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16 June 2014

### **European Energy Regulation: A Bridge to 2025**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We continue to strongly support ACER's initiative to identify the key challenges and potential regulatory solutions from 2014 when the EU network codes are largely in place until 2025. We welcome the opportunity to respond and have summarised our key messages below:

- ACER should increase its efforts to implement the single energy market, primarily through accelerating the development of network codes and the strict enforcement of the liberalisation packages.
- We agree that regulatory certainty is of paramount importance in order to facilitate efficient infrastructure investment. Significant regulatory change and uncertainty could lead to delays in necessary infrastructure investment which would have a detrimental impact on consumers.
- ACER correctly identifies that generation adequacy is an issue as a greater number of Member States are facing this challenge. ACER's Green Paper recognises the importance of establishing well-designed capacity remuneration mechanisms within Member States. We believe that there is an advisory role for ACER on the preparation and design of capacity remuneration mechanisms whilst recognising that the design of national policy interventions will need to be tailored to the Member State.
- We support enhanced interconnection across Europe as a necessary underpinning for the completion of the single market in energy. However, investment in interconnection must be cost effective, subject to rigorous cost-benefit analysis, and take account of national circumstances. This is consistent with Article 194 of

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the Lisbon Treaty. Furthermore, the costs associated with investment should be met primarily by the beneficiaries of the investment.

- The Green Paper identifies a new, significant role for Distribution System Operators (DSOs) but fails to recognise the role that retail market suppliers and aggregators can also play in response to technological developments and demand-side response enabling services.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 01452 658415, or me.

I confirm that this letter and its attachment may be published on ACER's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Angela Pearce".

**Angela Pearce**  
**Corporate Policy and Regulation Director**

## Attachment

### European Energy Regulation: A Bridge to 2025

#### EDF Energy's response to your questions

#### The priority questions for the consultation are:

#### **Q1. Have we identified correctly the issues and trends within each area of the energy sector?**

ACER identifies that current policy interventions may drive the generation portfolio towards smaller, more distributed, greener and less predictable generating plants. ACER should support the development of a diversified range of low carbon energy sources across the EU. Nuclear should be considered within the low carbon energy sources mix.

We agree that a greater reliance on RES will lead to a higher likelihood of intermittency in the electricity market and therefore greater reliance on gas. It is very likely that a very different use of gas will emerge; not only providing 'predictable' baseload generation but also providing flexibility in combination with increased renewable generation; this has implications for the gas markets and the networks.

We also believe that changes to the gas supply side will materialise a lot quicker than on the gas demand side where changes are likely to happen more slowly and this should be included in ACER's consideration of the effectiveness of possible demand-side response services.

ACER correctly identifies that generation adequacy is an issue as a greater number of Member States are facing this challenge. ACER's Green Paper recognises the importance of establishing well-designed capacity remuneration mechanisms within Member States. We believe that there is an advisory role for ACER on the preparation and design of capacity remuneration mechanisms whilst recognising that the design of national policy interventions will need to be tailored to the Member State.

ACER identifies a much larger 'core' role for DSOs in order to facilitate active participation of consumers in energy markets. Yet the green paper does not consider the role that retail market suppliers and aggregators can also play in response to technological developments and demand-side response enabling services. Retail market suppliers in particular have a role to empower consumers.

#### **Q2. Have we identified an appropriate regulatory response?**

EDF Energy believes that if the market fails to deliver, market intervention may become necessary. Any policy intervention should be based on the principles of the market, and be compliant with single energy market rules.

The Green paper does not provide detail on how ACER or the NRAs will evaluate infrastructure investment beyond committing to focus on a regulatory framework that facilitates the delivery of efficient investment to safeguard the interests of consumers. We would have liked to see commitments that ACER and the NRAs develop a pan-European approach to assessing the Cost Benefit Analysis (CBA) of cross-border investments.

The ENTSOs have an important role in the development of network codes which will facilitate greater integration between Member States and influence the framework directly. However, the ENTSOs mainly represent TSOs, other stakeholders (such as generators or suppliers) are only consulted and canvassed for views which may or may not be taken forward within the network code framework. Robust and fit-for-purpose governance arrangements should ensure that all relevant actors play a role with robust consultation right up to, and even during, the Comitology period. This is of paramount importance to ensure that the best regulatory outcome is attained in the interest of consumers.

We welcome ACER's assertion that implementation of a fully functioning single energy market should allow for the benefits of cross-border trade to be passed onto retail markets. The Green paper reasserts what has already been published in the CEER-BEUC 2020 vision<sup>1</sup> and therefore we would have welcomed additional detail on how ACER would take this work forward to 2025.

### **Q3. Which regulatory actions are most important and should be prioritised?**

First and foremost, ACER should increase its efforts to implement the single energy market, primarily through accelerating the development and implementation of network codes and the strict enforcement of the liberalisation packages. Until the existing network and market codes are embedded, ACER will not have access to sufficient data or information to assess the effectiveness of these network codes upon the energy market. It is important that ACER ensures legislation is applied consistently across Europe.

Significant regulatory change and uncertainty will not provide the right framework to enable investors to bring forward the required infrastructure investment. ACER should recognise the importance and value placed on regulatory certainty by stakeholders. Therefore we do not believe that further intervention should be contemplated when the existing framework has not been fully embedded across Member States.

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<sup>1</sup> CEER-BEUC (2012), *A 2020 Vision for Europe's Energy Customers A Joint Statement - 12 November 2012*

**Q4. Are there other areas where we should focus?**

ACER has an important role to play in the implementation of the single energy market through the network codes. This includes ensuring there is a common interpretation and consistent application across Member States, as well sharing best practices. Therefore it is important that ACER focuses on ensuring full implementation of the single energy market, primarily through accelerating the development of network codes and the strict enforcement of the liberalisation packages.

Until ACER has achieved this goal across the EU Member States, we do not believe it appropriate at this stage to further ACER's remit beyond the EU borders.

**EDF Energy**  
**June 2014**



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