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CEDEC Position

European Commission's Communication: "Making the internal energy market work"

CEDEC, the European Federation of local and regional energy companies, welcomes the initiative of the European Commission on the communication "Making the internal energy market work", published on 15th November 2012. In light of the goal to complete the internal energy market by 2014, the Commission presents a comprehensive overview of current progress as well as future challenges.

CEDEC endorses 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 addresses three key challenges that urgently need to be tackled:

1. Implementing the Third Energy Package and ensuring a level playing field;
2. Helping consumers take advantage of opportunities;
3. Making Europe's energy system fit for the future.

CEDEC agrees 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 guarantees for a high degree of security of supply.

However we would like to point out that the energy markets in the different Member States had different starting positions, diverging types of energy mix, and have a different degree and speed of transformation. This means that a "one size fits all" solution to steer the development into the single European market prevents a swift and smooth transition in many cases, and that policy flexibility is needed.

CEDEC and its members believe that Distribution System Operators (DSOs) as neutral market facilitators represent an essential part in keeping the market work and in the transition of Europe's energy system, contributing to a secure, sustainable and affordable supply of energy to consumers.



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I. Achievements so far

Consumer choice and flexibility

Local energy companies have significantly contributed to an increased opening and flexibility of the energy market, which has traditionally been dominated by a small number of large incumbent players. In recent years, CEDEC members have managed to consolidate their market shares in distribution, production and supply of energy and related services, adding to the diversification of customer oriented offers.

In some countries, recent higher consumer switching rates¹ underline the increased transparency in retail market. However, it has to be underlined that switching rates are not the only indicator for transparency and openness of a market. Especially customers of local and regional energy companies value the closeness and familiarity with the customer and the local added value: as their customers display a high degree of customer loyalty, they often rather switch among tariffs of their own local company. In the end, what counts for customers is not the switch in itself, but the relevance of the profit offered by the possibility to switch.

Competitive prices

In the recent past, wholesale electricity prices have risen much less in comparison to prices for energy commodities. At the same time, the retail energy prices have increased in the majority of Member States².

Besides the negative effect of insufficient competition by the presence of large and market-dominant players on national retail markets, this can be partly explained by increasing taxes and levies as well as by external components integrated in regulated grid tariffs.

Another issue to be addressed is the often uneven distribution of taxes and levies among consumer groups. The costs of exemptions for large industrial customers are being transferred to household customers and thereby increase their financial burden.

¹ See ACER/CEER Report: Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2011 (2012)

² See above



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II. Challenges ahead

1. *Implementing the Third Energy Package and ensuring a level playing field*

Network codes

(1) Effective and timely implementation of codes

CEDEC actively supports and participates in the development of network codes in the framework of consultation processes with all relevant stakeholders.

Harmonized technical rules which are applied in all Member States will certainly contribute to an effective and efficient integration of national energy markets. To ensure this, CEDEC believes that a continuous monitoring by the European Commission during the code development process is necessary not only to ensure a swift and effective implementation, but also to monitor effectiveness in the market and to ensure that the rules bring what they are intended for.

Additionally, CEDEC would like to underpin that although the NC's were originally aimed at TSO level and should be valid only down to the connection point between the transmission and the distribution level, a cascading effect is already noticed at local DSO-level (NC on generator requirements), leading to a greater complexity and higher costs for local companies.

At this point of the transfer of the first codes to the comitology procedure however, CEDEC notes that the time frames set for the development of each code are very ambitious. In order to display a real effect on the harmonisation of the internal energy market, the codes need to be implemented in national markets. With regard to the implementation deadlines implied in the codes, this is not to be expected before 2014.

(2) Demand Response on distribution level

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



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In this context however, CEDEC stresses that the focus of network codes – as laid out in the ACER framework guidelines – has to remain on the better interconnection between national energy networks. Technical requirements for demand response measures, which are usually applied on the distribution level and close to the consumer, should therefore be carefully reviewed in the light of this principle.

Roll-out of Smart Meters

As provided by the Third Energy Package, the roll-out of smart meters is conditioned by technical and economic criteria. Besides delivering more detailed information on energy consumption and production to the consumer, smart meters are important tools for demand side management as they can detect consumption (energy demand) in real-time : services based on these data can create incentives for consumers to adapt their consumption according to price signals.

However, from CEDEC's point of view, two aspects have to be considered specifically in the envisaged roll-out of smart meters:

(1) Cost/benefit analysis

Only if a national cost/benefit analysis is positive, is the roll-out of smart-meters obligatory (as prescribed by the Third Energy Package). While in some Member States, this cost/benefit analysis has been negative (e.g. Belgium), in others (e.g. Germany), the results of the analysis are still pending. In the light of rising energy bills for consumers, the massive roll-out of smart meters should therefore wait until results are available. Additionally, it seems essential that not only economic and technical factors but also data protection, privacy and security issues are taken into account in the analysis.

(2) Technical standards

CEDEC agrees that the technical standards for smart meters as specified in the Third Energy Package have to be met, but considers that they should not be extended at this point. Further requirements should not be imposed before a broader introduction of smart meters will give better evaluation results about functionality, processes and competitiveness. This is especially important with regard to legal certainty and investments already made.



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2. Helping consumers take advantage of opportunities

Introduction of new services

In the future system new energy services will be developed in order to encourage an active participation of consumers in the energy market.

While market access should be facilitated for new actors, CEDEC would like to point out that also established market players can offer innovative and smart services, such as customized pricing-schemes, support for micro-generation, demand management tools and energy efficiency services.

Local energy companies (including DSOs) - as established regionally and locally enrooted actors - have a proven track record in being highly efficient in the provision of services exceeding their core business, due to their experience and structures. Moreover, they have the means to make use of profitable synergies with other local suppliers, to the benefit of the customer.

Vulnerable Consumers

CEDEC agrees with the Commission's view that support for vulnerable consumers is needed in energy retail markets which are becoming increasingly complex.

Moreover, CEDEC endorses the Commission's approach that vulnerability on consumer side is also an issue for social policy measures and cannot only be addressed by energy companies.

At the same time, CEDEC would like to stress the continuous efforts by local energy companies - in many cases supported by their local authorities - to offer advice and services to improve the efficient use of energy, especially to vulnerable consumers.

3. Making Europe's energy system fit for the future

Support schemes for renewable energy technologies

In order to reach the EU's goal of decarbonising the energy sector, the Member States should also in the future be allowed to offer country-specific support for renewable energy technologies in order to make local and regional resources available for the energy generation.



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While the integration of renewable energy in the energy system is considered necessary to guarantee security of supply, sustainability and affordability, the current energy system does not provide a level playing field as it is created around the needs of conventional energy sources, with ongoing subsidies for fossil fuels and lacking internalisation of external costs of conventional energy.

In view of the European internal energy market, a certain harmonisation of the conditions for support can be useful. CEDEC therefore supports the European Commission's initiative to issue guidance on best practice and experience gained in support mechanisms for renewable energy sources. Nevertheless, Member States should also in the future be allowed to choose their individual support schemes that allow for the optimal exploitation of local and regional resources through technology specific and market segment specific mechanisms.

Capacity mechanisms

In order to guarantee the security of supply in the near future, in a generation environment with continuously increasing shares of renewable energy, conventional power stations will have to remain available in the market.

From CEDEC's point of view it will therefore probably be necessary not only to compensate for the *generated* kilowatt (as it is the case in today's "energy only" market) but also for the *guaranteed* kilowatt, to be provided by selected generators (mainly steerable conventional fossil fuel generators).

Smart grids

(1) Quick adaptations of regulatory frameworks

CEDEC shares the view of the European Commission that the EU is currently not on track for the timely development of smart grids. Member States have only slowly started to adapt their national provisions.

Missing standards and unadjusted regulations have had negative impacts on the intensity of the efforts of energy companies in the development and implementation of smart grid technologies. While part of the reason is certainly the technical complexity in the creation of the infrastructure, it is absolutely crucial for a quick modernization and smartening of the grid that the regulatory framework encourages the necessary investments through a fair return, and provides clearness in roles and responsibilities without delay.

(2) Projects of Common Interest: integrated approach required

In the light of the European Union's decarbonisation agenda and the growing share of renewable energy transported over the European electricity grids, the development of smart



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grids is of utmost importance to balance and manage the decentralised and intermittent feed in of electricity at distribution level.

Therefore, CEDEC supported an integrated approach in the identification of Projects of Common Interest (PCI) in the Trans-European Energy Infrastructure Package. CEDEC is of the opinion that the faster permitting procedures for PCI on transmission level should be extended to the distribution grids attached.

Unfortunately, the compromise text which was finally adopted by the European Parliament on 18th December did not reflect this integrated approach. Moreover, the representatives of the distribution system operators were not admitted to participate in the expert groups making the selection for PCIs, which seems inappropriate in view of the steadily growing share of decentralized generation of energy in line with the EU's energy and climate goals. CEDEC is convinced that the participation of all parties is essential to integrate renewables in a cost-effective manner.

DSO as market facilitator

(1) Secure data management

In its communication the Commission explicitly mentions the potential of the ICT and telecom sector in data communication, which will play an increasingly crucial role in the future smart grid environment.

While CEDEC agrees that synergies with ICT and telecom for data management might be created and might even be cost-effective in some cases, CEDEC believes that it is the core task of DSOs - as neutral and regulated entities - to ensure the security of supply and trustworthiness of a smart grid.

The system integrity of a smart grid will depend on secure monitoring, timely and correct communication of information that is mission-critical for grid management, as well as distribution of consumption data from customers. In these tasks, the DSOs acts as a market facilitator, managing the data communication while safeguarding the privacy of the customer, and providing secure data access to all market parties offering additional services while maintaining the stability of the grid.

Hence for reasons of optimal grid management and customer data protection, the final responsibility for the data management should be given to a public regulated entity like the DSO rather than to a commercial third party.

(2) Market-facilitating roles for the DSO

While the DSO can act as a neutral market facilitator with regard to data management, they can also be active in the development of other services necessary in the transition of the energy system that might not (yet) be picked up by commercial market players. For instance



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the roll out of charging points for electric vehicles or the development of tariffs supporting demand response.

Given the potential contribution of a local and neutral market facilitator in addressing local needs, flexibility in the regulatory framework is needed.

CEDEC Background information

CEDEC represents the interests of local and regional energy companies.

CEDEC represents 2000 companies with a total turnover of 100 billion Euros, serving 75 million electricity and gas customers & connections, with more than 250.000 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.