



Annual report

2012



European Federation of Local Energy Companies

CEDEC ANNUAL REPORT FOR 2012

This report provides the highlights for CEDEC's activities for the period encompassing 1 January 2012 to 31 December 2012.

CEDEC is legally constituted as a non-profit organization under Belgian law.

Objective of the annual report

CEDEC steadily laboured throughout the year 2012 above all on European energy initiatives. Furthermore, in order to provide a description of its main activities, this report highlights the principal cases to which CEDEC has actively contributed, by a continual 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.

TABLE OF CONTENTS

1	A WORD FROM THE CHAIRMAN	3
2	CEDEC	4
	Presentation of CEDEC	4
	Organisational bodies of CEDEC	4
	Missions of CEDEC	5
	Organisational bodies of CEDEC	6
	Affiliation with CEDEC	8
	Key events	9
3	2012 HIGHLIGHTS	10
4	OUTLINES OF EUROPEAN UNION ENERGY POLICY	13
	Introduction	13
	Internal energy market	14
	Renewable energy	15
	Energy efficiency	16
	Energy infrastructure	18
	Energy Roadmap Horizon 2050	22
	Financial markets	22
	Concessions	23
	Florence Forum – Madrid Forum – London Forum	24
5	THE EUROPEAN ENERGY POLICY	26
6	EUROPEAN COUNCIL IN 2012	28
	Presidency of the Council	28
	Danish presidency	28
	Cypriot presidency	28

01

A WORD FROM THE CHAIRMAN

Ladies and Gentlemen,
CEDEC Colleagues,

Another eventful year has passed. While 2012 will remain in the memories of most people as the year of the Euro crisis in the context of European politics, quite a lot also happened in the energy sector. As the last part of the Climate and Energy Package, the Energy Efficiency Directive was adopted, the European Parliament and Council Regulation on guidelines for the trans-European energy infrastructure was negotiated, network codes were developed and the European Commission Smart Grids Taskforce published its report.

CEDEC actively cooperated in these and many other processes and was able to successfully represent the interests of its members in most cases and play a crucial role in helping to shape the related discussions at European level. I am delighted that the association is growing in terms of personnel and membership and is enjoying ever-increasing recognition. The contributions of our members in both financial terms as well as with regard to content and time are crucial for this success and I would like to extend my sincere thanks to our members for their support in this regard.

In view of the number and complexity of the current energy policy discussions, their direct and immediate impact on the citizens and the tense financial situation of many local authorities, the cooperation of local and regional enterprises in European decision-making processes is particularly important. On account of their proximity to the people and their pivotal importance for the local and regional economy, our companies epitomise the turnaround in energy policy towards greater decentralisation, sustainability, involvement of citizens, local value added and European energy independence.

I am convinced that this pan-European project presents huge opportunities for the local economy. Our companies are already adopting a leading role in this regard, which they can build on even further. However, in order to take optimum advantage of the opportunities, we require a mouthpiece for our interests in Brussels. I am certain that we can and will make an important contribution together in the form of CEDEC.

I look forward to continuing our cooperation in the future.

With kind regards,



Bernd Wilmert
CEDEC President



CEDEC

Presentation of CEDEC

Since 1992 CEDEC has defended the interests of local and regional companies active in the field of electricity and gas distribution and supply at a European level.

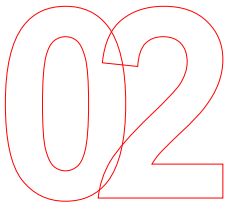
CEDEC groups together 1,500 companies, mainly with public shareholders, representing a global turnover of 100 billion euros, 75 million clients and network connections, and more than 250,000 employees in six Member States of the European Union : Germany, Austria, Belgium, France, Italy and the Netherlands.

Local and regional companies, primarily structured in small and medium sized firms, have developed activities in the sectors of electricity and heat production, operation of electricity and gas distribution grids (including metering and data communication systems), and electricity, gas and energy service supply. They embody a considerable geographic importance for regional economic development and job creation at the local level.

For many years, these companies have invested in the fields of renewable energy, combined electricity and heat production, energy efficiency and energy services. 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 and to enhance the competitiveness of all actors.

Characteristics of companies affiliated with CEDEC

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



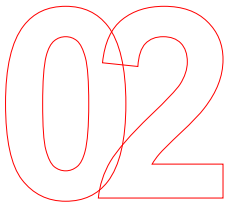
Missions of CEDEC

CEDEC's missions consist of:

1. Guaranteeing its affiliated local and regional companies' interests in dealings with the European authorities.
2. Promoting knowledge exchange and experience in the energy domain. CEDEC acts as a veritable 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.
3. Delivering services to its affiliated companies by monitoring 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 work of the different working groups and

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 dealings with European institutions and international and national organisations;
- Organise internal and public meetings to promote the sharing of experience, knowledge and best practices;
- Co-ordinate studies and research to deepen analyses in the fields of economics, techniques and science.



Organisational 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 2012, the Executive Board met on 9/2/2012 (Brussels - Belgium), 21/3/2012 (Brussels - Belgium), 22/5/2012 (Amsterdam - the Netherlands), 4/10/2012 (Ljubljana - Slovenia) and 22/11/2012 (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, Gert De Block.

Members of the Executive Board

Chairman

Bernd Wilmert, Stadtwerke Bochum, VKU, Germany

Deputy Chairman

Francesco Sperandini, Acea, Federutility, Italy
Laurens Knecht, Netbeheer Nederland, the Netherlands

Administrators

Lorenzo BARDELLI (Federutility) until 15 October 2012

Didier DONFUT (ORES, Intermixt)
Alexandre DUNOYER (RCCEM, ANROC)
Joost GOTTMER (Alliander)
Robert GRÜNEIS (Wien Energie, VKÖ)
Marcel HALMA (Netbeheer Nederland)
René KELHETTER (FNCCR)
Laurens KNEGT (Netbeheer Nederland)
Heidrun MAIER-DE KRUIJFF (VKÖ)
Andréaß Roß (NRM, VKU)
Rudi Oss (Dolomiti Energia, Federutility)

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

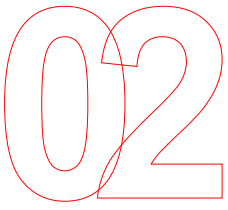
Pierre BOULNOIS (FNSICAE)
Francesco DELFINI (FNSICAE)
Karl FERRARI (SEL-A.G, Federutility)
Thomas FREUDENBERG (VKU)
Luc HUJOEL (Sibelga, Intermixt)
Marc LOISEL (Soregies, ELE)
Alain PETIT (- Intermixt)
Yves RAGUIN (FNCCR)
Guido REEHUIS (Netbeheer Nederland)
Hans-Joachim RECK (VKU)
Olivier SALA (GEG, ELE)
Fabio SANTINI (Federutility)
Pascal SOKOLOFF (FNCCR)
Guillaume TABOURDEAU (ANROC)
Christian VIAENE (Sibelgas - Intermixt)
Bruna ZANONZINI (Federutility)

College of commissioners

Jos ANSOMS (INTERMIXT)
Karl FERRARI (Federutility)
Marc LOISEL (ELE)

Day-to-day management

Gert DE BLOCK – Secretary General
Catherine BIREN – Management Assistant
Ann-Katrin SCHENK – Policy Officer (from 1 August 2012)



CEDEC policy group

The policy group was created towards the end of 2012 and met for the first time in January 2013. This group has as its aim the preparation of the strategic decisions of the Administrative Council and facilitation of information flow among members.

Working groups

Besides the Administrative Council, CEDEC includes several working groups, each one representing a field of expertise. These workgroups have as a mission the elaboration of position projects and engaging specific actions.

CEDEC has favoured an internal organisation articulated around trades and strategic axes (Markets, Climate, Consumers and Communication).

This internal organization responds to the rise in power of CEDEC in a more and more complex and demanding environment.

- Working Group “Energy and Climate”

The Working Group “Energy and Climate” deals with matters in energy and climate in the European Union, in particular renewable energy, energy efficiency, the European system on emission exchanges, etc.

- Working Group “Trading”

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

- Working Group “Grid tariffs”

The Working Group “Grid tariffs” is chaired by Ilse Malfait (Infrac – INTER-REGIES).

The objective is to analyse and compare the different grid tariff models as well as the regulatory systems throughout the Member States.

The first results were presented in February 2013 during a seminar in Vienna.

- Working Group “Smart Grids”

The Working group “Smart Grids”, chaired by Gert De Block, 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.

02

- Working Group “Concessions”

The working Group “Concessions” followed the European initiatives for regulation on concessions that affect the local companies – the concessionaires – and their owners – the authorities granting the concessions – in the energy sector.

- Working Groups “Network Codes”

The Working Groups “Network Codes” are chaired by Marc Malbrancke (INTER-REGIES) for electricity and by Joost Gottmer (Alliander) for natural gas. These Working Groups do the follow up on the developments of the European Network Codes and the impact of those codes on the Distribution System Operators (DSOs).

Affiliation with CEDEC

CEDEC encompasses local and regional companies (or the national federations which represent them) active in the energy field.

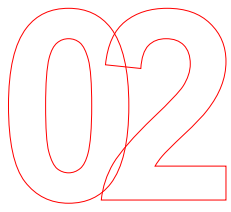
The specific characteristics of the local and regional companies, resulting from their local and regional anchoring, further motivate them to be represented at the European level. A maximal cooperation among all local and regional companies will strengthen and optimise their representativity and defence of their legitimate interests.

The local and regional energy actors are the only competitors already well-established in the national markets. There can be no competition without competitors, be they small or large, public or private.

CEDEC’s mission is to expand to new members, in order to consolidate its presence with European institutions as well as its impact in the European decision making process. Thus CEDEC is able to defend as efficiently as possible the positions and interests of local companies.

The company or organisation wishing to associate with the actions of CEDEC – as an effective or associated member – may address an application request to CEDEC.





Key events

CEDEC annual congress

The CEDEC Congress, held 20 and 21 March at the Renaissance hotel in Brussels, brought together numerous figures from the European Commission and Parliament, regulatory bodies and heads of local companies from various countries to recall the European political guidelines relating to energy and to witness actions engaged.

The central theme “A trilemma for local and regional energy companies: How to reconcile climate goals, security of future infrastructure and customer expectations?” gave rise to interesting debates during the convention.

CEDEC “Gas day”

CEDEC held on 18 January 2012 in Amsterdam a first conference day devoted specifically to gas activities. Various interesting questions, concentrated around the theme of « gas », were discussed throughout this day. High level experts gave presentations on smart meters and grids, retail market models, as well as guidelines of best practice and network codes.

A second gas day was held on 18 February in Vienna, during which the topics of network codes, biogas, and a comparison of different gas grid tariffs in the various European countries were discussed.



2012 - HIGHLIGHTS

January

- ✚ Denmark assumes the presidency of the European Union Council for six months.
- ✚ CEDEC organises in Amsterdam a one day conference on gas. High level experts gave presentations on retail market models, guidelines of best practices, network codes as well as smart meters and grids.
- ✚ At the European Parliament new presidents are named in the committees and political groups.

February

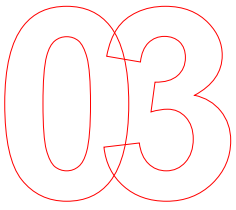
- ✚ During the Energy Council of 14 February, the ministers hold an orientation debate on the draft regulation concerning trans-European energy infrastructure.

March

- ✚ CEDEC organises its annual congress on the theme “A trilemma for local and regional energy companies: How to reconcile climate goals, security of future infrastructure and consumer expectations?”.
- ✚ CEDEC participates in the Madrid Forum, 22 and 23 March.
- ✚ The European Commission publishes a recommendation aiming at preparing the introduction of smart meters and facilitating the adoption of this new technology, by furnishing Member States with step by step guidelines relating to the application of cost-benefit analyses by 3 September 2012.

April

- ✚ The platform “Smart cities and communities” is launched 19 April.
- ✚ On 19 and 20 April an informal document on the directive concerning energy efficiency is submitted to the Energy Council. It serves as a base for discussion of the energy efficiency directive proposal, presenting the estimated costs and advantages of the proposal.
- ✚ CEDEC submits its opinion to the European Parliament on the energy efficiency directive proposal and on the regulation proposal concerning trans-European energy infrastructure.



2012 - HIGHLIGHTS

May

- ✚ CEDEC participates in the Florence Forum, 22 and 23 May.
- ✚ Within in framework of the public consultation on the Energy Horizon 2050 roadmap, CEDEC transmits its position to the European Commission.

June

- ✚ 6 June 2012, the Commission presents a Communication on its policy in favour of renewable energy, highlighting options for the post 2020 period. It confirms the necessity of a proper integration of renewables and an increase of their importance in the decades following 2020.
- ✚ The European Council and Parliament reach an informal agreement on the energy efficiency directive.

July

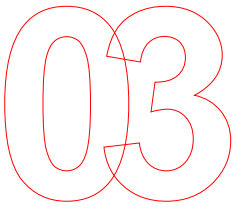
- ✚ Cyprus takes over the presidency of the EU Council.
- ✚ The European Commission launches a European innovation partnership to support projects in the energy field, in transport, information technology and communication in urban zones.

August

- ✚ CEDEC sends its position on the regulation proposal related to energy infrastructure to the general rapporteur (M. Corriea De Campos).
- ✚ CEDEC submits it amendments on the Energy Horizon 2050 roadmap to the rapporteurs of the European Parliament.

September

- ✚ The European Parliament adopts on 11 September the energy efficiency directive proposal at the first reading.



2012 - HIGHLIGHTS

October

- ✚ The European Union adopts on 25 October the energy efficiency directive which establishes a common framework of measures for the promotion of energy efficiency, with a view to assuring the reaching of the goal to increase energy efficiency by 20% by 2020 and to prepare the way for even more ambitious improvements of energy efficiency beyond that date.
- ✚ CEDEC sends its position on the draft report relating to renewable energy to the general rapporteur, M. Herbert Reul.
- ✚ CEDEC participates in the Madrid Forum 2 and 3 October 2012.
- ✚ CEDEC sends its amendments on the directive proposal relating to granting of concession contracts to the general rapporteur, M Philippe Juvin.

November

- ✚ On 15 November 2012, the Commission presented a communication relating to the state of progress of the internal energy market, confirming the ambition that it should be completed by 2014. CEDEC reacted by publishing a press release.
- ✚ CEDEC meets the Energy Commissioner, Günter Oettinger, in order to discuss the topics of consumer rights, the conception of the retail market and the future role of DSOs, and energy production.
- ✚ The European Council and Parliament reach an informal agreement on the regulation on energy infrastructure.
- ✚ CEDEC contributes to the London Forum, 13 and 14 November 2012, and to the Florence Forum, held 20 and 21 November 2012.

December

- ✚ The Energy Council of 3 December adopts the conclusions on renewable energy defining the outlines for future efforts in favour of renewable energy.
- ✚ The day of the adoption of the report of MEP Corriea de Campos in the ITRE Committee, CEDEC publishes a press release on energy infrastructure.

04



OUTLINES OF EUROPEAN UNION ENERGY POLICY

Introduction

The European Commission has expressed its ambition of effectively implementing the internal energy market by 2014. However, it admits that this objective will not be easily attainable by this date. That is why it reiterates that it will not hesitate to lean on Member States and notably carry out infraction procedures against those who have not correctly transposed the third energy package adopted in 2009.

Moreover, the objective of an “open, integrated and flexible” market will only be met in a duly completed regulatory framework thanks, notably, to network codes, as well as legislation relative to wholesale market monitoring and cross-border infrastructure.

The report on the monitoring of electricity and gas markets, established by the Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER) leans in this direction, even if, in light of the convergence of prices in 2011 – 2012, the European regulators already observe an improved functioning of the coupling of markets among Member States.

On the energy market, consumers must play a pivotal role. The Commission therefore invites the Member States to elaborate a definition of vulnerable consumers and conditions for their protection. Liberalisation of the market and consumer protection must go hand in hand. Moreover, in order to enable consumers to act knowledgeably ACER and CEER call for a greater cooperation among market players and favour detailed and more informative energy bills.

Market integration necessitates modernisation of networks and significant investment in infrastructure. The Commission thus supports projects of common interest (PCI), which are mainly oriented towards cross-border networks, as well as research and development of smart grids. However, distribution networks have to pay a particular attention to supported projects for the complete market integration, namely for renewable energies.

Modernisation of distribution grids will notably pass via the redefinition of the regulatory framework and via a competitive market for new proposed services. The Commission and the Member States will reflect during 2013 on the role and future responsibilities of the distribution system operators.

04

Internal energy market

The European Commission adopted on 15 November 2012 a communication entitled “For a proper functioning of the internal energy market”.

This communication analyses the state of progress of the internal energy market from now until 2014 and encourages the Member States to deploy further effort while highlighting the advantages brought about by such a market to citizens and businesses. The communication underlines the need to pursue the application of existing rules, the implementation of investment favouring modernisation of energy infrastructure, as well as other measures in various fields, among them consumer protection.

The Commission calls on Member States to adopt ambitious strategies for the deployment of smart energy grids, but does not advocate an accelerated roll-out of smart meters, as initially foreseen in its communication project.

The communication project had initially opened the possibility for third parties (such as new entrants from other network sectors, for example telecoms, ICTs, ...) to obtain concessions for energy distribution grids. In the final version of the communication, the Commission indicates that the role of the distribution system operators must be re-examined.

In particular, the Commission holds that it must be ensured that their regulated activities be limited to the tasks which are best accomplished by a natural monopoly, and that the new services rendered possible by new technologies be developed in competitive markets. In this context, it also seems appropriate to foresee the role of third parties (groups, energy services and actors in other network industries, notably the ICTs, telecommunications and electrical construction) in future development of distribution grids or local energy services.

This paragraph is still subject to a certain margin of interpretation. The debate on the role of GRDs – and what are the activities to be considered as a “natural monopoly”, as “regulated activity” and what must be left to the market – will continue throughout 2013 to be a fundamental debating point between CEDEC and the European Commission.

Moreover, in this communication, the Commission also requests Member States to define action plans indicating how to modernise their grids, including rules and obligations applicable to the GRD, synergies with the ICT sector and the promotion of reaction mechanisms on the demand side and dynamic prices, conforming to the energy efficiency directive.

04

CEDEC supports the Commission in its position that all market actors must have clearly defined roles and responsibilities to meet these challenges and to create a completely integrated European energy market, more efficient and sustainable, guaranteeing at the same time security of supply.

Nevertheless, CEDEC has stressed that the energy markets in the different Member States have different starting positions and energy sources. That means that a single solution for all risks hindering a rapid transition and that a policy of flexibility is necessary. CEDEC and its members believe that the distribution system operators represent, in their role as neutral market facilitators, an essential element to maintain the proper functioning of the energy market in Europe, contributing to a safe, affordable and sustainable energy supply to consumers. CEDEC has already presented to the Commission a strong model market in the Smart Grids Task force.

Renewable energy

In June 2012 the Commission published a communication on its policy in favour of renewable energy, presenting foreseeable options after 2020. This communication advocates the integration of renewable energy in the market, and recognises the need of assuring sector growth in the post 2020 decades. It also calls for a more coordinated European approach for the implementation and reform of support regimes and the development of renewable energy commerce among Member States.

In 2012 CEDEC contributed significantly to the political debate on renewable energy and the integration of renewable energy in the electricity grid of the EU.

CEDEC formulated a position on European Union Communication: it shares the Commission's expectations concerning renewable energy technology and in the goal of attaining competitiveness with conventional energy sources.

However, particular care must be taken at the level of sustainable support criteria in a long term perspective. As the Commission rightly stresses, climate goals can only be met by means of a gradual suppression of fossil fuels. CEDEC is of the opinion that nuclear energy with its short and long term risks for the environment should be gradually eliminated.

The Member States should also be capable of sustaining their support of individual support mechanisms enabling optimal utilisation of local and regional resources.

CEDEC shares the opinion of the European Commission on the increasing role of distribution grids in the future energy system. Considerable investment must be made in this sector in order to adapt to an energy system based on renewable energy.

CEDEC is of the opinion that legally binding objectives for the integration of renewable energy sources are necessary to achieve reduction of greenhouse gas emissions, and should be introduced into the post 2020 political framework.

Energy efficiency

In June 2011 the Commission proposed a new directive on energy efficiency to enable the EU to attain one of the objectives fixed in the Europe 2020 strategy, which is to increase energy efficiency by 20%. This directive was adopted in June 2012 and entered into force in December 2012.

This directive foresees in particular the following most important elements for distribution system operators:

- The obligation for all DSOs and/or suppliers to achieve an annual energy savings of 1.5% for the end users. Efforts realised in the past will be partially taken into account.
- The obligation of public bodies to renew annually 3% of the total floor surface of their buildings and to purchase energy efficient buildings, products and services. Municipalities and local energy businesses will be encouraged in this, but not obliged.
- The various obligations relating to index readings and invoicing information. The initial text mentioned a whole series of obligations to furnish detailed information to consumers, which would lead the DSOs to install very complex and thus very costly smart meters by 2015. The final text respects the national evaluation concerning the introduction of smart meters and clearly makes the distinction between an individual meter and a smart meter.

04

The “Energy and Climate” working group of CEDEC in 2012 undertook intensive negotiations regarding this energy efficiency directive, where the Commission, Parliament and governments had very different ideas about reaching a common goal, notably concerning obligatory efficiency measures and smart meters.

CEDEC also stressed the need for Member States to ensure that binding energy efficiency measures do not compromise the economic and financial viability of the DSOs with regulated grid tariffs, and suppliers with regulated prices.

Furthermore, the third energy package foresees the necessity of a cost-benefit analysis for the implementation of smart meters.

CEDEC has advocated that this cost-benefit analysis take into account not only financial and technical effects, but also questions of security and consumer data protection. This point was clearly taken into consideration in the final text. Lastly, CEDEC insisted that procedures be created at the distribution level in view of accelerating the implementation of smart energy grids. According to CEDEC, the simplification and acceleration of the approval process of grid construction should not be limited to the level of transport grids, but also be applied to distribution grids.

Member States must transpose the new directive into their national legislation before 5 June 2014, by which date directives 2004/8 (promotion of cogeneration) and 2006/8 (energy services) will be rescinded.

Each Member State must present its national indicative objectives by April 2013. If the European Commission determines that they are insufficient to meet the global objective by 2020, the Member States must re-evaluate their plans.

Certain dispositions of the directive will be subject to interpretative notes on the part of the Commission.

In the course of the first semester of 2014 the Commission will examine progress towards the 20% energy efficiency objective, and will draft a report and determine if additional measures are necessary.

04

Energy infrastructure

It is obvious that infrastructure is an essential element in order to bring about the energy programmes of the European Union, from the concretisation of the internal market to competitiveness and improvement of consumer services, energy solidarity and meeting goals in climate and renewable energy, and from energy efficiency to security of supply.

Cross-border energy infrastructure

The European Commission published in October 2011 a regulation proposal on the priority of energy infrastructure having as a goal the acceleration of the development of trans-European energy infrastructure (such as transport grids and gas pipelines).

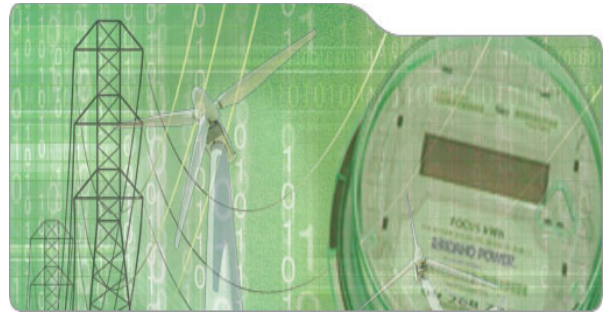
The regulation was the object of numerous discussions throughout 2012 between the Commission, Parliament and Council aimed at improving the document in a series of measures such as:

- Clarifying the direction of regional groups charged with the selection of projects of common interest;
- Inciting Member States to co-operate;
- Reinforcing the role of ACER and the European Commission in the process;
- Verifying the possibility of a more prominent role for DSOs in projects.

Indeed, in its position, CEDEC has numerous times deplored that concrete elements of the text concentrate almost solely on transport. The consideration of distribution infrastructure is necessary to arrive at a balanced and complete text. Unfortunately, the text adopted by the Parliament does not reflect this integrated approach. Furthermore, the representatives of the distribution system operators are not admitted to participate with the groups of experts who are preparing the selection of projects of common interest (PCI), which seems inappropriate given the increasingly important share of decentralised energy, in line with energy and climate objectives of the EU.

The final text was approved on 12 March 2013 in plenary session by the European Parliament. This text unfortunately did not take into account the amendments proposed by CEDEC.

04



Smart grids: the role of DSOs as market facilitators

In March 2011, the European Commission mandated three European normalisation bodies, CEN, CENELEC and ETSI to develop, within a period of 18 months, standards for the deployment European smart grids.

In parallel, a workgroup “Task Force Smart Grids” was put in place to formulate recommendations relating to the evolution towards an adapted market model. The Task Force Expert Group 3 concentrated on three market models: “DSOs as market facilitators”, “The third party as market facilitator”, and “Access to data”.

One of the key questions bears on the definition of the roles and responsibilities of DSOs as a natural monopoly. A great deal of pressure has been brought to bear so that certain activities such as metering, meter reading and data management, currently handled by DSOs, no longer be part of their activities but be subject to free competition and be handled by communication and information technology sectors and (ICTs) or telecoms. That is why, in this view, it is important that CEDEC supports DSOs by intensively defending the DSO model “as a market facilitator”.

In order to reinforce DSOs in this discussion, CEDEC has invested in supporting the Smart Grids Task Force to develop the “DSO as market facilitator” model, which CEDEC presented at the London Forum, held 13 and 14 November 2012. This model describes the role of the DSOs in future electricity markets and explains how they interact with consumers, suppliers and other companies offering energy services.

Nevertheless, the communication entitled “the internal energy market”, published in November by the European Commission, called for a reconsideration of the role of DSOs, mentioning the role of third parties (such as ICTs and telecoms) in the future development of local distribution networks. This discussion will continue to be the object of intense debate throughout the coming months.

04

Formulation of network codes

The third package deals with the formulation of framework guidelines and subsequent network codes for electricity and gas.

The Agency for the Cooperation of Energy Regulators (ACER) elaborated several framework guidelines during 2011 and 2012 for both energies.

Based upon these framework guidelines, ENTSO-E and ENTSG developed and are still developing several network codes respectively for electricity and gas. At the moment ENTSG only develops one network code per framework guideline, whereas ENTSO-E develops several network codes per framework guideline.

The network codes will be enforced as Regulations and do not need any transposition into national and/or regional legislation. As from their publication in the Official Journal of the European Union they enter into force and become applicable in all Member States.

Although the field of activity of these codes is in principle restrained to transport activities, it has been clear quite early on that the codes – some more than others – influence the investment and operational activities of the distribution system operators.

In agreement with ENTSO-E and ENTSG, DSO expert groups were set up for the elaboration of each specific network code. Experts from the different organisations which represent DSOs on the European level – among them CEDEC – have been intensely involved in the process.

The final drafts are the result of an intensive amount of labour 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 gas.

CEDEC follows the work on all the relevant codes and coordinates participation and information exchange among DSO experts, and members of the CEDEC Working Groups on network codes. Throughout 2012, the development of the following network codes was followed closely:

For electricity:

- 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 finalised and were recommended for adoption to the Commission by ACER at the end of March 2013.

The other codes are still in different stages of development. The work on the NC EB only started late 2012.

04

For gas:

- NC on gas balancing (NC GB);
- NC on interoperability and data exchange rules (NC IO).

The NC GB was finalised and recommended for adoption to the Commission by ACER at the end of March 2013.

The first network codes for electricity with an impact on the DSOs are the NC RfG (connection of decentralised generation, including generation connected to the distribution grids) and most importantly the NC DCC (connection of demand, including consumers offering 'demand side response' on the distribution level).

The impact to be expected for DSOs will be on the level of administrative handling, technical testing, verification and control, but also – specifically for NC DCC – the installation of additional technical equipment in response to e.g. reactive power requirements, which will all lead to extra obligatory investment.

With regard to the demand response requirements in the network code on demand connection 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.

In this context however, CEDEC stresses that the main focus of network codes – as laid out in the ACER framework guidelines – 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.

With the current drafts of the network codes concerning system operation, extra investment in ICT infrastructure will probably be needed due to additional data exchange and to making real-time information available.

If additional investments and costs occur due to this European technical regulatory framework, their recovery through network tariffs should be guaranteed.

For gas, DSOs are concerned about the current draft of the 'NC interoperability and data exchange rules': not only on the topics odorisation and gas quality, but in particular on the data exchange rules. Probably not the exchange of information itself, but rather the fact that the code decides on what protocol should be used for this exchange. DSOs fear that this new protocol will be imposed on them, even if the current draft does not explicitly mention it, but does not exclude it either.

The main points of attention in 2013 will be the Commission's assessment of certain of the above mentioned codes, as well as the Comitology process every code has to go through.

04

Energy Roadmap Horizon 2050

Published by the Commission in December 2011, the energy roadmap horizon 2050 was the object of numerous discussions in the course of the year 2012. This roadmap centres notably on the steps and objectives of the energy policy for 2030 and highlights the long term role of markets and infrastructure.



CEDEC has undertaken steps in the form of intensive discussions with the European Commission and Parliament. CEDEC supports in a general manner the initiative of the Commission. It holds that a transition of our economy towards a low carbon energy future will have an impact on distribution system operators and energy infrastructure. It is therefore crucial to analyse the roles and responsibilities of the actors in a low carbon economy.

Moreover, CEDEC believes that an effective roadmap should include a combination of various scenarios and require significant technological development in the field of sustainable energy production.

Financial markets

The activities of CEDEC were focused, in 2012, on key elements at the level of financial regulation to avoid that their implementation should have negative consequences for energy markets.

In October 2011 the European Commission proposed a revision of the directive concerning markets of financial instruments. The working group “Trading” from CEDEC worked on this document to ensure an appropriate and adequate treatment for electricity companies of the EU which are active in financial markets. Normally the exemptions established previously should continue to apply.

The final negotiations must take place during the Irish presidency, in the first half of 2013.

CEDEC (Working group “Trading”) is also involved in the work on the regulation concerning integrity and transparency of the wholesale energy market.

04

Although implemented on 8 December 2011, many questions remain open, including the lack of clarity of certain dispositions and definitions (insider operations, market manipulation, wholesale energy products,...) the obligatory registration format, as well as data reports. These questions might call into question risk management for energy companies..

Concessions

On 20 December 2011 the Commission adopted a directive proposal on the attribution of concession contracts. The objective of this directive proposal is to enhance the transparency of public markets and open to competition the various companies in order to offer a better service to collectivities and citizens. All companies must be informed of a concession offering, in order to allow competition in obtaining the market.

According to the Commission, concessions perceived as judicial tools become necessary, given that public private partnerships are developing more and more in Europe. The situations in the various countries of the European Union are very diverse. The new directive should therefore bring more transparency into the rules on granting of contracts.

At the level of the energy sector, the directive proposal would allow exclusive rights to be granted to the Member States. When such rights are accorded, the text will be free from the obligation of public bids.

On 5 July 2012, the general rapporteur M. Juvin (EFF-FR) published a draft report in the IMCO committee of the European Parliament.

With a view to formulating a position, CEDEC organised a meeting of the CEDEC working group on concessions.

On 1 October 2012, CEDEC sent M. Juvin and other member of the IMCO committee amendments on the draft report and expressed its support for certain amendments of M. Juvin.

In its amendments, CEDEC affirms that in spite of the fact that a great many decisions of the European Court of Justice on the theme of concessions have created judicial insecurity in the course of time, a common European framework must not interfere with the manner in which Member States and public authorities develop and organise appropriate instruments to fulfil their missions.

CEDEC has, in its position, called attention to the exemption for energy distribution activities with regulated tariffs, as well as to the exemption for 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.

04

Florence Forum – Madrid Forum – London Forum

CEDEC participated in 2012 in the Electricity Forum (Florence Forum), Gas Forum (Madrid Forum) and Citizen's Energy Forum (London Forum).

The Florence, Madrid and London Forums are comprised of representatives of the European Commission, national and European regulatory authorities (CEER and ACER), Member States, residential (BEUC) and industrial (Ifiec) consumers and bodies representative of market actors: producers, suppliers, traders (Eurelectric, Eurogas and EFET) and distribution and transport system operators (among others ENTSO-E, ENTSOG and CEDEC).

In general, in the Madrid and Florence Forums, principally problems concerning the wholesale market, technical prescriptions and regulation are discussed: transport (interconnections), storage, production, trading and recently network codes.

The Citizen's Energy Forum handles key issues bearing on the retail market and consumer interests, and which is therefore more concerned with distribution system operators and energy suppliers, billing, metering, data exchange and consumer protection.

CEDEC was represented at all three Forums where it presented important messages on relevant issues for local energy companies.

Florence Forum - Electricity

CEDEC took part in the Florence Electricity Forum held 22 and 23 May.

This 22nd Forum was the occasion for the European Commission, representatives of Member States, regulators, professionals of the electricity sector and ACER to debate the stakes tied to the concretisation of the European electricity market.

During this Forum, the Commission presented the European strategy – within the framework of the Horizon 2050 roadmap – and the integration of renewable energy in the internal energy market.

ACER and ENTSO-E recalled the dimension of the Strategy for Renewable Energy for the development of future network codes. CEDEC, EURELECTRIC, GEODE and EDSO for Smart Grids presented their common position, highlighting the preoccupations of the DSOs concerning network codes relating to grid connection of generators, to demand connection and operational security.

04

It was also underlined that DSOs are network operators, and not merely network users, and that network codes must not be conceived in a general sense but must allow a certain degree of flexibility.

The Forum also debated other topics such as security of supply, the package on energy infrastructure, financing of infrastructure and market transparency.

A second Florence Forum was held 20 and 21 November 2012 where the following themes were highlighted, namely:

- Negotiations between the European Commission, Parliament and Council on energy infrastructure regulation;
- Presentation of the European Commission communication on the internal energy market;
- Guidelines and network codes;
- ACER working programme concerning implementation of REMIT.

Madrid Forum - Gas

First Gas Forum of 2012 was held in Madrid 22 and 23 March.

Second Gas Forum held 2 and 3 October in Madrid. Principal topics highlighted during this Forum were, among others:

- Transposition and implementation of third energy package;
- Network codes concerning capacity allocation and balancing mechanisms;
- Guidelines on Interoperability and data exchange and Tariffs Framework Guideline.

London Forum – Citizen’s Energy Forum

CEDEC participated in the Citizen’s Energy Forum held 13 and 14 November in London.

Very different topics, reflecting all particular aspects of the retail market were debated, notably :

- CEER-BEUC report on citizen’s vision of energy in Europe for 2020;
- Reports of DG Consumers (SANCO) on price transparency and vulnerable consumers;
- Interpretative notes of the Commission on energy efficiency;
- Creation of new advantages for consumers in energy market.

05

THE EUROPEAN ENERGY POLICY



European Emission Trading System

By early 2013, a surplus of ca. 2 billion emission allowances had built up in the European Emission Trading System (ETS), which led to prices of European Union Allowances (EUAs) of only about €7 (currently ca. €3). Leading to a fuel switch from gas to coal and virtually giving no investment signals for low-carbon technologies such as renewable energy, the purpose of the ETS, being an important instrument to drive the European climate policy by putting a price on GHG emission is completely undermined.

In July 2012, the European Commission had therefore presented a proposal to amend regulation 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances as a short-term instrument to address the ineffectiveness of the ETS. The proposal provides the legal basis for the so-called “backloading”, a temporary withholding of 900 millions European Union Allowances (EUAs) from auctioning in the third trading period (2013-2020). The proposal suggests withholding EUAs from auctioning in the years 2013-2015 and a reintroduction to the market in 2019/2020. While “backloading” itself has to be decided by the Climate Change Committee, consisting of representatives from EU Member States, the amendment to the regulation went to the European Parliament for co-decision.

In the Environment (ENVI) Committee of the European Parliament, rapporteur Matthias Groote drafted a report on the amendment, clearly constraining “backloading” to a single intervention in the third trading period under the pre-condition of an impact assessment for the risk of carbon leakage in certain industry sectors. While the Industry Committee of the Parliament, which gave an opinion on the Commission proposal, voted against any changes in timing of auctioning, the ENVI committee adopted its report in February 2013. In April 2013 however, after immense lobbying from many stakeholders, the plenary of the European Parliament rejected the report by a small majority. The report was referred back to ENVI committee for a revision.

CEDEC had actively promoted the report by Matthias Groote for the ENVI Committee. In CEDEC’s view a one-time “backloading” is an adequate short-term instrument to address the oversupply of EUAs, while maintaining predictability of the system for market players and allowing for the preparation of effective and substantial long-term reform of the ETS.

05

In parallel to the proposal for “backloading” in July 2012, the Commission in its report on the state of the carbon market had presented six structural measures to restore the effectiveness of the ETS. The proposed measures were made subject of discussion in a public consultation which ended in February 2013. CEDEC contributed to the public consultation promoting an increase of the EU GHG emission reduction target by 2020 and a permanent retirement of allowances to address the current oversupply of EUAs.

CEDEC considers the ETS a crucial instrument to achieve the EU’s energy and climate targets. The association will continue to promote both short-and long-term reforms of the ETS, in order to restore investment signals in sustainable low-carbon technologies.

06

EUROPEAN COUNCIL IN 2012

Presidency of the Council

The presidency of the Council plays a preeminent role at the level of impulsion of the process of legislative and political decisions in the European Union. It is charged with organising and presiding all of the Council meetings, as well as formulating compromises likely to offer a solution to the topics under discussion.

The presidency is held on a revolving basis by each Member State for a period of six months (from January to June and from July to December) according to a pre-established order. In 2012 the presidency was successively held by Denmark and Cyprus.

Danish presidency

The Danish Presidency completed, in the first half of 2012, several strategic dossiers, among them energy efficiency. The principal objective is to assure that the EU meets its objectives of energy efficiency improvement of 20% by 2020, so that Europe may reach its climate and energy goals in a sustainable fashion. Concerning the Horizon 2050 roadmap, the Danish Presidency wished to work on the way in which Europe must proceed to attain a more ecological energy policy in the coming decades.

Another priority of the Presidency concerned the regulation proposal on energy infrastructure. The internal energy market can only function optimally if the extension of energy infrastructure is brought about. Besides the incidences on security of energy supply in all of Europe, the extension of the electricity grid is also crucial in order to integrate and exploit the growing share of sustainable energy.

Cypriot presidency

From 1 July to 31 December 2012 it was the turn of Cyprus to head the EU Council.

The Cypriot Presidency concentrated mainly on energy priorities in the energy infrastructure dossier, as well as on the communication related to renewable energy.

Another important issue for Cyprus in the second half of 2012 was the concretisation of the internal energy market.

The priorities defined by the Cypriot Presidency were taken into account on 17 September 2012 during the informal meeting of energy ministers in Nicosia and during the Energy Council of 3 December in Brussels.

Contact CEDEC

The secretariat of CEDEC is directed by Gert De Block (Secretary General), assisted by Ann-Katrin Schenk (Policy Officer) and Catherine Biren (Management Assistant).

As the work of CEDEC is detailed and precise, an intensive labour of regular publication (positions, press releases, information letters) is carried out with the aim of reaching a targeted, but increasingly important public.

Each month an electronic information letter is published. These information letters have as their aim to furnish a condensed look at strategic current events in the microcosm of European instances (directives, public consultations, events, reports and communications).

Any interested party is welcome to subscribe to this monthly electronic letter via the website of CEDEC (www.cedec.com).



CEDEC

Rue Royale 55 boîte 10

1000 Bruxelles

Belgique

Tél: + 32 (0) 2/217.81.17

Fax: + 32 (0) 2/219.20.56

E-mail: info@cedec.com

www.cedec.com

