

CEER Strategy Public Consultation “Empowering Consumers for the Energy Transition”

A Eurelectric response paper

May 2021

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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1. To what extent have we captured with the three regulatory dimensions energy regulators' proper focus to empower consumers for the energy transition?

In general, the three dimensions are well suited for empowering consumers and year 2025 was correctly chosen as a target year. Overall, greater emphasis on digitalisation should be put in the regulatory dimensions (as a transversal topic), since digital solutions are extremely relevant for the development of the electricity system as a whole and also to boost consumers' empowerment granting them access to information to manage their demand patterns according to internal and external inputs.

Below you can find our views on each of the three regulatory dimensions.

- **Enabling energy system integration: integrating renewables and incentivising innovation**

Eurelectric fully supports the CEER's intention to include energy system integration as one of the three main regulatory dimensions. Our association believes that the EU Strategy on energy system integration and its concrete implementation through the “Fit for 55” Package, should be fully aligned with ambitious decarbonisation goals for 2030 and 2050. To do so, carbon-free electrification and energy efficiency should continue to be recognised as the main drivers to decrease and eventually remove carbon emissions in all sectors of the European economy. As a cascading priority, decarbonised molecules, such as hydrogen, in particular produced from renewable electricity, in the future will have a role to play as a complement to direct electrification in the hard-to-electrify sectors. In this context, Eurelectric highlights that the coupling of electricity & gas systems is a key link in the transition to a carbon-neutral economy.

Moreover, different flexibility solutions must compete on a level-playing field. To this end, the EU needs to maintain leadership and market-based approach in the development of key emerging technologies coming from the energy system. This can be done by developing targeted support schemes and market-based economic signals for all the services provided outside natural monopolies by market parties in competition. Regarding Power-to-Gas installations, the recent Recommendation Paper released by ACER and CEER are going into the right direction¹. Frictionless exchanges and interactions of energy carriers to the benefit of all connected systems and energy customers are prerequisites for a truly integrated energy system.

¹ https://www.acer.europa.eu/Official_documents/Position_Papers/Position%20papers/ACER-CEER%20White%20Paper%20on%20the%20Regulatory%20Treatment%20of%20Power%20to%20Gas.pdf

Upgraded grids will be essential to support the integration of decarbonised and renewable energy carriers in all sectors of the economy, whether they are related to power, gas or heat. In addition to the development of a proper investment framework, we call for identifying best links between sectors through coordinated, cost-effective and future-proof infrastructure planning tools. Finally, in a more decarbonised, decentralised and digitalised energy system, closer cooperation is required among all stakeholders (especially TSOs and DSOs) to anticipate possible evolutions of the electricity, heat and gas networks, supply & demand.

The issue of energy taxation and the weight of taxes and levies and their impact on electrification should also be stressed in order to make the most out of the potential of smart sector integration. For more details of Eurelectric views on successful and smart integration of sectors, please consider the following documents:

Eurelectric recommendations for a Smart Sector Integration Strategy:
https://cdn.eurelectric.org/media/4363/sector_integration_strategy_eurelectric_recommendations-2020-030-0222-01-e-h-01D1D6C4.pdf

Eurelectric response paper to European Commission consultation on an EU Strategy for Smart Sector Integration:
https://cdn.eurelectric.org/media/4478/m_an_eu_strategy_for_smart_sector_integration-2020-030-0372-01-e-h-D7BF8E9D.pdf

Our association is encouraging CEER to continue working extensively on energy system integration. Eurelectric published its recommendations on the topic. The energy system integration strategy should (i) unlock all the system benefits resulting from positive synergies among sectors, (ii) foster energy efficiency and (iii) benefit from decarbonised and renewable energy sources across the economy.

Electrification will make a key contribution to these objectives by providing concrete solutions for the decarbonisation of transport, buildings and industry. In this context, we believe that, the specific coupling of electricity and gas systems – i.e. sector coupling – will be a key link in the transition to a carbon-neutral economy. In a highly renewables-based future, sector coupling through e.g. power-to-gas assets in addition to other forms of storage will be crucial to support the electricity system. In this context, maintaining leadership and market-based approach in the development of key emerging technologies coming from electricity and gas sector coupling (such as electrolytic hydrogen) is crucial.

Moreover, electricity and gas sector coupling can be consolidated through:

- A clear classification and sound definitions of renewable & low-carbon gases, including power-to-gas fuels, taking into account the GHG emissions relative to their full lifecycle;
- An alignment of the upcoming Hydrogen and Gas Markets Decarbonisation Package with the objectives of the Energy System Integration & Hydrogen Strategies and preparing the gas sector for deep decarbonisation by 2050 while acknowledging regional specificities;

- A gradual development of a hydrogen market, based on thorough and cost-effective scenarios reaching European and national targets, taking into account technological and legislative constraints, to remove investment barriers, creating a level playing field with other technologies. As suggested by the EU Hydrogen Strategy, the first priority must be decarbonising the current hydrogen production and develop a sustainable & liquid hydrogen market.
 - Incentivising hydrogen production especially via electrolysis using adequate support schemes and a carbon allowances scheme that do not distort competition between technologies or energy carriers;
 - Hydrogen should be carefully compared against other decarbonisation options (i.e. direct electrification) and chosen when it represents the most economically efficient and sustainable alternative, from a system point of view.
 - If large quantities of hydrogen would need to be distributed, in order to accommodate it priority should be given to repurpose and reuse the existing gas infrastructure, where technically feasible and cost effective, instead of making investments in the new infrastructure.
 - Should a dedicated regulation of hydrogen networks be needed, it should be developed only when such a network starts to unfold and has reached a certain scale, in terms of feed-in points, customers and volumes.
 - Ensuring a cost-effective, unbiased and future-proof approach to energy infrastructure development, based on the energy-efficiency first principle, considering the long-term target of climate neutrality and minimising the risk of stranded assets;
 - Ensuring a level-playing field and fair competition between flexibility providers and different energy carriers, especially with the review of network charges, aligned incentives in the tariff regulation models, and the application of the same tariffication principles across the electricity and gas sector for storage and conversion activities;
 - An alignment of gas consumers rights with the framework provided by the Clean Energy Package;
 - A clarification of the definition and the role of power-to-gas installations as genuine market-based activities assets and insert them in a proper regulatory framework.
- **Placing consumers at the centre of energy markets with consumer-centric dynamic regulation, empowering consumers to actively contribute to and benefit from a flexible energy system;**

Our “15 pledges for consumers” initiative, launched in March 2019, has allowed us to get a very good understanding of the needs of consumers in the energy transition. Our report, developed after a series of 9 workshops which took place all through the EU, has shown that suppliers could play a crucial role to help consumers to take part in the energy transition, particularly on the 3 following domains:

- Empowering customers with new services and electric solutions

- Striving for an affordable and inclusive energy transition
- Improving customer's energy experience through simplicity and transparency

More than 90 signatories have therefore committed to help their consumers in these 3 key pillars. This year, Eurelectric is working on the follow-up of this initiative by continuing the promotion of the new products and services. As underlined by CEER, the implementation of the CEP is of course a first essential step of the objective to break all barriers that could hamper this process, which Eurelectric also fully endorses.

Eurelectric is fully aligned with the need to organise the energy system with a consumer centric approach. Nevertheless, this wording should not lead to miss the key role other stakeholders and market players (storage owners, aggregators...) likely to play in this evolving system. Eurelectric fully supports the involvement of all players and stakeholders in the energy sector, including customers, to achieve the energy transition and carbon neutrality objectives. A whole system approach should not be forgotten and the overall benefits of regulatory decisions should always be assessed in advance and monitored by regulators to demonstrate that overarching targets are actually achieved.

Consumers need adequate protection in a market that has become very complex. They have the right to be properly informed to make their own informed decisions. As the market is evolving fast and welcoming many new players, regulators should carry out information campaigns to raise awareness among customers on the benefits they could derive from empowerment and greater engagement on the energy market. At the same time, they should keep enforcing rules in commercially biased information businesses, in order to increase customers' trust in the whole energy system.

Due to the increasing digitalisation of the energy sector, considerable changes and opportunities await customers, but also several challenges that have already been faced by other sectors, for example in terms of privacy, data protection, data access and cybersecurity.

- **Ensuring open, well-functioning and resilient markets nationally and in Europe: delivering flexibility and new business models**

Regulators should avoid the definition of unilateral standards responding to political considerations rather than technical feasibility. Bottom-up approach should be favoured in order to allow for a real flexibility and freedom of choice in the market.

As DSOs play a central role in system management, appropriate regulatory guidelines are essential for the use of flexibility by DSOs and for procedures of procurement, but also to set the right framework to, as a starting point, support a proper assessment of the most cost-effective solutions, including flexibility (not as goal in itself but as one of the available tools). Clear guidance from NRAs, at European level, with regards the current implementation of the Article 32 of the Electricity Directive on the procurement of flexibility services would be very much welcome. It would help avoid any market distortions when DSOs need to procure flexibility for grid operation purposes.

Eurelectric takes note that CEER will continue to provide guidance on the market test for flexibility and storage, for specific cases where DSOs may need to own storage. Eurelectric recalls that pursuant to Article 36 and 54 of the Electricity Directive, as a general principle, storage facilities should not be owned, developed, managed or operated by system operators, but rather by market players.

With view to energy system integration since there is a need for significant financing, Eurelectric supports CEER's position putting forward joint planning for electricity, gas and heat. A coordinated and cost-efficient planning upstream will avoid many stranded investments and highlight no regret options.

The issue of network regulation remains crucial considering all the investments needed in infrastructure. Eurelectric also shares regulators' view that network tariffs should not be used to subsidise technologies, activities or users and should be cost reflective.

2. Are the six core areas the appropriate areas of focus for CEER's work in 2022–2025?

Overall, we agree with six core areas identified by CEER. We very much appreciate the emphasis on technological neutrality and dynamic regulation. Dynamic regulation and simplicity though important in a fast moving and complex world should not lead to asymmetric treatment and rules. A balanced and proportionate approach is required. We welcome the inclusiveness principle that has been added by BEUC and CEER. The energy transition requires leaving no one behind.

Concerning the Energy System Integration core area (4.1) the focus should be predominantly on hydrogen's end uses (industry, hard to abate sector), not only on hydrogen networks and transport. The future legislative proposals should take into specific consideration the current status and foreseeable developments of hydrogen production and demand, taking into account the level of incertitude strictly linked to the incipient status of such technologies.

Flexibility (6.2) and Decentralised & Local Energy chapter (5.2) are two core areas that are interlinked. Nevertheless, the subtopics mentioned in the two clusters should be differentiated more clearly (e.g. Demand side response is included in both core areas).

We would suggest including digitalisation in the Consumer-centric Design core area. In the energy sector, digitalisation is transforming the business architecture, redrawing boundaries and redefining relationships between consumers and utilities. Digitalisation will be key driver for consumer engagement in upcoming years, be it smart home appliances, smart meters, dynamic prices etc. The penetration of digitalisation may also lead to greater efficiency in data collection and data management, to the benefit of consumers. It would be interesting to know what is CEER opinion on the ongoing work led by TSOs and DSOs on data interoperability and which priorities it has in this regard.

DSOs are committed to optimise network investments and ensure the efficiency of each decision to invest in the construction of new infrastructures. In this perspective, regulation must also ensure that DSOs have the right incentives and the necessary conditions to invest in/use smarter, digital solutions when cost-efficient and that privacy and security, including cybersecurity, are safeguarded.

A continued focus of CEER is needed on these digitalisation issues and especially on cybersecurity ones. In our view, there are 3 key enablers to unlock the benefits of digitalisation for consumers: competitive and liberalised markets, an innovation friendly regulatory framework and reinforcement of the enabling role of smart grid infrastructure.

We would also suggest developing more on security of supply in the core area on Well-functioning Markets. Both digitalisation and security of supply are crucial for consumer empowerment, only consumers with secured access to energy and to new digitalised solutions and information will be keen to actively take part in the energy market.

Energy security is partly covered by resource adequacy, but in general this is something that is of crucial importance for all consumers. We would be interested to know which specific steps NRAs plan to undertake with regard to secure energy markets, delivering correct price signals.

Last but not least, we would be interested to know more details on how tariff structures could help consumer empowerment, which specific steps could be undertaken. With regard to tariffs and although the number of active network users is growing, it should be emphasised that the implementation of local adjustments to the tariff structure could have a discriminatory impact on other stakeholders connected to the distribution networks, as they will bear the price for network use of the flexibility provider. It could lead to market distortion and create “free-riding” issues.

As far as Flexibility (6.2) is concerned, we would be interested to know more about the flexibility platforms/discussions foreseen and some details on the timeline of the strategy for the reassessment of distribution tariffs.

3. Please indicate if you identify any missing important topic(s) for energy regulators within the stated six core areas.

In general, the strategy could elaborate in more detail on specific steps NRAs would like to undertake with respect to specific areas. Notwithstanding above-mentioned topics, CEER intentions with regard to RES support would be interesting. We are well aware that decentralised and local energy system is only possible to achieve if there are fair incentives for RES generation in place (as also acknowledged in the megatrend No. 9).

We would like to suggest including e-Mobility (charging) as a subtopic in the core areas (e.g. in Flexibility). We deem it a key component since EVs are both mobile loads and mobile energy storage units that can provide flexibility locally and to the electricity system in both capacities. Their role is therefore essential not only to serve mobility needs, as an interaction between transport and energy system is necessary to drive decarbonisation, optimise energy system efficiency and empower consumers.

In addition, higher emphasis on the role of smart meters could be envisaged in the document and could be mapped for example in the Flexibility core area. From a customer perspective, it is essential that the grid edge and metering develop fast, providing customers better visibility into their energy consumption, enabling the full deployment of new market models (such as DR) that enhance customers’ engagement and foster their empowerment. In the core area Decentralised and Local Energy there is also no information about investments needed in the distribution grid.

Regarding energy poverty and vulnerability, Eurelectric stated several times in the past that this is a crucial topic, but one to be tackled together with relevant social services as it is interconnected with the general poverty issue. It would definitely be interesting to hear CEER views on this, how they plan to tackle this specific issue.

We would also be interested in concrete steps NRAs plan to undertake regarding new gases: whether there are new network codes planned; how interplay between electricity and

gas should be defined in the tariff structure, and whether there are any studies planned on the topic.

The issue of growing energy prices for consumers is one of the main issues of the next decade. The principle of affordability is not fully addressed in the CEER paper. This question will of course have to be considered by policymakers also through the adequate tax incentive schemes. Considering the significant amount of investments to be carried out and the huge subsidies associated to the energy transition, Eurelectric would like to underline regulators' role in assessing the cost efficiency of the various solutions to reach decarbonisation at the best cost, and thereby in making the best use of public funding for the benefit of the community.

One other issue is missing with view to ensuring the 2050 carbon neutrality objective. Enabling this long-term strategy requires some adjustments to the present short-term-oriented electricity market design in order to launch and secure the significant amount of long-term investment to be made. To this end, assessing the lessons learned from the implementation of the Clean Energy Package at national level would be very relevant to feed discussions on the future revisions of both Electricity Directive and Regulation in 2025.

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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