high-speed communication networks

CEDEC followed intensely the proposed Regulation on measures to reduce the cost of deploying high-speed communication networks which was published by the European Commission on 26 March 2013. The roll-out of broadband, an objective included in the 2020 strategy of the European Commission, is an essential part of the Digital Agenda initiative of the European Union.

The proposal aims at higher efficiency and lower-cost of deploying broadband infrastructure through cooperation with other utility infrastructures. It stipulates a number of rights and obligations for actors with regard to the use and extension of the infrastructure.

A central element of the regulation is the disclosure and mapping of existing physical infrastructure and their usage for an increased coordination of civil works, an acceleration of permit granting procedures as well as the equipment of buildings with infrastructure for high-speed communication networks.

Providers of physical infrastructure for electricity, gas, district heating, water and sewage and public lighting are directly concerned by this regulation. The Commission estimated that savings from cooperation could amount to 20-30% of investments needed for the deployment of broadband.

CEDEC is convinced that cost-efficiencies can be achieved by cooperation among energy distribution system operators (DSOs) and undertakings authorized to provide electronic communications networks. In fact, collaborations and joint usage of passive infrastructure among these actors are already common practice in many Member States.

On 28 November 2013, the ITRE Committee of the European Parliament adopted its draft report on the draft regulation of the European Commission. The deputies voted to change the legal instrument from a Regulation to a Directive.

In its report, the ITRE Committee also clarified some conditions for the shared use of passive infrastructure, with a view to ensuring the safety and security of the networks as well as workers. Moreover, it stressed that electronic communication network providers shall also have the right to offer access to their passive infrastructure. Having said that, the independent and transparent decision making for dispute settlement bodies must be ensured.

CEDEC welcomed the changes by the European Parliament and underlines the importance of not compromising safety, security and integrity of energy networks. European distribution system operators are at the core of smart grid development, where cost-efficient solutions are crucial. CEDEC especially appreciated the work of the ITRE committee with regard to the additional margin of flexibility for the member states, but also in relation to questions of reciprocity between rights of the parties involved.

ACHIEVEMENTS IN 2013

- CEDEC prepared a detailed position paper on the European Commission proposal which was widely distributed among Members of the European Parliament. In meetings with the rapporteur Edit Herczog, S&D, and all shadow rapporteurs, CEDEC's concerns were further explained.
- Through contacts with the participants of the debates in the European Council, CEDEC was able to draw some attention to major concerns, which were reflected in the final text adopted.
- The CEDEC workshop on "Data management in smart grids: Tapping synergies between DSO and ICT" focused on the draft regulation and contributed to the exchange of all relevant parties.
- CEDEC developed constructive exchanges of positions with DG Connect.

2.4 Network codes

Process

The third package deals with the formulation of framework guidelines (FWGL) and subsequent network codes (NC) for electricity and gas that will be applied in all member states the moment the codes are finalized.

Although the field of activity of the NCs is in principle limited to transport activities, some of the NCs will have a considerable impact on the distribution level, as they could have a relevant influence on the investment and operational activities of the DSOs.

Since the NCs are enforced as Regulations, there is no need for transposition into national and/or regional legislation. However, a transition period can give all stakeholders the time needed to implement the Regulation, putting into place new or adapted procedures, and making the necessary operational and contractual changes.

At the start of the process, in agreement with ENTSO-E and ENTSG, DSO expert groups were set up for the elaboration of each network code where DSO's are involved. The final drafts of the NCs are the result of intensive work carried out by ENTSO-E, ENTSG as well as ACER, with the involvement of all stakeholders. **CEDEC participated in workshops, meetings of experts and public consultations, both for electricity and natural gas.**

CEDEC follows the work on all the relevant codes and coordinates participation and information exchange among DSO experts, and among members of the CEDEC Working Groups related to NCs.

State of play – network codes

Throughout 2013, the development of the following NCs for **electricity** was followed up closely by CEDEC, given their considerable impact on the distribution level:

- NC on generator connection (NC RfG);
- NC on demand connection (NC DCC);
- NC on operational security (NC OS);
- NC on operational planning and scheduling (NC OP&S);
- NC on load-frequency control and reserve power (NC LFC&RP);
- NC on electricity balancing (NC EB).

The NC RfG and NC DCC have been finalized and were recommended for adoption to the Commission by ACER at the end of March, followed by the NC LFC&RP end of September and finally NC OS and NC OP&S in November 2013. The Commission started in late 2013 the treatment of these NCs in Comitology.

By the end of 2013 the NC EB had been submitted to ACER for reasoned opinion.

In the beginning of 2014, ENTSO-E started the scoping of a 10th NC for electricity, NC on emergency and restoration (NC ER), for which ENTSO-E was supposed to receive an invitation from the Commission to start end of March 2014.

For **natural gas**, the development of the following NCs was followed closely by CEDEC:

- NC on gas balancing (NC GB);
- NC on interoperability and data exchange rules (NC IO);
- NC on harmonised transmission tariff structures (NC TAR).

The NC GB was finalised and recommended for adoption to the Commission by ACER at the end of March 2013. Treatment of the draft regulation in Comitology (Gas Committee) began in the third quarter of 2013. Mid-November the proposal was sent to the Council and Parliament. Finally the regulation was adopted by the Commission and was published in the Official Journal on the 27th of March.

At the beginning of September 2013, ENTSOG delivered a draft NC IO&DE to ACER for reasoned opinion. After some amendments by ENTSOG, ACER recommended the NC to the Commission for adoption mid-January 2014.

The work regarding the new NC TAR only started late December 2013 after ENTSOG received the Commission's invitation to start the development.

DSO attention points

The NC RfG (connection of decentralised generation, including generation connected to the distribution grids) and most importantly the NC DCC (connection of consumers including those offering 'demand side response' on the distribution level and connection of distribution networks) will have a considerable impact on the DSOs.

The impact to be expected for DSOs will be on the level of administrative handling, technical testing, verification and control. Specifically in NC DCC the installation of additional technical equipment in response to e.g. reactive power requirements will all lead to extra obligatory investments unless the requirements in the final version of the NC positively change.

With regard to the demand side response requirements in the NC DCC and the integration of renewable energy, CEDEC agrees with the Commission on the potential of a

harmonized system across Europe. However, during the development of the code, it has become obvious that a stronger link is necessary between regulations created in parallel on an EU and Member State level. This seems especially relevant against the background of numerous unsolved technical and legal questions.

CEDEC continues to stress that the main focus of NCs – as laid out in the ACER FWGLs – has to remain on the improved interconnection between national energy networks. Technical requirements for demand response measures, which are usually applied on the distribution level and near the end user, should therefore be carefully reviewed in the light of this general principle.

The current drafts of the NCs concerning system operation (NC OS, NC OP&S and NC LFC&RP), will probably lead to extra investment in ICT infrastructure due to additional data exchange and to making real-time information available.

CEDEC strongly believes that the cooperation between the DSOs and the TSOs in the NC EB regarding the cost allocation resulting from e.g. limiting reserve activation connected to the distribution network, should be reviewed to make the text more balanced. CEDEC underlines that if additional investments and costs occur due to this European technical regulatory framework, their timely recovery through network tariffs should be guaranteed.

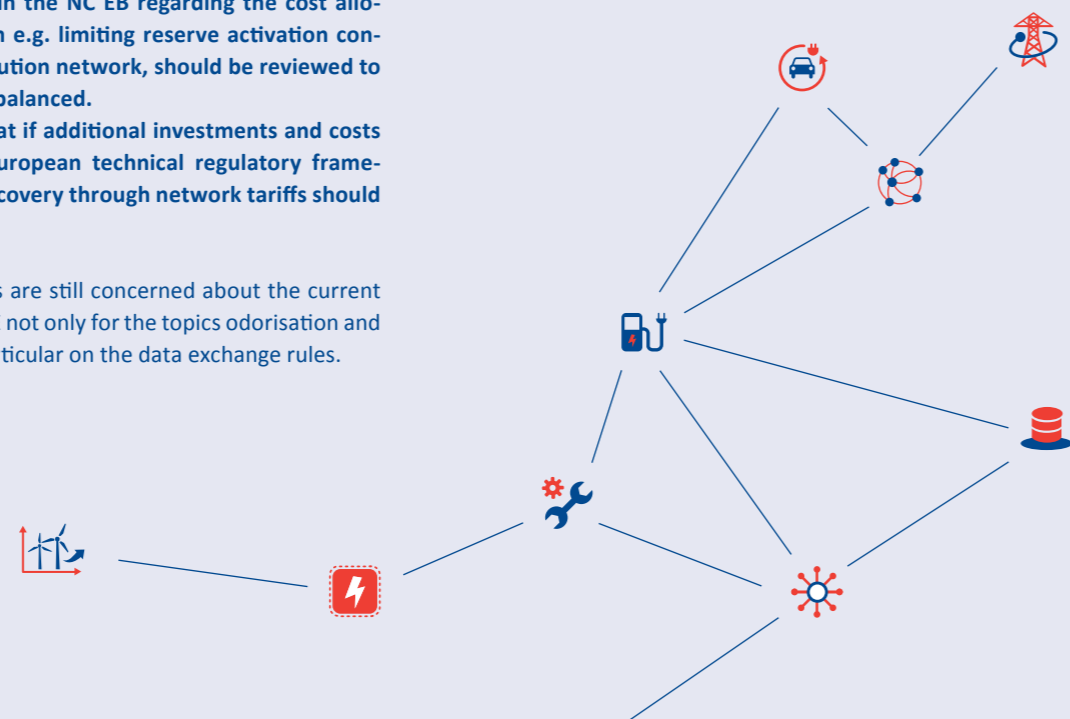
For natural gas, DSOs are still concerned about the current draft of the NC IO&DE not only for the topics odourisation and gas quality, but in particular on the data exchange rules.

The main points of attention regarding the NC development in 2014 will be the Commission's further assessment of a number of the above mentioned codes, as well as the Comitology process every code has to go through.

At the beginning of 2014 it seemed that due to the highly technical content of the NCs this process might take more time and 'energy' than originally evaluated.

ACHIEVEMENTS IN 2013

- CEDEC, together with Eurogas-DSOs and GEODE, presented a statement on the Network Code on Interoperability at the Gas Regulatory Forum which took place on 17 and 18 April 2013 in Madrid.
- CEDEC presented, together with Eurelectric, EDSO for smart grids and GEODE, a joint statement on Electricity Network Codes at the Electricity Forum which was held on 15 and 16 May in Ljubljana.
- CEDEC participated in workshops, meetings of experts and public consultations, both for electricity and gas.



3. ENERGY AND CLIMATE FRAMEWORK

3.1 The 2030 framework for climate and energy policies

On 27 March 2013, the European Commission adopted the Green Paper "A 2030 framework for climate and energy policies". Together with the Green Paper, a public consultation on the content of the 2030 framework was launched. On the basis of the views expressed by Member States, EU institutions and stakeholders, the European Commission issued, on 22 January 2014, a communication "A policy framework for climate and energy in the period from 2020 to 2030" setting out energy and climate targets to be met by 2030. Suggesting a legally binding target of 40% greenhouse gas emission reduction and a 27% share of renewable energy by 2030, which shall be binding but not broken down into mandatory national target, the European Commission is falling behind expectations for an ambitious proposal as basis for the discussions in the European Council.

CEDEC has been strongly advocating for a multiple-target approach, with an ambitious and legally binding target for renewables and greenhouse gas emissions in 2030, along with intensive energy efficiency efforts. A European RES target without legally binding national targets will not hold Member States accountable for their commitments.

CEDEC believes that only with ambitious targets sufficient policy actions will be taken to encourage investments by local energy companies and other market parties in sustainable technologies such as renewable energy installations and smart grids. With typically long life times of assets in the energy sector, more certainty and predictability of the political agenda is needed.

ACHIEVEMENTS IN 2013

- CEDEC provided its opinion through its response to the European Commission consultation and several communications, such as press releases and newsletters.
- CEDEC addressed Energy Commissioner Günther Oettinger, Connie Hedegaard (DG Climate) and Antonio Tajani (Vice-President) with letters and advocated for an ambitious and multi-target approach.
- CEDEC was invited to present its position in a conference organised by CEER on the 2030 framework during the European Sustainable Energy Week.

3.2 ETS

In the light of the oversupply of certificates in the European Emission Trading Scheme, which has amounted to almost 2 billion, the European Commission made a proposal to amend Directive 2003/87/EC on clarification of the provisions regarding the timing of auctions of greenhouse gas emission certificates in July 2012. In this "backloading proposal", the Commission suggested temporarily withdrawing 900 million certificates from the auctioning volume in the ETS, which would temporarily increase the price of emissions. The certificates would be fed back into the auctioning before 2020.

The proposal by the European Commission faced strong opposition among certain stakeholders and Members of the European Parliament. The rapporteur for the Environment Committee in the European Parliament, Matthias Groote, narrowed the proposal to find a compromise, which specified

that an intervention in the carbon market would be limited to a single one in the third trading period until 2021.

However, with still a large majority of MEPs against any intervention in a market-based system, the compromise text was first rejected by the plenary of the European Parliament in April 2013. After more negotiations on the compromise text, it was finally adopted by the European Parliament in July. In November, the European Council also agreed to the backloading proposal, which could then finally start in 2014.

ACHIEVEMENTS IN 2013

CEDEC had strongly supported the backloading proposal as a short-term measure to address the oversupply of certificates in the ETS. For CEDEC, the priority was to reinstall a price level that helps to stimulate investments in low-emission technologies, such as renewable energy and energy efficiency measures. Therefore, CEDEC took active steps by expressing its support for backloading in bilateral meetings with Members of the European Parliament and the European Commission, as well as letter and press releases prior to the vote in the committees and plenary of the European Parliament. CEDEC also co-signed a joint declaration by industry stakeholders speaking in favour of backloading.

4. STATE AID MODERNISATION

With the current State Aid guidelines expiring, DG Competition of the European Commission started its modernisation process for the next guidelines in 2013. Aims of the guidelines are to facilitate the integration of electricity markets, to minimize market distortions caused by poorly designed support measures and to improve the R&D framework for the energy sector. The new draft guidelines extend the scope of the energy-related guidelines to capacity mechanisms, energy infrastructure and carbon capture and storage. These revamped guidelines will enter into force by mid-2014 and will be valid until 2020.

Against the background of the objective of an integrated European internal energy market, the rules for public aid should offer a clear legal framework, which allows addressing specific market failures that are prevailing and stand against common EU objectives, such as the EU's 2020 climate targets. State Aid therefore plays a crucial role. In this context, CEDEC regrets that the levels of aid intensities have decreased from the previous State Aid guidelines.

Nevertheless, the energy mix remains in the competence of the single EU Member States. Hence, Member States must have room for maneuver in defining and achieving their priorities, i.e. in designing their own support schemes. Therefore, State Aid Guidelines should not dictate common rules that stand in contrast or even interfere with existing EU legislation. They should instead set an efficient frame and underlying principles for tailor-made solutions in order to overcome certain market failures and create a level-playing field.

ACHIEVEMENTS IN 2013

The CEDEC Working group on Energy & Climate responded to the public consultations of the European Commission and addressed policy-makers on European and national levels with the concerns on specific points of the draft guidelines.

5. FINANCIAL MARKETS (MiFID II AND MiFIR)

Aim of the MiFID II and new regulation MiFIR is to make financial markets safer and to avoid risks of financial markets.

It therefore regulates the usage of financial instruments in commodities and energy-markets.

Concerning the relevant passages for its members – especially the trading departments of local and regional companies – CEDEC took part in the political process with several comments and position papers developed by the Working Group “Trading”, thus intensively accompanying the development of the regulation. It was explained to the European Parliament – explicitly to rapporteur Marcus Ferber – and to the Commissioner Michel Barnier as well as to the Irish Presidency, that local and regional companies should be able to continue their business without being supervised by financial authorities and without the need of licenses, special capital requirements according to CRD and risk techniques as in MARisk.

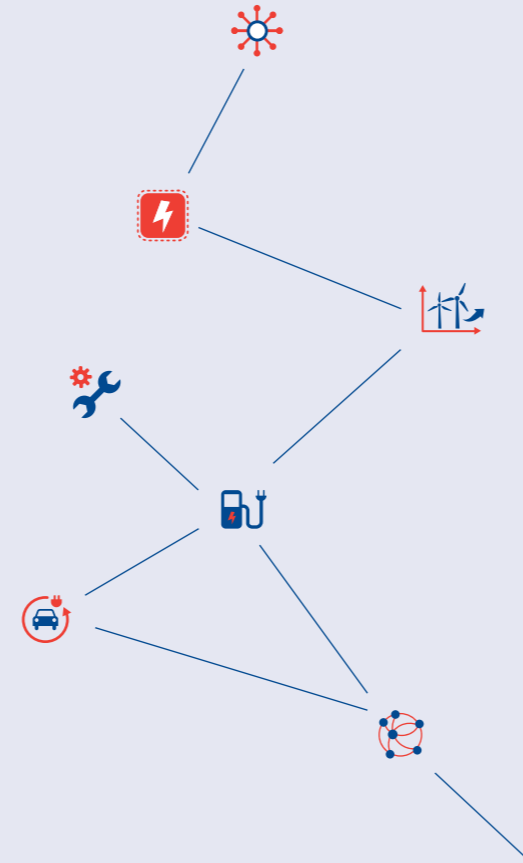
CEDEC's position was to keep physically settled contracts out of the definition of “financial” instruments to allow member companies to continue trading gas and electricity on broker-platforms without supervision. Moreover CEDEC advocated to allow exemptions for: financial derivative contracts for treasury purposes concluded by member companies on own account AND commodity derivative trading for their trading departments as long as it is needed for hedging of sales and generation positions and at least some extra-activity which can be looked upon as ancillary services. Thirdly the CEDEC experts did their best to safeguard trading joint-ventures of local and regional companies.

Fortunately, this strategy proved successful and the main points were taken into account in the final compromise text.

Physically settled contracts were kept out of the definition of financial instruments. A second level definition of ESMA will be the subject of an upcoming consultation, which the

WG will again monitor. The compromise concerning the exemptions from the necessity to become a licensed and supervised investment firm widely respects the fact of hedging as we pledged and ended with a fairly acceptable definition which will also have to be further followed up in a second level regulation of technical standards by ESMA.

Up to the last rounds of discussion in the course of the Trialogue, CEDEC's last point – safeguarding of trading joint ventures – was strongly discussed but ended partly positively: Member states can decide by themselves whether or not they want to allow these joint ventures under certain circumstances to be unlicensed.



6. REMIT

The transaction reporting obligation under REMIT can become a heavy burden for CEDEC member companies. CEDEC WG “Trading” therefore accompanies the process of second and third level regulation concerning this subject. CEDEC took part in the consultation process of the implementing acts and will closely follow the process of additional third level documents such as the Transaction Reporting Manual, Technical Specifications for Registered Reporting Mechanisms and Requirements of Registered Reporting Mechanisms.

A major point in CEDEC's position is that the reporting process should be as simple as possible and should be completely clear in an acceptable timeframe before the start of the reporting. ACER plans to produce several additional papers with impact on the reporting process such as a list of standard contracts, which is crucial to determine whether a transaction has to be reported as “standardized” or “non-standardized”. CEDEC pointed out in its statement, that the regulatory period between adoption of the implemented acts and the start of reporting, which is 6 months, should not start before all details are completely clear to the market and that reporting should be as much as possible harmonized with the reporting processes already in place under EMIR.

CEDEC WG Trading will continue to accompany the regulation to avoid unnecessary and burdensome reporting work.

7. CONCESSIONS

From the very beginning of the legislative process regarding the proposal for a directive on the award of concession contracts, CEDEC has been in contact with representatives of the European Commission and the European Parliament. Through the whole legislative process, the CEDEC working group “Concessions” has expressed its doubts concerning the added value of the proposal but has adopted a pragmatic approach toward the document in order to improve it.

Following the vote of the IMCO (Internal Market and Consumer Protection) Committee on the report of rapporteur Philippe Juvin, in the European Parliament and the agreement in the Trialogue with the Council and the European Commission, the text was finally adopted, in the plenary session at the European Parliament in January 2014. In the final text, the main concerns of CEDEC have been taken into account.

CEDEC has, in its position, called attention to the exemption for the activities in the energy domain with regulated tariffs, as well as to the exemption of networks or limited geographical zones where fewer than 100.000 consumers are concerned. This same exemption already exists in the directives on the internal energy market and the energy efficiency directive.



CEDEC HIGHLIGHTS 2013

2013

JANUARY 2013

- More decisive actions are needed to adapt the energy markets and to contribute to a secure, sustainable and affordable supply of energy to consumers, CEDEC says in its response to the European Commission's Communication on "Making the Internal Energy Market work".

FEBRUARY 2013

- The CEDEC Gas Day in Vienna established an interesting forum for the exchange of ideas on gas issues related to distribution and focused specifically on biogas.

MARCH 2013

- CEDEC launches its new website.
- CEDEC holds its annual strategic congress on a challenging diversity of issues, around the theme "Connecting customers & climate: how local energy companies invest and facilitate the future?"
- Alliance of the Producers of Ecological Energy (Bulgaria) joins CEDEC.
- CEDEC takes clear positions on recommendations for the "DSO as neutral market facilitators".

APRIL 2013

- CEDEC presents a joint statement on Gas Network Codes at the Gas Regulatory Forum in Madrid.
- CEDEC publishes a position paper setting out its priorities for the implementation of smart grids, and for on-going efforts to develop EU-wide standards for smart grids.
- CEDEC responds to the public consultation on structural measures for the European Emission Trading System.

MAY 2013

- CEDEC presents a joint statement on Electricity Network Codes at the Electricity Regulatory Forum in Ljubljana.
- CEDEC's General Assembly takes place in Ghent (Belgium), followed by a Seminar on synergies between energy and ICT.

JULY 2013

- CEDEC responds to the European Commission's consultation on Europe's 2030 energy and climate policy framework.
- A new CEDEC position paper sets out its comments to the proposal for a directive on the deployment of alternative fuel infrastructure.
- CEDEC contributes actively to the THINK STUDY "From distribution networks to smart distribution systems: Rethinking the regulation of European DSOs", coordinated by the Florence School of Regulation.

SEPTEMBER 2013

- CEDEC addresses DG ENER (European Commission) on issues related to the functioning of the retail market and the future roles and responsibilities for DSOs.

OCTOBER 2013

- CEDEC contributes to the European Commission project "Study on the role of Distribution System Operators in the smart metering and smart grids environment", coordinated by the consultants ECN / Ecorys.
- CEDEC publishes a position paper on "Smart local distribution grids – Successfully linking energy markets with the energy transition": adding more intelligence to the local distribution grids is essential to accommodate the future mainly decentralized energy mix.

NOVEMBER 2013

- CEDEC organizes a workshop for all involved stakeholders on "Smart Grids: Tapping synergies between DSOs and ICT".

DECEMBER 2013

- The European Commission publishes its guidance on public intervention in energy markets. CEDEC supports the targets of the European Union for an energy policy based on security of supply, sustainability and affordability, with fair and transparent competition.
- CEDEC takes part in the Citizens Energy Forum in London, that calls for further analysis of the tasks, incentives and responsibilities of DSOs and retail market actors. The Forum recognizes that DSOs facilitate the entry of new service providers to the market.

THE EUROPEAN COUNCIL IN 2013

The **Irish Presidency** (from the 1st of January to 1st July 2013) focused its work on a legislative proposal on biofuels, the proposed amendments to the Renewables Directive and the Fuel quality Directive and the Commission's Communication on the Internal Energy Market.

The post-2020 agenda was also a topic for discussion. Other issues which remained a priority were sustainability criteria for biomass and new energy technologies.

These priorities set by the Irish Presidency were reflected in the agendas of the two formal Energy Councils held on 22 February and 7 June 2013.

On 22 May 2013, the **European Council summit** reaffirmed the objective to complete the internal energy market by 2014, and to develop interconnections in order to put an end to the isolation of Member States from European gas and electricity networks by 2015.

From the 1st of July, Lithuania chaired the Council of the European Union for six months. The energy agenda of the **Lithuanian Presidency** was focused on the completion of the EU internal energy market by 2014 and on strengthening the external dimension of the EU energy policy.

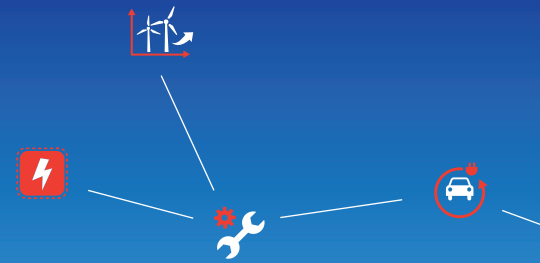
It also made progress on the Regulation on investment projects in energy infrastructure.

Finally, the Lithuanian Presidency has conducted discussions on the 2030 framework for EU climate and energy policies.

The Lithuanian Presidency held an Informal Energy Council on 19 and 20 September 2013 in Vilnius and a formal Energy Council on 12 December 2013 in Brussels. A high level conference on the future of energy infrastructure, with particular focus on the implementation of the first European list of projects of common interest, took place on 4 and 5 November 2013 in Vilnius.



- (1) ACER/CEER Report: Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2011 (2012)
- (2) European Commission: Communication on "Making the internal energy market work" on 15th November 2012
- (3) European Commission, Renewable energy progress report, 2013
- (4) European Coalition for Energy Savings, 2013



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