

European Commission Communication:

Delivering the internal electricity market and making the most of public Intervention

CEDEC Position

Introduction

CEDEC, the European Federation of Local Energy Companies, explicitly supports the targets of the European Union for an energy policy based on security of supply, sustainability and affordability. Furthermore, CEDEC is committed to the completion of a European Internal Energy Market which envisages pursuing these goals with fair and transparent competition.

Europe's energy landscape is changing rapidly. Based on the overall objectives to reduce greenhouse gas emission and diversify energy supply and reduce dependence on fossil fuels, the share of renewable energy sources (RES) in Europe energy supply has been growing rapidly in the past years, reaching 13% in the European final energy consumption.¹ 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 welcomes the European Commission's guidance 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. Nevertheless, CEDEC would like to stress that national circumstances are very different with regard to market functioning and opening, renewables penetration and energy mixes. Therefore, as the Commission rightly established, there are no one-size-fits-all solutions.

Renewable support schemes

In order to reach the European energy and climate goals for 2020 and 2050, further support for renewables will be needed, given the continued subsidies for fossil fuels and nuclear energy and an energy system that was created around the needs of centralised large-scale conventional plants.

¹European Commission, 2013, Renewable Energy progress report 2013



The European Commission in its accompanying staff working document (SWD) stipulates that support schemes for renewable energy shall be dynamic, transparent and cost-efficient, and shall foster the market integration of RES while providing investors with predictability and stability.

Dynamic - but predictable

CEDEC can subscribe to these principles, however, with some limitations. Unquestionably, support schemes shall be flexible and adapt to changes, such as decreasing technology prices, to avoid over-compensation. Ideally, the reviews of support levels are taking place regularly and predictably. Abrupt, non-predictable and especially retroactive changes of support levels are to be avoided absolutely, as they harm the confidence of investors, such as local energy companies, and seriously threaten the further deployment of RES technologies.

Market integration

With regard to market integration, CEDEC agrees that a gradual market integration of RES is desirable and needed. The level of integration should be determined by the maturity and market share reached by the individual technologies. At the same time, the market has to be made “fit” for the increasing shares of RES and should enable these technologies to compete with conventional sources. For example, the effective implementation of the network codes and the creation of cross-border balancing and ancillary service markets need to be triggered to adapt the markets to the needs of new (sometimes variable) sources to compete in them.

Choice and design of support scheme

In the Staff working document, the European Commission acknowledges that there is no one-size fits-all solution for RES support schemes in all Member States. In this regard, CEDEC emphasises that Member States should be free in choosing the right instrument for RES support. National circumstances vary immensely with regard to existing RES shares, levelized costs of electricity, availability of resources as well as and economic and social conditions. Hence, Member States’ flexibility with regard to the choice and design of instruments shall be respected in line with their national policy objectives.

The Commission furthermore promotes competitive allocation mechanisms, such as tendering procedures, as public interventions that minimise costs and stir competition for the promotion of renewables. CEDEC recognises that tendering procedures may be a suitable instrument to control the development of renewable energy and synchronise it with the necessary network expansion. Nevertheless, CEDEC would like to stress that if implemented, tendering systems must be technology-specific in order to maintain a balanced technology-mix. Very small-scale installations such as roof top PV should be exempted from tendering procedures and should be supported with other instruments.

Technology-neutrality

CEDEC very much appreciates that the European Commission recognises that support can be technology-specific. Today, RES technologies display very different cost levels and development stages (onshore wind compared to ocean energy). Therefore, a technology-neutral support will not lead to a balanced technology-mix, which could allow for better local balancing of supply and demand, but would prevent Member States from exploiting their entire potentials and resources available.

Equal distribution of costs of RES support schemes

As the European Commission stipulates, the costs for RES should be equally spread among all consumers. Naturally, guarding the competitiveness of the European industry is a legitimate concern for European policy-makers. Nonetheless, exemptions from taxes and levies for energy intensive industries at the expense of household consumers and small-to-medium-sized (SME) companies shall be avoided.

Demand response

In general, demand-response programmes have been largely neglected in the EU policies until today. Therefore, CEDEC explicitly welcomes the attention dedicated to the issue in the Commission communication and its related SWD. Flexibility solutions should be coordinated by market mechanisms which – as the Commission communication suggests - put supply and demand on equal footing.

The guidance document on demand response stipulates that the controllable load in Europe amounts to 60GW, which could reduce the peak capacity in Europe by 10%. Like the European Commission, CEDEC sees the large majority of this potential with large- to medium-sized industry and commercial entities, due to the number of controllable processes and availability of smart appliances.

Yet, household consumers with their own production facilities, such as heat pumps, PV installations and micro-CHP, can also contribute to demand-response programmes, especially when aggregated. In order to exploit this potential on the demand-side, CEDEC agrees with the Commission that some barriers need to be addressed. For instance, standards for equipment should be developed and processes should be streamlined in order to ensure interoperability. Moreover, the roles, responsibilities and information protocols need to be clearly defined. Distribution System Operators need to always be informed in advance about demand-side interventions, so as to avoid any negative implications on network stability.

Smart distribution grids

In order to implement effective demand-response programmes, signals about demand and supply need to be received, managed and communicated to the relevant parties. For this, the development of smart distribution grids is indispensable. The Commission estimates that the material gain from smart grid deployment will amount to €4 billion due to their facilitating effect for demand-response and the reduction of peak capacities. For the development of smart grids, cost-reflective regulatory frameworks need to be in place, recognizing the increasing need for ICT in grid management and taking into account the changing cost structures that incentivise distribution system operators to make the relevant investments. Moreover, the necessary standards for smart grids and smart meters need to be developed to ensure interoperability.

Market perspective

Balancing and ancillary markets need to be created and access for SMEs and aggregators has to be ensured, in order to make the potential of demand response available to all interested parties. An additional important prerequisite are dynamic retail prices that shall be offered by suppliers for consumers to adapt their behaviour according to price signals.

Roles and responsibilities of parties

The roles and responsibilities of all existing and new actors in the energy retail markets involved in the provision of demand-response services need to be clearly defined. Especially the role of DSOs, which are becoming increasingly active system managers due to new dynamics on their networks and new tasks to be fulfilled, needs to be recognised. In CEDEC's view, DSOs as neutral and regulated parties fulfil the role of market facilitators which primarily ensure maximum reliability and integrity of the grid. They must therefore be responsible for all data management processes in order to have full and immediate access to all necessary information about network dynamics on both supply and demand, in order to ensure security of supply at all times.

Data protection

In CEDEC's view, data protection and consumer privacy is an absolutely central issue with the implementation of demand-response. More and more data from consumers will be available through smart meters and appliances and will be transmitted to third parties, such as aggregators if the consumer has given consent. The data management and access to data must be provided with highest security standards. Based on this, CEDEC sees DSOs as the best placed party in charge of data management, being a highly-regulated and non-commercial party.

Generation adequacy

Finally, in its communication and the respective accompanying staff working document the European Commission analyses the reasons leading to some Member States introducing capacity mechanisms. It spells out that an objective, factual, transparent and open assessment of the generation adequacy should be conducted, taking no purely national but a regional if not European approach. Moreover, the assessment should give priority attention to alternative measures to public interventions on the supply side, such as interconnection, demand-response, storage and energy efficiency. Finally, should capacity mechanisms be needed to ensure generation adequacy, the Commission sets out a number of design criteria.

European approach - promoting the internal market for energy

CEDEC can agree with the European Commission that with progressing market integration, assessments of generation adequacy should not be made on a purely national level, without taking into account the interconnection capacity and generation capacity in neighbouring countries. As cross-border energy networks are economically favourable towards ensuring security of supply on a national basis, the existing capacity in other Member States needs to be considered. Any measures that Member States take toward ensuring generation adequacy should be compliant with the ultimate goal to complete the Internal Energy market. Therefore, CEDEC agrees that if a capacity mechanism is to be implemented in one Member State, it should allow for the participation of capacity (demand and supply) from neighbouring countries.

Cost benefit analysis and avoidance of lock-in effects

CEDEC subscribes to the Commission's view that Member States should conduct a cost-benefit analysis of capacity mechanisms compared to alternative measures, such as investments in smart energy infrastructure. Thus, it is crucial that in assessments of generation adequacy options, Member States take all impacting factors into account, such as RES deployment (especially also the shares of variable capacity) and greenhouse gas emission reduction objective, interconnection and storage capacity as well as demand-response potentials.

Moreover, when implemented, capacity support mechanisms should not contribute to a lock-in of inefficient and polluting generation capacity.

Against the background of the overarching European climate and energy targets, generation adequacy measures should provide for mechanisms, in which all potential providers of reliable performance (e. g. highly-efficient and flexible gas plants, CHP plants, power storage, reliable renewable power generation and demand-side management programmes) participate and compete. Like this, flexibility options at lowest costs will be chosen.



Inclusion of demand-response potentials

CEDEC strongly welcomes the European Commission's recommendations on the careful evaluation of potentials of demand-response in the assessment of generation adequacy. However, CEDEC recommends market signals to determine which flexibility measures will be used and to which extent. Demand-response enabled through technologies such as storage and smart grids will play an increasingly role in providing flexibility to the energy system. Price signals to consumers can lead to a shift of loads and thereby reducing peaks, which may then decrease the need for peak generation capacity. In order to tap into this potential it is essential to facilitate and speed up the deployment of smart grids so that signals about demand and supply can be transmitted and translated into actions. Consequently, any capacity mechanism should be designed to putting supply and demand on equal footing and to allow for the participation of demand-response services, by taking their particular characteristics into account. Like this, the flexibility provided by demand-response services can be remunerated and contribute to an alignment of demand and supply.

Time frame for interventions

In an energy system which in the long term will be dominated by volatile renewable energies there is a permanent need for flexibility. The energy-only-market (EOM) today does not give enough signals to invest in flexibility measures, and will neither do so in the future. Therefore, a market mechanism, providing for an additional cash flow, is needed also in the long-term.

CEDEC Background information

CEDEC represents the interests of local and regional energy companies.

CEDEC represents 1500 companies with a total turnover of 120 billion Euros, serving 85 million electricity and gas customers & connections, with more than 350.000 employees. These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid & metering operators and energy (services) suppliers.

The wide range of services provided by local utility companies is reliable, environmentally compatible and affordable for the consumer. Through their high investments, they make a significant contribution to local and regional economic development.