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Reply of ČEZ Group to the Public Consultation Paper European Energy Regulation: A Bridge to 2025

ČEZ Group welcomes the opportunity to present its views on the energy sector challenges and possible policy and regulatory responses till 2025. We appreciate the initiative of ACER and CEER to discuss the identified priorities with other stakeholders.

Nowadays, there is a strong need to tackle a lot of immediate and also long-term challenges in the field of energy policy. These are mainly the functionality renewal of the system for market approach to internalize CO₂ emissions, introduction of technologically neutral parity for all low carbon sources, development of infrastructure and management of energy supply & demand, and above all, the completion of internal energy market. The role of energy industry will be crucial. Thus, proper regulation allowing providing for affordable and reliable energy supplies must be set up enabling stable investment prospects and predictability.

We are of the opinion that we should be careful about considering any new market regulation which could unnecessarily burden energy market participants. ACER in cooperation with respective NRAs should firstly concentrate on the open issues to ensure that the internal energy market is achieved in a timely manner. Subsequently, the liberalized and integrated market should be provided enough time to deliver expected benefits.

Electricity wholesale markets

- The trends in the field of electricity wholesale markets were sufficiently identified: integration of wholesale markets, renewables growth which is driving changes in generation of electricity and the need for policy interventions to ensure adequacy (through CRM). However, we are of the opinion that the crucial activity of ACER should be the implementation of the 3rd package and the corresponding network codes.
- Although the 3rd liberalization package has been almost in all Member States implemented, the need of the security of supply is still not ensured.



- Actually, a lot of issues are delayed and the time schedules are not respected. For example, in case of REMIT, there are still gaps in understanding and many fundamental questions have not been answered so far. It is very difficult for market participants to prepare properly for new reporting system under REMIT without spending extra unnecessary costs.
- Another example of delayed action is adoption of Network codes – practically on time from ENTSO-E or ACER point of view, being delayed at the Commission level.
- Furthermore, we feel that ACER must be more engaged in promoting and improving market integration at regional level. We agree with the ACER's view that the national approach hampers the road to the really integrated internal energy market. We are persuaded that ACER should be a key institution to react on the systematic violation of Regulation 714/2009 in some countries which still apply export fees (Bulgaria), restriction of OTC trading (Romania), end-price regulation for households and commercial business under wholesale price level (Slovakia) etc.
- One of the tasks allocated to ACER should be the promotion of regional cooperation which is not really happening and regional initiations do not work well. Moreover, ACER should coordinate the activities of individual regulatory authorities in different Member States, which, it seems, does not actually happen at all and the activity of these independent authorities is often hampered by political interventions.
- We are of the opinion that the harmonization of the cross-border impacts of the emerging capacity markets should be ensured by ENTSO-E.
- ACER should use more its powers and authorities for harmonization of market rules in EU Member countries and prevent violation of EU Regulations in energy field. ACER should focus on coordinating and harmonizing role to ensure harmonized and effective application of the EU Regulations across the EU.

The role of the DSOs

- We appreciate that ACER recognizes the need to further develop Smart grids in order to maintain security of supply and quality of service. On the other hand, it is regrettable that it does not directly initiate potential actions for regulators. Relevant tariffs will need to reflect these network investment needs and national regulators should be strongly encouraged to work on this issue. Without regulatory change, and without further support, smarter grids will not be deployed.
- We would welcome activities which help remove regulatory constraints to investments in Europe (e. g. unstable and unpredictable regulatory framework, low achievable return on investment, CAPEX time shift – it means that investments are accepted in regulatory asset base with delay, reduction of expenditures in areas such as R&D, risk of stranded investments, ...).
- We can imagine non-binding guidance coming from the ACER (e.g. assessment of optimum regulatory framework, definition of tolls focused on



motivation to investments, etc.). Any compulsory harmonisation of regulatory frameworks could cause negative impacts on involved parties and higher allowed revenues and distribution tariffs. The main reasons are different local conditions (climatic, historical, political, demographic), degree of advance of distribution network, degree of advance of current regulatory framework, stranded costs issue, etc. It could contribute to encourage national energy regulators to revise their regulatory model.

- In terms of further development of demand response scheme, we welcome ACER's call to "explore the new relationships between services providers and consumers" and the intention to identify "interactions with wholesale markets and transmission and distribution operation". This is needed because there is a number of issues need to be addressed before relevant system is going to be introduced e.g.:
 - Who is responsible if the services cannot be provided due to a fault on the grid?
 - How to prevent actions from aggregators creating grid congestions?
- DSO has to be fully responsible for control and operation of the grid. We therefore strongly disagree with statement: "Given that DSOs are monopoly network operators, it is in the interest of all consumers [...] leaving other actors (e.g. retailers, independent aggregators, ESCOs) to supply the new services including load control, usage monitoring and the provision of vehicles charging/refuelling ..."
- For efficient network operations, it is crucial that DSOs can monitor how the grid is used, as increased information is core to the transition from traditional distribution networks to smart grids. This doesn't create any comparative advantage for the DSO as it remains neutral and independent. For this reason we also question statement: "the most effective long-term model to deliver such an outcome is ownership unbundling".

Therefore we can reply to your priority questions stated in public consultation as follows:

1. *Have we identified correctly the issues and trends within each area of the energy sector?*

We do share the opinion that ACER has identified correctly issues and trends within electricity sector. We appreciate primarily emphasis on wholesale markets and the role of DSOs.

2. *Have we identified an appropriate regulatory response?*

We find policy interventions drawn by ACER as adequate. The most important policy challenge we currently see is delicate implementation of the capacity remuneration mechanisms. Nevertheless, tailor-made solution is needed for proper integration to the environment of different national frameworks.



3. ***Which regulatory actions are most important and should be prioritised?***

We would welcome that ACER prepares recommendations in terms of definition of long-term goals of NRAs. There is a strong need of sufficient discussion between NRAs and stakeholders about the future development of energy sector and regulation.



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