

WINTER PACKAGE SOLUTIONS

EURELECTRIC'S KEY POLICY RECOMMENDATIONS



EURELECTRIC in brief

EURELECTRIC represents the common interests of the electricity industry at pan-European level. Our current members represent the electricity industry in over 30 European countries. We also have affiliates and associates on several other continents.

Our well-defined structure of expertise ensures that input to our policy positions, statements and in-depth reports comes from several hundred active experts working for power generators, supply companies or distribution network operators (DSOs).

We have a permanent secretariat based in Brussels, which is responsible for the overall organisation and coordination of EURELECTRIC's activities.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

ECONOMIC DEVELOPMENT

- ▶ GROWTH, ADDED-VALUE, EFFICIENCY

ENVIRONMENTAL LEADERSHIP

- ▶ COMMITMENT, INNOVATION, PRO-ACTIVENESS

SOCIAL RESPONSIBILITY

- ▶ TRANSPARENCY, ETHICS, ACCOUNTABILITY

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INTRODUCTION

EURELECTRIC's Winter Package Solutions brings together the European power sector's key principles and proposals for concrete action with regard to the upcoming set of legislative proposals and other documents that will comprise the forthcoming so-called 'Winter Package'.

The European electricity sector strongly believes that decarbonisation is essential to guarantee the long-term sustainability of the global economy, and we are committed to leading this transition. We believe that a key part of the solution to Europe's decarbonisation challenge is the fuel switch from fossil fuels to electricity in sectors such as heating, cooling & transport. With the European power sector fully committed to decarbonise by 2050, and an effective policy framework in place to ensure this goal is achieved, electricity is on track to become the energy carrier of the future.

The EU's 2030 Climate and Energy Framework provides a sound basis for cost-effective decarbonisation. Its implementation, including through a robust governance system for the Energy Union, should ensure that a balanced approach is taken in order to guarantee **competitiveness, security of supply and sustainability**. In this context, two elements are crucial in order to achieve cost-effective decarbonisation: a robust EU ETS and a well-functioning European energy market. A strengthened EU ETS will ensure cost-effective, technology-neutral and market-based delivery of the EU's decarbonisation objectives as it drives major investment in renewables and energy efficiency.

The power industry is confident that renewables are becoming fully competitive with other power generation technologies. This will require that future RES deployment is sustainable, cost-efficient and based on market fundamentals. The post-2020 framework for RES must therefore ensure a coherent economy-wide approach, enabling the efficient distribution of renewable assets and efforts, with the ETS and non-ETS sectors contributing to achieving the agreed EU-wide target for RES.

The critical challenges will be to foster the competitiveness of low-carbon technologies, to allow for the development of flexible solutions, to ensure that the market provides adequate price signals for existing assets and investments, and to avoid structural over or under-capacity thus ensuring security of supply in a cost-efficient way.

In the development of a new market design for electricity markets, we should be guided by the need to ensure cost-efficiency and affordability for European customers. Further market integration, a regional approach to security of supply and the removal of existing market distortions will contribute to achieving this goal. Efficient retail markets should also adapt to the era of active consumers. Bringing down policy support costs in the electricity bill and charging the regulated elements in a way that reflects the underlying costs and their structure will provide the right incentives for consumers and underpin electrification. Consumers should also have the opportunity to react to wholesale prices and participate in demand response programmes if they wish to do so.

In the midst of the changing energy landscape, the number of prosumers, aggregators and distributed storage providers is rising and these are progressively interacting with Distribution System Operators (DSOs). This is forcing changes in the way they operate and plan their networks.

In this context, this document elaborates our main priorities and policy recommendations on key elements that are expected to feature in the upcoming Winter Package. These include specifically the Energy Union governance, the review of the Renewables Directive, a new deal for electricity consumers, ensuring an active role for DSOs, as well as aspects relating to wholesale market integration, security of supply and network tariffs.

It should be noted that our messages on the EU's Decarbonisation Agenda, as well as the review of Energy Efficiency legislation, are not explored extensively in this document as these are addressed comprehensively in other EURELECTRIC reports.



DEVELOPING A ROBUST GOVERNANCE SYSTEM FOR THE ENERGY UNION

The governance system of the Energy Union must ensure a holistic, coordinated and cooperative approach to the process of achieving the agreed Energy Union objectives and 2030 climate and energy targets. While guaranteeing security of supply, competitiveness and sustainability, the governance system must provide a framework for the implementation of existing and future energy and climate legislation through governance structures at the European, regional and national levels.

EURELECTRIC proposes the following governance tools pertaining to each of these levels:

EUROPEAN LEVEL

- Introduce a peer-review and reporting process that streamlines and consolidates all relevant reporting obligations¹ in order to limit the administrative burden on Member States, and avoids additional reporting burdens for affected companies.
- Develop a governance framework that consolidates a holistic set of Member States' National Climate and Energy Plans, consistent with the Energy Union objectives. Progress on implementing the governance framework should be ensured by the European Commission.
- Clarify the legal status of Member States' National Climate and Energy Plans as well as the competences of the Commission with respect to assessing the realisation of key indicators.
- An effective Energy Union governance framework should:
 - Focus on the anticipated impact and interaction of proposed policies laid out in standardised templates to create a reliable framework for investors and reduce regulatory uncertainty;
 - Define measures to ensure steady pan-European progress towards policy objectives under the five pillars of the Energy Union. Monitoring progress towards these objectives will require the collection of specific data to be included as requirements in the National Plans:
 - Energy demand and supply projections, expected impact of energy efficiency policies;
 - Generation mix development as a result of proposed policies (including RES, nuclear, energy efficiency, smart and flexibility solutions, etc.);
 - Expected penetration of electricity in the transport and other non-ETS sectors including CHP and district heating;
 - The data collected through the National Plans should complement a set of key performance indicators;²
 - Outline transparent guidelines and a monitoring mechanism, to ensure that National Plans are in line with climate and energy legislation. The mechanism could be designed to mirror the European Semester process, while however reflecting the Energy Union's objectives, and should occur biennially. The monitoring process should start as soon as possible;
 - Offer a financial analysis of associated policy costs and their allocation among market actors;
 - Assess the impact and cost-effectiveness of proposed policies and measures in the ETS and non-ETS sectors both nationally and cross-border;
 - Detail a stable and clear innovation policy pathway for Europe, which would minimise regulatory barriers to innovation and will catalyse the deployment of innovative solutions through support for RD&D and incentives for market pull.

¹ National Climate Plans, National Renewable Energy Action Plans, National Energy Efficiency Action Plans, Risk Preparedness Plans, Regional System Adequacy Plans.

² Details on key indicators proposed by EURELECTRIC can be found here: http://www.eurelectric.org/media/274623/key_indicators_2016_4_12_final_as-2016-030-0201-01-e.pdf

INTERNAL ENERGY MARKET GOVERNANCE

The role of ACER and ENTSO-E must be developed with a European mindset, safeguarding the interests of European customers, with ACER having a stronger oversight of ENTSO-E activities, and with the European Commission overseeing both entities:

- **ACER is the appropriate entity to support National Regulatory Authority (NRA) cooperation and independence at the European level. However, in order for it to carry out its mission effectively, ACER should first and foremost adhere to and implement the mandate defined under the Third Energy Package.**
- Improvements of the current framework may be considered, in particular through the upcoming legislative proposals for a new energy market design. EURELECTRIC calls on the European Commission to:
 - **Clarify ACER's internal governance**, including specifically the roles, responsibilities and functions of ACER's bodies. These should be adjusted through transparent governance rules to guarantee its full independence from national regulatory bodies;
 - **Strengthen ACER's role in facilitating regional projects with multiple Member State involvement, promoting best practices amongst NRAs on regional cooperation**, and implementation of cross-border rules. In particular, it should be possible for market parties to lodge an appeal with ACER regarding an NRA decision whenever such a decision appears to lead to a distortion between wholesale markets, thus actually affecting market integration.
- **The role of ENTSO-E should be developed in order to facilitate a strengthened cooperation framework between TSOs, and with a more European mindset. ENTSO-E's internal governance should ensure that TSOs' commercial interests do not influence the development of network codes, allow for a transparent engagement with external stakeholders**, allow them to operate with a more regional (as opposed to national) system perspective and address cross-border bottlenecks to trade.
- DSO associations have taken note of the European Commission's intention to create a DSO body at the EU level. **EURELECTRIC is continuing to work with other DSOs associations with a view to further cooperation and collaboration in the wider interest of the energy transition.** Furthermore, this cooperation anticipates making constructive contributions towards the European Commission's intentions regarding the DSO body. Any such body would benefit from a clear and robust governance structure.
- **The process to develop and implement network codes should be more balanced** in order to consider the different segments of the value chain on a level playing field. In particular, the European Network Code Stakeholder Committees should be closely involved with a stronger role to be played by ACER. The establishment of similar structures at the local/regional level should also be promoted as implementation issues will first be raised at such levels. The links and the coordination process between the stakeholders' structures that are established at the local/regional and European levels should be clarified further. **Furthermore, a clear process for the amendment of network codes should be further defined, ensuring that all market participants can contribute on an equal footing.**

REGIONAL LEVEL

- Ensure that the governance system of the Energy Union becomes a guarantor and facilitator of closer cooperation between neighbouring countries (Member States but also with EEA, Energy Community signatories and other key third countries), both in the development and in the implementation stages of National Energy and Climate Plans, with a clear regional and European approach.
- Provide a framework to steer regional cooperation and foresee a mechanism to identify and address potential incompatibilities between National Plans on the regional/European levels. Successful regional cooperation formats such as the Baltic Energy Market Interconnection Plan (BEMIP), North Seas Countries Offshore Grid Initiative (NSCOGI), the Iberian Electricity Market (MIBEL) and the Pentalateral Energy Forum (PLEF) may be used as blueprints for the proposed European framework for regional cooperation, bridging bottom-up political commitment and EU-wide objectives. Initiatives such as the High Level Group for South-West Europe and the High Level Group on Central and South Eastern Europe Gas Connectivity (CESEC) should extend their scope to cooperation in the electricity sectors and become part of the governance system of the Energy Union.
- Converge the lists regarding Projects of Common Interest and Projects of Energy Community Interest to ensure focused institutional support for cross-border proposals based on rigorous cost-benefit analysis. Addressing infrastructure bottlenecks at the national level, which have a detrimental impact and obstruct cross-border energy flows, should also be eligible for European critical infrastructure funding.
- The definitions of regions should be consistent with respect to geographical definitions already applied by ACER, ENTSO-E, ENTSO-G and other relevant EU institutions or during the ongoing CACM process. Agreed roadmaps for regional market integration must be elaborated among the Commission, ACER, Member States, NRAs, TSOs and market participants. Progress should be monitored with appropriate compliance action initiated if Member States fail to deliver on the defined roadmaps in time.

NATIONAL LEVEL

- The governance system of the Energy Union should provide tools for technical assistance to address the administrative capacity of some Member States and hence ensure standardised quality of all National Climate and Energy Plans.

- **Member States should tackle customers' vulnerability to energy prices** in order to efficiently address specific national needs and opportunities. However, the governance system must ensure applied national solutions do not result in market distortion and include full transparency of the actions taken.
- **The specific conditions of islands make the supply of electricity a more onerous task than on the mainland, especially since economies of scale are difficult to deliver for such small and isolated systems.** More analysis supported by the European Commission on the associated challenges and potential solutions to island communities, especially on R&D investments, is critically important to find cost-effective, proportionate, practical and efficient ways to ensure the sustainable and affordable supply of electricity on islands.
- EURELECTRIC's views on the **content of the National Climate and Energy Plans** can be found in the position paper on Energy Union and 2030 Energy and Climate Governance (April 2015).³

LOCAL LEVEL

- **The governance system of the Energy Union should support the promise for 'A new deal for customers' by providing guidance on policies and tools regarding the participation of new local market participants in energy markets.** Supporting innovation, enabling customers to effectively engage in energy markets, should also be part of the proposal. Participation of new agents should be developed in parallel with the appropriate information procedures on the basis of level playing field for all market participants.
- **Municipalities and energy cooperatives and other relevant stakeholders should engage** in discussion with national authorities and policymakers in the preparation of the National Climate and Energy Plans through adequate nationwide consultation processes.

³ http://www.eurelectric.org/media/172021/governance_paper_2015_final_version-21-04-2015-2015-030-0210-01-e.pdf



ACHIEVING MARKET-BASED AND COST-EFFICIENT RENEWABLES DEPLOYMENT

As renewables become fully competitive with other power generation technologies, it will be essential to ensure that future RES deployment is sustainable, cost-efficient and based on market fundamentals. The post-2020 framework for RES must therefore ensure a coherent economy-wide approach, enabling the efficient distribution of renewable assets and efforts.

In order to deploy RES in a market-based and cost-effective way, wholesale electricity prices, underpinned by a reformed EU ETS, should become the main driver for mature low carbon technologies post-2020. As markets open to RES, the same rights and obligations should be applied to these market players (balancing responsibility, grid connection etc.). If needed, RES support should be market-based, competitive, cost-efficient and least distortive for the electricity market.

RES FRAMEWORK FOR 2030

- The revised EU Renewables legislation must ensure that:
 - The only binding target for Renewables in 2030 is an EU-wide target;
 - The same rights and obligations are applied to all market participants, either directly or indirectly, in terms of 1) dispatching of energy from all power generation sources, including RES, on the basis of merit order; 2) balancing obligations 3) charges for grid connections and network use 4) participation to all markets and to system services 5) avoiding retroactive changes to contracts in order to preserve investor confidence;
 - Prosumers should be integrated in the market on equal terms with other power production facilities. Electricity, when injected in the grid, should always be valued at the market price (not implicitly at the retail price). Non-market based net-metering schemes for prosumers should be avoided;
- The threshold and exemptions from market responsibilities defined in the State Aid Guidelines should be lowered gradually and be removed after 2020, in line with the move towards markets where RES can fully participate and are fully integrated.
- The legislative review should address grid regulation and infrastructure barriers through the:
 - Introduction of market-based congestion management;
 - Acknowledgement of the costs incurred for DSOs in order to timely connect renewables and to reinforce the grid where needed.
- The revision of the RES Directive should enable an increasingly regional or European approach to RES and a greater convergence and coordination of RES policies. This should be realised progressively based on the following principles:
 - Further alignment of support schemes' key characteristics through common EU rules should take place, in line with the State Aid Guidelines. Partial opening across borders and regional support programmes also increase cost-efficiency;
 - Commission guidance and frameworks regarding agreements between Member States in order to facilitate regional cooperation and auctions;
 - Achieving a level playing field for other key elements such as taxes, permitting procedures and transmission charges applied to generators.
- In order to ensure coherence and consistency, the revision of the State Aid Guidelines for the period after 2020 and the review of the RES Directive should be fully aligned.

COST-EFFICIENT RES DEPLOYMENT

- If needed, RES support should be market-based, competitive, cost-efficient and least distortive for the electricity market and should not be too complicated to set up. This should include:
 - Phasing-out of feed-in tariffs;
 - Auctioning of capacity based support or volume limited energy based support is more suitable as it distorts the wholesale market less and reduces risks for investors;
 - Beyond research, demonstration and early deployment, policy measures should not seek to promote specific technologies or projects;
 - Member States should take into consideration system costs and electricity demand when deciding on the volumes of supported RES capacity.
- The revision of the RES Directive should open up the role of RES in the non-ETS sectors (i.e. heating and cooling and transport). In particular, the revised legislation should:
 - Ensure technology neutrality regarding solutions to decarbonise buildings and avoid conflicts between RES measures and energy efficiency;
 - Exploit the potential of local renewable resources through collective solutions such as efficient district heating and cooling (DHC) systems;
 - Acknowledge the role of centralised renewable generation, renewable cooling and highly efficient cogeneration of heat and power; Review Annex VII of the RES Directive to update the formula for heat pumps;
 - Enable mass-market development of electro-mobility through increased vehicle supply, EU-wide charging infrastructure roll-out, customer incentives and public education. Use non-financial or financial incentives (limited in time).

Guarantees of Origin (GOs)

- The revised legislative framework should:
 - Merge the rules defining GOs and electricity disclosure into a single Directive;
 - Mandate the verification of green products (electricity produced with RES) with the GOs;
 - Open the possibility to issue GOs for all types of energy sources (on a voluntary basis): disclosure should either be based on GOs, on residual mix, or on a combination of both;
 - Harmonise the rules for calculating the residual mix at EU level to avoid double-counting;
 - Ensure that the sole purpose of GOs is disclosure without any requirement of additionality.

Biomass

- EURELECTRIC supports the adoption of harmonised mandatory sustainability criteria for biomass:
 - Sustainability should be defined by type of biomass (agricultural/forest) and not end use;
 - Forest carbon can be monitored through the use of LULUCF and/or national forest inventories;
 - The GHG footprint of the supply chain should be based on the Commission's existing methodology including, where appropriate, default values to ensure no new administrative burden especially for small traders and users, as well as a 60% GHG emissions savings threshold for all types of biomass, irrespective of the final energy use;
 - Size threshold: apply the policy to plants above 20 MWth, in line with the EU ETS threshold;
 - There should be no requirement for the efficiency of the conversion unit: the focus should be on the amount of carbon displaced;
 - Compliance: the EU could readily assess whether all Member States require generators and other users of biomass to adequately demonstrate sustainability through voluntary schemes such as SBP, FSC or PEFC, or through national regulation, whether within or outside the EU.



EMPOWERING THE CONSUMER

The Winter Package should contribute to consumer empowerment. In particular, it should address the policy support costs (levies) that burden consumers' electricity bills and reduce their incentive to contribute towards electrification and the decarbonisation of the economy.

The full implementation of the Third Energy Package should go hand in hand with a thorough assessment of the rules concerning billing and switching to avoid further unnecessary regulation.

COST-EFFICIENT RETAIL PRICING FOR ACTIVE CONSUMERS AND PROSUMERS

The technical and regulatory hurdles that prevent the demand side to participate in all segments of the market should be removed. Today, consumers pay regulated charges (comprising network tariffs and policy support costs) mainly based on their consumption, even though these costs are essentially incurred independently of the volumes consumed.

It will be crucial to enhance consumers' choice of services, foster the development of demand side flexibility and ensure the cost-efficient decarbonisation of the economy via electrification of heating, cooling and transport.

- Member States should phase out regulated end user prices, especially when they are set at below market costs.
- Member States should free up the electricity bill by bringing down policy support costs. These have been the main driver for the recent increase in retail electricity prices and currently comprise 36% of the average EU household bill.

- The upcoming legislation must ensure an evolution in the way remaining policy support and network costs are charged: Developing a set of tariff structures with different shares of capacity-based (kW) and energy-based (kWh) components should be enabled by the competent authorities based on consumers' and prosumers' contracted capacity and consumption level and patterns. These regulated charges may be conveyed with flat, time of use, peak pricing or dynamic options, depending on consumers' choice.
- Freeing-up the bill and evolving towards cost-efficient retail pricing will contribute to making decarbonised electricity more competitive against fossil fuels.

Prosumers as market players

- Cost-efficient retail pricing will ensure that consumer investments in decentralised generation do not result from artificial incentives.
- Prosumers should be integrated in the market on equal terms with other power production facilities. **Electricity, when injected in the grid, should always be valued at the market price (not implicitly at the retail price).** Non-market based net-metering schemes for prosumers should be avoided.
- A market-based regulatory framework will allow market players to develop new services that help prosumers handle market responsibilities and make the best of their self-generated electricity.

A robust regulatory framework for demand side flexibility

- The need to integrate increasing shares of variable RES into the system makes demand response increasingly relevant. Consumers should be able to provide flexibility by voluntarily changing their usual electricity consumption in reaction to price signals or to specific requests.

- Retailers should be allowed to offer dynamic pricing options to consumers, but regulation should allow them the freedom to decide if and how to offer this option.
- Third party aggregators should participate in the market on a level-playing field with other market participants:
 - **Balance responsible parties (BRPs) must retain their pivotal role in the European electricity market design** and continue to enjoy corresponding rights as well as responsibilities. As a consequence, third party aggregators should have the same balancing responsibilities with the same rights and obligations as all other market participants. **If third party aggregators are not balance responsible parties (BRPs),** measures should be taken to immunise a supplier from the normal consequences of any imbalance resulting from consumer's demand reduction;
 - **Clear information channels and appropriate measurement tools are needed** in order to quantify the volume of energy shifted by a consumer and re-routed by the third party aggregator;
 - **As with any other transaction in the market, the supplier should therefore be remunerated by the third party aggregator for the sourced energy in a market-based way.** The same holds true for demand-response capacity that is made available by third party aggregators to network operators as a new tool to ensure a secure and stable operation of their grids.

EFFICIENT RETAIL MARKET PROCESSES

Billing

Before considering further regulation, EURELECTRIC calls for a comprehensive assessment of the impact of current European and national legislative provisions that regulate energy bills.

- **Be less prescriptive regarding information to be provided in energy bills.** Regulation should be principle-based rather than dictating the format and content of bills.
- **Make a clearer distinction between a bill** – aimed at informing a consumer about what they have to pay for their consumption in a given period - **and billing/consumption information** – which could be provided by suppliers in many different ways (e.g. paper, application, email, personal webpage) depending on consumer needs and preferences.
- **Encourage Member States and NRAs to learn from each other regarding good billing practices.** Guidelines of Good Practice on Billing by CEER would be more helpful than establishing minimum standards across the EU.

Switching

- **Implement the Third Energy Package provision requiring switching** from one supplier to another to take place **within three weeks.** Consider legal action against Member States that still fail to comply.
- **Strike the right balance between costs, benefits and consumers' preferences (e.g. reliability) when considering any further shortening of switching periods.** Proper assessment is needed as to the real benefits a 24hr switching (suggested by ACER) would actually bring to consumers and what it would imply for the 14-day cooling off period.

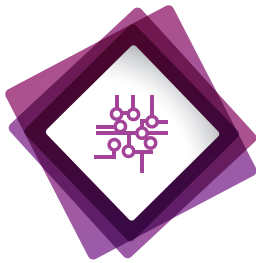
- Make an appropriate distinction between switching fees (which can be a barrier to switching) and early termination fees for fixed term contracts, which need to be permitted provided they are transparent and proportionate to the costs incurred by the supplier.
- Reconsider the current system of supplier obligations to fund energy efficiency measures. Indeed, it impacts the final bill and is financially regressive since the costs are distributed among consumers regardless of their ability to pay. Alternative measures to promote and finance energy efficiency, such as regulatory tools in the housing sector, or financial incentives including tax exemptions, should rather be considered.

(Energy) Poverty

- **Refrain from defining “energy poverty” at the EU level:** Member States’ situations differ greatly as far as employment, climatic conditions, electricity consumption, home insulation or energy retail prices are concerned. National governments are in a better place to tackle the issue via their own tools and social policies.
- **Use general national taxation to finance support mechanisms for people suffering from (energy) poverty.** Considering the progressive nature of taxation, this would allow for a more proportionate burden-sharing.

Comparison of offers

- **Consider certifying Price Comparison Tools (PCTs),** for example with a trust mark from the regulator based on a code of conduct. This would ensure that PCTs do not abuse commission payments to present a distorted picture of the market and therefore mislead consumers.



ENHANCING THE ACTIVE ROLE OF DSOs

Environmental objectives aimed at reducing greenhouse gas emissions, the increasing penetration of decentralised distributed generation and the electrification of transport are all contributing to a changing energy landscape. The number of prosumers, aggregators and distributed storage providers is rising and these are progressively interacting with Distribution System Operators (DSOs), forcing changes in the way they operate and plan their networks.

Subject to regulatory terms, DSOs are expected to be the independent and neutral operators of new, local market arrangements designed to ensure that evolution is efficient and effective in terms of market enablement and customer empowerment.

GOVERNANCE

DSO associations have taken note of the European Commission's intention to create a DSO body at the EU level.

EURELECTRIC is continuing to work with other DSOs associations with a view to further cooperation and collaboration in the wider interest of the energy transition. Furthermore, this cooperation anticipates making constructive contributions towards the European Commission's intentions regarding the DSO body. Any such body would benefit from a clear and robust governance structure.

INCENTIVISING DSO INNOVATION

- The new package must set the right regulatory framework for DSOs to become active network managers.
- The upcoming legislative review must incentivise NRAs to give DSOs appropriate incentives to implement the necessary innovative initiatives that support the transformation of the DSOs' business models. Distribution remuneration should duly incentivise DSOs for the synergies offered by the distribution network with other services (e.g. telecommunications).

- The implemented specific regulatory mechanisms should deliver a predictable and stable outcome. They should include incentives for both CAPEX and OPEX, acknowledging the shift from a higher share of CAPEX to OPEX in the deployment of new innovative network technologies.

THE ROLE OF DSOs

- A specific explanation of how a data hub is managed is not required. Rather, we need clearly defined high level principles to be fulfilled by the data manager.
- Allow DSOs to obtain meter and grid data to effectively fulfil their regulated tasks and their role as neutral market facilitators.
- The Electricity Directive does not mention storage, as at the time the European electricity system was not designed with energy storage in mind. This must be rectified in the upcoming legislative review which must adequately acknowledge and define both electricity and energy storage.
- Establish high-level principles to define the specific conditions under which DSOs are allowed to own or operate storage.
- Regarding the operation of charging infrastructure, the Clean Power for Transport Directive (Directive 2014/94/EU) states that all parties can roll out and operate charging infrastructure, as well offer charging services to customers. This should remain an activity for market players. However, in the cases of Member States who decide that the DSO will be the owner and the technical operator of charging infrastructure in public places, the regulator must ensure the recovery for incurred costs by DSOs, either via inclusion in the regulatory asset base, or through financing via public resources.

- **Ensure that DSOs are consulted in the definition and implementation of the rules required to enable the development and deployment of demand response.**
- **Ensure that DSOs and TSOs are the only operators of their respective systems** and whenever there is congestion in the grid, the responsible system operator must inform the affected system operator of any action taken in such cases, including the permitted activation of any significant grid users.
- **Microgrids must be appropriately defined and regulated on a level playing field with existing grids.** The legislation must reflect the fact that, in most situations, DSOs are best placed to evaluate the need for microgrids as well as the opportunities to establish and run them.
- **DSOs should be allowed to make use of flexibility services from distributed energy resources (DER) through market mechanisms, in order to solve problems related to congestion management.**



ENHANCED MARKET FUNCTIONING UNDER AN UPGRADED ELECTRICITY DIRECTIVE

The Third Energy Package should be fully implemented and wholesale markets should be integrated across all timeframes. For energy prices to reflect the actual market conditions, (1) wholesale price caps should be removed or their level harmonised to reflect the actual value of lost load; and (2) exit barriers should be lifted (i.e. ban any restriction on mothballing / decommissioning; ensure not only free entry, but free exit as well as a basic element of a well-functioning market). These elements should be part of a revised Electricity Directive.

Interconnections should be used efficiently and the grid upgraded in a cost-efficient manner.

UPGRADED ELECTRICITY DIRECTIVE

- Sufficient legal coverage should be provided to integrate all market timeframes (forward, day-ahead, intraday, balancing markets). The revised Electricity Directive should include a “wholesale” chapter aimed at enforcing the following key principles of an efficient wholesale market design:
 - For forward markets: provide cross-zonal hedging opportunities by ensuring full firmness of Long Term Transmission Rights;
 - For day-ahead markets: ensure non-discriminatory access to cross-zonal capacity; provide an efficient dispatch system to deal with congestions (including cross-border redispatching measures) based on regional capacity calculation/allocation methodology, integrated market-based redispatch mechanisms and a fair allocation of redispatching costs;
 - For intraday markets: promote a liquid pan-European market with harmonised products in all Member States, making sure that the pricing of cross-border capacity does not drain liquidity nor reduce the speed of market process. Allow the market to determine the most economic dispatch until a gate closure set as close to real-time as possible. TSOs shall only perform the residual balancing of the system;

- Define a clear target model for balancing markets as for other timeframes building upon the following key principles:
 - Make balancing a fully market-based solution, for which participation is not mandatory. TSOs should not be granted the right to offer balancing services as this would imply owning and operating generation assets (which is against unbundling rules) and the possibility to reserve cross-border transmission capacity for balancing purposes;
 - Clearly define balancing responsibility which is applied to all assets or group of assets on a level playing field and foster a regional approach to ensure European integration and cross-border participation in balancing markets.

REGIONAL SYSTEM OPERATION

The right incentives must be provided (in both the revised Electricity Directive and in the relevant network codes for TSOs) in order to operate the system in an integrated manner.

The necessary conditions must be created that will enable regional integrated system operators to operate with an integrated congestion management and an integrated balancing market with common rules and products. This should allow them to plan and coordinate network investment decisions at the regional level.

- Build upon the ongoing establishment of Regional Security Coordinators to gradually allocate the responsibility of the tasks they are executing to regional entities.
- Go beyond the status-quo: ultimately establish a regional decision-making structure and a single operational framework via regional integrated system operators performing system operation and planning tasks in all regions.

Capacity Allocation and Congestion Management

Optimisation of current practices for capacity allocation and congestion management should be tackled in the upcoming legislative proposals, taking stock of the ongoing implementation of the Capacity Allocation and Congestion Management (CACM) guideline.

This should be considered in a more holistic manner, assessing all available solutions to solve congestion on an equal basis, and based on an informed debate on the issues at stake between all relevant stakeholders.

The review of bidding zone configurations is one of the available tools and its impact on market efficiency and liquidity should be considered with due care. An improvement of the existing CACM guideline procedure to review bidding zones would be welcome. This should be coupled with a strengthened requirement to avoid the reduction of cross-border capacity to resolve internal congestion.



ENSURING SECURITY OF SUPPLY WITH A STRENGTHENED REGIONAL APPROACH TO SYSTEM ADEQUACY

Energy, flexibility and capacity must be properly valued as the three key components of an effective market design in order to ensure the price signals to drive the necessary investments in demand response, storage and generation.

An approach compatible with the objectives of market integration and decarbonisation should be adopted when dealing with security of supply. In this regard, allowing cross-border participation in any CRM design is crucial, together with ensuring the robustness of capacity contracted through clear market and operation rules.

ENSURING SECURITY OF SUPPLY IN A REVISED ELECTRICITY DIRECTIVE

- The revised Electricity Directive should:
 - Establish principles to allow for efficient integration processes and well-functioning wholesale markets (see previous section);
 - Establish principles for the development of regional adequacy assessments. The assessments should:
 - involve all relevant stakeholders, including market parties;
 - be based on a thorough analysis of the firm capacity provided by all assets on the supply side and on the demand side, including generation, demand response and storage, as well as potential cross-border contribution;
 - contribute to determining future demand levels and the amount of firm capacity that is needed for system adequacy;
 - take into account market perspectives and the general economic availability of existing generation technologies;
 - complement national adequacy assessments.

These assessments should not be considered as the sole determinative factor for Member States to introduce security of supply measures (e.g. capacity mechanisms). The necessary capacity can be valued in, for example, a market-based capacity mechanism; while the capacity that is not needed also receives a clear disinvestment signal.

Where these mechanisms exist they are also a tool in themselves for the regional adequacy assessment, delivering system adequacy by properly valuing reliable and firm capacity. These assessments should inform Member States whether their chosen adequacy target can be met through defining the level of reliable, firm capacity needed to achieve a certain level of system adequacy, predefined with their chosen reliability standard.

- Establish principles for the implementation and design of capacity mechanisms:
 - where implemented, capacity markets should be well-designed to ensure security of supply in a cost-efficient and sustainable manner, hence becoming an integral part of a future-proof market design: market-based, technology neutral (e.g. open to generation, demand response and storage), open to new and existing assets, open to cross-border participation (e.g. EU Member States but also EEA, Energy Community signatories and other key third countries);
 - regarding the length of the contract, investment in new generation capacity with a lifetime of several decades would benefit from longer-term price signals and from a stable regulatory framework.
- Develop a standard framework for cross-border participation (e.g. principles for interconnector derating process as well as obligations and penalties for domestic & foreign capacity) in all types of capacity mechanism as key instrument to avoid pure national approaches. Such framework should provide the legal principles to deal with cases of simultaneous scarcity situations (e.g. handling of existing contracts and conduct of TSOs). These principles may be complemented by intergovernmental agreements in order to define the energy flows in real time and thereby ensure the execution of capacity contracts.

ELECTRICITY SECURITY OF SUPPLY LEGISLATION

- The new legislation on Electricity Security of Supply must ensure that :
 - **Member States (and ultimately regions) are required to clearly express the level of security of supply they want to achieve, using homogeneous metrics;**
 - **A transparent and contestable methodology for regional adequacy assessments should be developed;**
 - **Tenders for new capacity should only be allowed as a last resort solution and in very specific cases** (e.g. local network congestion issues) after all market tools to guarantee adequacy have been exhausted;
 - **The interdependence between electricity and gas security of supply must be recognised.** In some markets, combined cycle power plants are key assets for electricity generation, therefore any disruption of gas supply could lead to potential spill-over effects on power systems. The identification of key gas-fired power plants to ensure power systems' operative functioning should be undertaken on a case-by-case basis, taking into account any technical and/or market constraints and conditions prevailing at the time of the emergency. Mechanisms and procedures for such identification may be defined ex ante, however there are no grounds for the permanent classification of key, privileged or protected gas-fired power plants;
 - Capacity mechanisms should take into account regional adequacy assessments and ensure security of supply in a cost-efficient and sustainable way;
 - A more integrated approach to risk preparedness plans in the area of Security of Supply, including adequacy assessments is therefore needed, going beyond individual initiatives of Member States. High-level non-binding guidelines on risk preparedness plans would be helpful with a view to promoting comparability and assisting cooperation between Member States;
 - When the Guidelines on State Aid for Environmental Protection and Energy 2014-2020 are revised, consistency with the revised Electricity Directive and Electricity Security of Supply Regulation should be ensured.



A CONSISTENT APPROACH TO TRANSMISSION AND DISTRIBUTION GRID TARIFFS

Transmission and distribution grid tariffs must reflect network fixed and variable costs, be allocated in a fair way among grid users and incentivise efficient provision of infrastructure services. They should also provide economic signals in order to incentivise efficient behaviour and optimal use of the system.

TRANSMISSION TARIFFS

- Harmonise the structure and ultimately the level of transmission tariffs applied to generators. Set the level as low as possible, in particular for the power based charges (€/MW) which act as a fixed cost and distort investment and decommissioning decisions.
- Eliminate (or in a first stage clearly distinguish) cost components that are not directly related to network costs. In particular:
 - Market costs (losses, ancillary services; ...);
 - Climate/environmental policies (overcosts of RES, cogeneration, ...);
 - Social policies (overcosts of islands, labour related costs, ...).
- Ensure consistency between the grid tariffs applied to generators at the transmission and distribution levels in order to avoid any undue discriminatory effects arising from their divergence, given that generators at TSO and DSO level are acting on the same wholesale market.

DISTRIBUTION TARIFFS

- An EU-wide harmonisation approach to distribution tariffs is not advisable. However, having a common framework or at least a comparable structure of distribution tariffs across the EU, ensuring that only grid-related costs are taken into account, would provide comparability across the regulatory spectrum, thereby ensuring an efficient and equitable tariff setting process.
- More capacity-based network tariffs (especially for low voltage consumers) reflect the underlying network costs mainly associated with peak demand and provide customers with incentives to reduce their peak load, resulting in a more efficient use of the network. They provide better incentives for a more efficient use of energy overall. More capacity-based tariffs also prevent cross-subsidies between customer categories and with the proper design, they can support demand response.

EURELECTRIC is the voice of the electricity industry in Europe.

We speak for more than 3,500 companies in power generation, distribution, and supply.

We Stand For:

Carbon-neutral electricity by 2050

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of all **low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

Competitive electricity for our customers

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

Continent-wide electricity through a coherent European approach

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.



Union of the Electricity Industry - EURELECTRIC

Boulevard de l'Impératrice, 66 boîte 2
1000 Brussels
Belgium

T.: + 32 (0)2 515 10 00 - F.: + 32 (0)2 515 10 10
website: www.eurelectric.org
 twitter.com/EURELECTRIC

