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### **EDISON RESPONSE TO ACER PRE-CONSULTATION ON “ENERGY REGULATION: A BRIDGE TO 2025”**

#### **WHO WE ARE**

*Founded in 1884, Edison is Europe’s oldest energy company. Today, Edison, which is part of EDF Group (Electricité de France), is one of the most important Italian operators in the procurement, production and marketing of electric power, natural gas and crude oil. Edison employs about 3,200 people in Europe, Africa and Middle East.*

*In the electric power business, Edison has a fleet of highly efficient facilities with a diversified production mix ranging from combined cycle gas turbine (CCGT) plants to hydroelectric, wind, solar and biomass.*

*In the hydrocarbons business, Edison has extensive Exploration & Production of hydrocarbons activities in the Middle East and Africa and is committed to develop European gas import infrastructures.*

*In 2008, Edison entered the Italian residential market with a sales package to supply electric power to families. A year later, Edison broadened its sales package for families with the addition of natural gas. In 2012 Edison achieved the milestone of 1,5 million customers served in Italy.*

*Edison and its subsidiaries operate across Europe (Italy, Greece, UK, Norway, Croatia, Bulgaria, Romania, Hungary, Belgium and Turkey), Africa (Algeria), Middle East (Egypt).*



## GENERAL REMARKS

Edison welcomes the opportunity to participate to ACER's pre-consultation on the developments of the European energy regulatory framework within the 2025 horizon. We consider it a useful (and possibly fruitful) initial step, aimed at gathering views and suggestions from all interested stakeholders before the announced Green Paper is finalized by mid-2014.

We share the widespread concern over the current status of European energy policies and we believe that regulation by itself would not represent a complete and effective answer. In fact, in order to assure that European energy markets deliver competitiveness, energy security and cost-efficient solutions to meet environmental and climate goals, the evolution of the regulatory framework should accompany and coherently integrate a proper policy framework, to be defined by the EU taking into consideration the new and structural challenges arising for the energy sector.

The proper implementation and enforcement of existing legislation and regulation (3<sup>rd</sup> Energy Package) by all Member States should also be recognised as a priority, to allow it to deliver its expected beneficial impact on the markets.

## ELECTRICITY PAPER

***E1. Although adequacy issues are not likely to disappear completely, do you agree that the current primary focus on levels of adequacy will likely be expanded to emphasize a later priority focus on flexibility?***

Flexibility and capacity adequacy are two different concepts, which should not be mixed up since they need to be addressed with different instruments.

System adequacy relates to the need to ensure investments in new generation capacity and/or to avoid the early shut-down of existing power plants in order to guarantee that enough firm capacity is available to meet load requirements in the medium and long term. Therefore, even in condition of overcapacity, adequacy should be properly addressed, especially where prices emerging in energy-only markets fail to provide adequate investment signals, leading to boom and bust investment cycles which can endanger system adequacy. For instance, the implementation of CRMs should be primarily focused on ensuring long-term generation adequacy at the lowest possible cost and in a technology neutral way.



On the other hand, flexibility is the ability/availability of power plants and demand-response to ramp up and down, to compensate production variations into the system. The existing capacity is able to provide flexibility, though to a different extent, with different constraints and a different level of control depending on the generation technology. In general, power plants can modulate their production if technically needed, though suffering some loss of opportunity or generation over-costs linked to the provision of these services. These costs should be fully recovered through markets (e.g. ancillary service markets etc.) if they are properly designed to reflect the actual value of the services provided by generators. The cross-border exchange of reserves can further improve the functioning of balancing market towards a more efficient system management at European level.

Therefore, Edison believes that the remuneration of flexibility should be ensured by markets where operators can be remunerated for their services at a price which transparently reflects the value of the concerned product and the cost incurred for its provision. Hence, flexibility is quite well dealt with using existing market-oriented mechanisms like intraday markets, balancing mechanisms and reserve management.

***E2. Should we seek to further define, measure and develop flexibility in addition to the initiatives that are underway? If so, how could this best be done and in which market time periods?***

***E3. What are the market-based routes for flexible 'tools' to participate?***

***E4. What measures may be required to ensure that the market receives the most appropriate signal for the value of flexibility?***

As correctly highlighted by ACER, the low predictability and controllability of renewable energy sources compared to conventional thermal generation leads to increased requirements in terms of reserve margins and balancing energy. This means that flexibility provided by existing thermal power plants as well as by new sources (e.g. demand response, electricity storages etc.) is greatly needed in order to ensure the safe operation of the power system and, ultimately, the security of electricity supply. Therefore, we agree with ACER on the need to define a proper regulatory framework at European and national level able to ensure that all the flexibility providers can participate in intraday and balancing markets on an equal footing.

In Edison's opinion, priority should be given to the definition of specific products to be exchanged in balancing/ancillary services markets which accurately reflect the



flexibility services needed by TSOs for dispatching purposes and whose price is able to remunerate service providers for both the availability of their facilities and the provision of the energy required (or reduction of consumption). This approach should be technology neutral since a well-functioning market with properly designed flexibility products is in our opinion the most efficient way to select the operators (generators, consumers, storages etc.) who can meet the flexibility requirements of the electricity system in the most efficient way (under a technical point of view) and at lowest cost.

The integration of intraday and balancing markets will add additional opportunities for generators (including RES) and consumers to adjust their generation/consumption schedules closer to real time when more information on the actual performance of facilities is available. At the same time TSOs will be able to procure additional balancing energy and reserves to face the intermittency of RES electricity production.

Furthermore, it is of utmost importance that all market participants can compete on an equal footing on energy markets, e.g. by paying for the costs they generate, in order to have a uniform incentive across the market to a more accurate generation forecasting and to limit distortions of market price formation which can lead to suboptimal investment signals. For this reasons, we believe that all NRAs should pave the way towards the full balancing responsibility for mature RES generation technologies, though with some specific adaptations at least in a first phase, as a necessary tool to increase the efficient dispatching of all the available generation park.

***E5. Do you think that other, for example institutional arrangements should be considered? Is greater TSO and DSO coordination required? If so, what should NRAs do to facilitate this?***

Edison believes that priority should be given to the full deployment of flexibility sources connected to the transmission network through well-designed flexibility products exchanged in properly functioning balancing/ancillary services markets able to ensure the adequate remuneration of generators/consumers.

We are in any case aware of the growing importance of distributed generation and consumption (i.e. connected to the DSO network) also as a source of flexibility which can contribute to the stability of both distribution and transmission grids. Nevertheless, it should be considered that network users connected at MV and LV level should be primarily equipped to efficiently react to frequency disturbances and incidents occurring at both transmission and distribution level. This would enable DSOs to manage in a more active way their network, also in the view of the



development of smart grids, and to play a role in the supply of the ancillary services needed by TSOs.

Thus, given the growing significance of the DSOs' contribution to the operations of the electricity system, a greater coordination between DSO and TSOs will be certainly required. Since differences of national electricity markets are still significant, we believe that NRAs should step in to define a proper regulatory framework enabling DSOs to manage in a transparent and reliable way their network, also in the view to supply system services to the transmission grid. Hence, rules applied to DSOs should be firstly harmonized at national level and progressively at European level, in that respect we believe that the coordination requirements between TSOs and DSOs introduced by the Demand Connection Code can be a valuable starting point.

***E6. How should regulators facilitate demand side participation (including demand side response and electricity storage)?***

As already mentioned, the primary objectives of regulators should be to define market arrangements which support the participation of demand response and electricity storage to energy and ancillary services markets on an equal footing with the other available technologies, i.e. generation (programmable and non-programmable).

Properly designed markets should enable the comparison of the costs incurred by each available technologies to supply energy and flexibility services with the aim to minimize the costs to consumers, by selecting the best technology according to a technical-economic common merit order. Any support scheme aimed to incentivize the provision of flexibility services from one specific available technology (e.g. demand side response and storage) could introduce distortion to this market-based selection of offers, thus resulting in suboptimal and probably more costly outcome.

We recognize that flexibility and ancillary services markets have been traditionally designed to allow generators to supply TSOs with the services needed to operate their systems. NRAs should then ensure the definition of the technical conditions for the provision of demand response and storage services as a pre-condition for these technologies to be properly integrated in the electricity markets. Market rules should then be limited to allow a proper definition and remuneration of the products to be exchanged, facilitating the access and the fair competition of all players.



***E7. How can NRAs support, or incentivise TSOs and DSOs to invest in ‘smart networks’. What actions are needed, in particular from regulators, to promote more active distribution networks? Do we sufficiently reward avoiding ‘dumb’ investments?***

First of all, investments in “smart network” should be focused on grid components (such as remote control systems, smart meters etc.) in order to avoid that TSOs and DSOs are involved in the development of assets in competition with market participants. This is the case of storage systems which should be developed on the basis of the economic signals resulting from prices of energy and ancillary services markets, being the services provided by this technology comparable to the ones procured by generators and demand response. Therefore, the development of storage systems (e.g. batteries) should be left to market dynamics and not be subject to tariff incentives and as such included in the Regulatory Asser Base of TSOs and DSOs.

Smart grid investments are currently at an early or pilot stage and for this reason they need an adequate and evolving regulatory framework enabling the identification and support of the best available technologies which can be used as a benchmark for future developments. Therefore, Edison believes that regulators, at this first stage, should support pilot projects aimed at testing different technologies and technical/organizational arrangements for the development of smart grids. This can be done, for instance, through an additional remuneration awarded to investments in smart grid projects. Once the result of this testing phase are available and one or few technologies can be referred to as benchmark technologies, NRAs will have to move to an “output based” regulation aimed to reward only the investments able to deliver the required benefits to consumers in the most efficient and cost-effective way.

***E8. How should NRAs influence the competition debate, for example on support schemes, regulated tariffs, capacity remuneration mechanisms, etc?***

NRAs should closely follow and feed the debate on the development of competition and on possible evolutions of energy markets’ design. We believe that the regulatory intervention should not hamper the natural evolution of the energy markets but rather make the transition the smoothest possible for market participants and consumers.

For instance, in case of Capacity Remuneration Mechanisms NRAs should contribute to raising the awareness about the missing money problem affecting energy-only markets which may, in some cases, require the creation of capacity



markets complementary to energy markets as a necessary tool to ensure system adequacy.

As regards RES support schemes, NRAs should concentrate their effort towards a more balanced approach which takes in due account the positive externalities generated by these new technologies and the costs incurred by the electricity system and, ultimately, by consumers. A revision of RES support schemes should be focused on incentives aimed to sustain emerging technologies which need support to enter the market. At the same time, Regulators should intervene to adapt the electricity market design to the massive penetration of non-programmable RES technologies occurred in the last years, e.g. by introducing RES balancing responsibility and by ensuring proper market opportunities for flexible power sources.

***E9. To what extent should the relationship between competition in electricity and gas markets influence regulators' activities? Could regulatory action on the gas market, help solving the flexibility problem of the electricity market?***

Surely, higher coordination between intra-day gas and electricity markets is desirable to limit the increasing imbalance risks faced by gas-fired generators to back-up RES. This should be pursued by ensuring that the timing of market sessions on both markets is sufficiently coordinated to allow gas-fired generators to balance their position. Furthermore, unnecessary restrictions to within-day renominations (as well as too long lead times for renomination) should be removed, particularly when they derive from a lack of coordination between adjacent TSOs and NRAs.

Another very important aspect of coordination between the two markets concerns the availability of timely and reliable within-day information on the gas withdrawals of power generators, which are fundamental for balancing purposes. We think that, similarly to what is foreseen by the NC Balancing for DSOs, electricity TSOs should provide gas TSOs with all the necessary and granular information to allow for a more precise within-day forecast of the off-takes from gas power plants. This would contribute to a more efficient balancing of the system, reducing the balancing risks arising from the high modulation that characterizes this kind of plants.

Nevertheless, any general regulatory intervention before the full implementation of the NC Balancing in national systems could be premature, as every system could react differently from the introduction of the provisions in the NC BAL, depending on the degree of flexibility available to TSOs and network users. Therefore, at the



present stage, we would better recommend to continue and improve the monitoring activity of the impact on the system of the more discontinuous generation from gas-fired generation: this analysis could be part of ENTSOG's 10-YNDP, in cooperation with ENTSOE.

***E10. How should regulators remove barriers to entry for new supply sources?***

Well-functioning energy and ancillary services/balancing markets together with clear technical rules for the provision of specific services should be enough to ensure equal opportunities for market access to all technologies (except the emerging ones which may need specific incentives). This approach would minimize system costs through the selection of the most efficient technologies fitting to the specific physical and market conditions occurring in the considered timeframe. Therefore, NRAs should focus their activity on the definition of a regulatory framework leading to properly designed markets able to select and to assign the right value to the energy/services needed by the electricity system in each time unit.

***E11. What actions, identified in these papers, should regulators prioritise?***

We believe that a revision of RES support schemes aimed to limit market distortions and to mainly incentivize emerging technologies should be prioritized by NRAs together with a better integration of mature RES technologies in energy markets. These measures should be complemented by a revision of energy and ancillary services/balancing markets with the aim to ensure proper remuneration to the flexibility services provided by generators, demand response and storages. As already mentioned, the products exchanged in the market should be adequately structured to allow service providers to make offers whose price level allows them to cover the costs incurred for both the availability and the provision of these products.

Priority should also be given to a proper design of Capacity Remuneration Mechanisms (CRMs) in member States where investment signals provided by energy-only markets turns out to be insufficient to ensure generation adequacy in the medium/long term. In our opinion, CRMs should be designed at member State level in order to meet the specific requirements affecting different national markets, nevertheless a minimum level of coordination at European level needs to be pursued in order to avoid distortion to electricity market integration and to competition between market participants located in different countries.



Moreover, in order for CRMs to be costive-effective, i.e. able to deliver generation adequacy at the lowest costs, they should be designed according to the following features:

- Market based. The mechanism should guarantee that capacity obligations are covered at the lowest costs.
- Non-discriminatory. Any capacity (new or existing) providing the same contribution (e.g. capacity firmness etc.) to generation adequacy should have access to the mechanism and receive the same remuneration.
- Avoiding windfall profit and or unusual return on invested capital. Overlaps between different support schemes should be avoided.
- Inclusive of the contribution of interconnections to generation adequacy, though considering adequate reliability margins which factor in all the possible contingencies (e.g. unavailability, congestions etc.) having an influence on the available cross-border capacity.



## **GAS PAPER**

***G1. Do stakeholders agree with our view of the gas specific strategic context and in particular with our views on:***

- ***Declining demand for gas, and in which sectors such decline is seen;***
- ***Increasing role of imported gas and uncertainty surrounding unconventional gas supplies in Europe; and***
- ***Increasing role for a flexible gas supply to support growth of renewable electricity generation.***

Edison agrees with the main elements composing ACER's description of the strategic context that will characterize the European gas market in the future. More specifically, under the demand side, although it is true that "the demand for gas used in industrial processes relies heavily on the competitiveness of gas", it should not be neglected that there are many aspects (besides the pure commodity cost) influencing the final price paid by European industrial customers, such as: the cost of CO<sub>2</sub>, the costs for the regulated businesses of the value chain, etc. Under the supply side, although Europe's increasing dependence on Third Countries' gas production cannot be denied, we believe that if (1) prosperous and long-term cooperation with historical suppliers is achieved and (2) new supply options are developed to increase diversification, dependence would not necessarily represent a problem in itself.

However, it has to be noted that the consultation is considering a wide time-window, where unforeseen developments and outcomes could take place, as it was the case in the past for the "shale gas revolution". The uncertainty over the surrounding scenario makes it paramount for market players to face a clear and stable regulatory framework, where the focus is on the implementation of existing legislation and regulation.

Furthermore, we believe that gas should be recognised for its valuable contribution to sustainable growth, which should remain a key objective of the European policy. At the moment, although it is well-known that flexible gas-fired power plants are best suited to complement the growth of intermittent renewables generation from solar and wind, unless urgent measures are taken to support them and to enable them to compete with other forms of generation on a level playing field, their ability to fulfill this role will be seriously compromised.

***G2. Are concerns about competition in gas markets and concerns that liquidity at most hubs is insufficient to achieve functioning wholesale markets sufficient to warrant some form of intervention?***



The last few years showed increasing liquidity and price convergence on most of European gas organised markets, as also confirmed by the recently published 2012 ACER Market Monitoring Report. Edison has confidence that this trend will inevitably last during coming years, fostered by the full implementation of the Third Energy Package and in particular of the provisions on congestion management, capacity allocation and gas balancing. Therefore, we do not feel at the moment the need for any further preventive intervention; on the contrary, ACER's focus should be on monitoring and favouring the coordinated and consistent implementation of existing regulation (guidelines, Network Codes, etc) in all Member States, to create the pre-conditions for the definition of a "regulatory environment" favourable to the development of well-functioning and liquid markets.

***G3. Should increased market integration be sought to address issues of non-competitive markets and a lack of liquidity? Are there other more effective measures to be sought in this respect?***

Surely, progressive market integration should remain the ultimate objective. Nevertheless, it could not be considered a complete substitute of a further diversification of supply sources that, among other market design's elements, is paramount to promote competition and liquidity. We would like to warn against the risk of having market integration as a target in itself, to be achieved also through forced introduction. On the contrary, we firmly believe that only market integration resulting from bottom-up interactions among market players could provide a cost-efficient and effective outcome.

***G4. Would efficient use of existing infrastructure and the building of efficient new infrastructure facilitate competition between gas producers?***

The existence of infrastructures and their proper and efficient management is certainly a pre-requisite for gas to be transported from production sites to consumption markets, especially considering that European indigenous gas production is declining. Therefore, both the issues raised by the question are desirable targets to deliver competition and security of supply. In particular, the realization of import infrastructures allowing for the development of new supply options to Europe should be the objective. Nevertheless, we should not forget that the gas market is progressively changing from a regional to a global market and thus further elements (besides the building of new infrastructures) should be considered to understand and forecast gas producers' behaviours.



In any case, the role of historical suppliers and the importance of long term contracts to secure necessary developments of gas fields and to finance transmission infrastructures should be fully recognised. With this respect, a sensible policy should be designed to foster prosperous and long-term cooperation that would contribute to the competitiveness of gas supplies to Europe.

***G5. Can upstream competition be improved with physical infrastructure redundancy or is it an issue of market structure (oligopoly)?***

Edison does not believe that physical infrastructure redundancy could be considered a desirable outcome, as it would imply the existence of stranded assets whose costs should be socialised. The investment in the realization of new and incremental transmission capacity should be:

- mainly left to market-driven dynamics, as designed by ACER's amendment proposals to the Network Code on CAM, from which we expect to have clear and shared rules to design auctions and open seasons around Europe;
- focus on the diversification of supply routes and on the development of new supply options to Europe.

***G6. Should regulatory incentives be placed on TSOs to improve the efficient use of existing gas infrastructure?***

We do believe that an efficient management of gas infrastructures should be an integral part of TSOs' tasks and responsibilities, in order for them to contribute – among other market players - to the optimal functioning of the gas system. Therefore, we do not think there is the need for the moment to provide TSOs with additional financial incentives, besides the ones recently introduced by the Guidelines on Congestion Management (with relation to the oversubscription and buy-back mechanism) and by the Network Code on Gas Balancing.

***G7. What are your views on the future investment climate for new gas infrastructure in Europe? What are the major challenges ahead?***

The uncertainty on the future development of gas demand certainly impacts on the investment climate, but the interest demonstrated by many operators for the Energy Infrastructure Package process signals the willingness to continue to invest in new gas infrastructures.

There are many factors that might influence the investment climate and most of them will deal with the outcome of the future Network Code on Gas Transmission



Tariffs and the amendment to the NC CAM on incremental and new gas transmission capacity. With this respect and in order to stimulate investment, it will be paramount striking the right balance between tariffs and allocation mechanisms that, on one side promote liquidity and access to short-term capacity and, on the other side, support long-term investments in new capacity.

***G8. Should regulatory frameworks recognise externalities in order to improve investment decision making?***

Surely externalities should be recognised and managed, especially to allow for the realization of projects that contribute to the improvement of security of supply, for example by diversifying the sources of supply. Nevertheless, in order to avoid cross-subsidies, it is important to ensure a consistent and harmonised management of externalities across borders, possibly using a common methodology, as for instance the CBA suggested by ENTSOG.

***G9. Are cross-border market zones or regional trading zones practical ways to integrate market zones?***

Firstly, it has to be said that the creation of a single market and balancing zone per country, which is currently not the case in all Member States, is a prerequisite to the creation of cross-border and regional zones.

Secondly, as we stated in answer to question G3, the merger of markets to create integrated market zones or trading zones should not be pursued in a top-down manner, but it should be a natural outcome of market players' interaction. We are convinced that once common and harmonised operational rules, such the ones on capacity allocation, gas balancing, networks' interoperability and tariffs are implemented, market integration would automatically emerge as a cost-efficient and effective outcome.

***G10. Are there other ways one may envisage to enhance the liquidity of European markets?***

A thorough assessment of the potential consequences stemming from new EU rules pertaining to the realm of financial regulation (i.e. EMIR and MiFID II) should be carried out for energy markets and market liquidity. Provisions having the effect of classifying physically settled energy forwards traded on non-regulated market venues (classified as Organised Trading Facilities) as OTC derivatives, therefore financial instruments, may induce firms to reduce their trading activity not incur in additional costs either related to exchange-based trades or due to comply with the new EMIR obligations, (clearing, margins, collaterals, reporting etc.), which would



ultimately require additional credit lines. This could trigger negative impacts not only on the liquidity of energy markets, but also on the competitiveness of European markets and consumer prices, as the extra costs would ultimately be transferred to consumers.

***G11. What actions could be taken to further integrate market zones, given the uncertainty regarding costs and benefits of integrating market zones?***

As we highlighted in answer to question G2, liquidity on European gas markets has considerably improved in recent years, leading to price convergence not only on historically well-functioning and mature markets in the North-West region, but also in other market areas. We do expect this trend to continue and to be further fostered by the consistent and rapid implementation of the harmonised rules designed by the Third Energy Package and the European Network Codes. For this reason, we think that the focus of regulatory action should be to ensure the coordinated and timely implementation of existing regulation rather than on the definition of further measures.

***G12. Does a lack of coordination between intra-day gas and electricity markets expose gas-fired generators to significant imbalance risks?***

***G13. Does the level of risk exposure create sufficient concern that it could hamper efficient market operation to warrant intervention?***

***G14. How should coordination of intra-day / balancing gas and electricity markets be improved?***

Surely, higher coordination between intra-day gas and electricity markets is desirable to limit the increasing imbalance risks faced by gas-fired generators to back-up RES. This should be pursued by ensuring that the timing of market sessions on both markets is sufficiently coordinated to allow gas-fired generators to balance their position. Furthermore, unnecessary restrictions to within-day renominations (as well as too long lead times for renomination) should be removed, particularly when they derive from a lack of coordination between adjacent TSOs and NRAs.

Another very important aspect of coordination between the two markets concerns the availability of timely and reliable within-day information on the gas withdrawals of power generators, which are fundamental for balancing purposes. We think that electricity TSOs should provide gas TSOs with all the necessary and granular information to allow for a more precise within-day forecast of the off-takes from gas power plants. This would contribute to a more efficient balancing of



the system, reducing the balancing risks arising from the high modulation that characterizes this kind of plants.

Nevertheless, any general regulatory intervention before the full implementation of the NC Balancing in national systems could be premature, as every system could react differently from the introduction of the provisions in the NC BAL, depending on the degree of flexibility available to TSOs and network users. Therefore, at the present stage, we would better recommend to continue and improve the monitoring activity of the impact on the system of the more discontinuous generation from gas-fired generation: this analysis could be part of ENTSOG's 10-YNDP, in cooperation with ENTSOE.

***G15. What concrete possibilities for demand response in gas do you envisage?***

Edison thinks that, differently from electricity, demand response possibilities in gas seems more complicated and need to be further explored and assessed.



## CONSUMERS AND DISTRIBUTION NETWORKS PAPER

### ***C1: Do you think that further European level measures should be taken to enhance the operation of retail markets to the benefit of consumers?***

Edison welcomes ACER and CEER's increasing attention for retail energy markets, with the aim to fully transpose to the final customers the benefits of liberalization. Indeed, it cannot be said that the process of market opening is finished across Europe, considering that:

- In some Member States customers are not able to entirely benefit from market-driven prices. In Italy, regulated tariffs are still present and not limited to a well-defined and restricted number of vulnerable customers. Furthermore, it happens often that they are set below the level of costs incurred by operators on the free market, leaving no room for discounts and making offers on the free market non-competitive;
- Marketing and product innovation is often impeded by the presence of unclear and excessive obligations. This implicitly leads to difficulties for new entrants onto the market, as consumers are not given the possibility to choose on the base of elements other than price, such as billing type and frequency, service level, etc.

As also proved by the recently published ACER Market Monitoring Report, this situation led to:

- unsatisfactory switching levels in some Member States, and
- also in countries where switching rates performed better, an increasing lack of trust in the energy market.

Therefore, we strongly believe that the focus should be on ensuring that all Member States complete the implementation of the existing legislation in a well-defined timeframe.

Further regulatory interventions could then be assessed on a national basis, but they should not have as a consequence the limitation of the possibility for energy suppliers to provide marketing innovation, for example through dynamic supply algorithms and bundled products. The possibility to differentiate commercial offers and services is indeed a key element of competition and, provided it respects quality standards and correctness of commercial practices, it should not be restricted by the introduction of too stringent regulation.



***C2: Can you suggest ways in which we could enhance the voice of consumers in the development of Europe's energy market?***

The activation of Consumers' Associations as key stakeholders in the development of the European energy market is very important and we wish that it could lead to the construction of a bi-directional relationship, where:

- regulators, policy makers and energy companies learn about customers' expectations and perceptions on the energy market,
- Consumers' Associations learn about the dynamics of the energy market and contribute to increase customers' knowledge of this complex sector.

However, consumers are playing an increasingly active role in the market, for example with tools like collective switching. We recognise the value of these initiatives, but we also reiterate the need for collective switching actions to be transparent. For example:

- it should be clear that the selected offer may not necessarily be the cheapest in the long term (as prices could increase after the first period)
- consumers should be made aware if Consumers' Associations take a fee for organising the switching and, similarly, they should be informed at the end of the process of the real benefit achieved with the procedure.

***C3: What are the main questions that you consider the proposed CEER review should address with regard to the future role of DSOs and also to ensure that the regulation of distribution networks remains fit for purpose in 2025?***

We share ACER's idea that the role of DSOs will be increasingly important in the future, but we should not neglect that the quality of services provided by Distributor Operators is already a crucial concern for the development of competition on retail markets. Indeed, our experience shows that inefficiencies on the distributor side, for example related to the management of data or to the provision of connection/disconnection/maintenance services, can have negative effects on the suppliers' reputation, the latter being the only contact for the customers, as well as generate economic damage associated with errors or inefficiencies that impact on the post-sale management activities (claims, dispute resolutions, etc). Therefore, we would recommend Regulators to focus on ensuring that DSOs improve the quality of services that should be provided.

Moreover, it is important to highlight that due to the current economic crisis, last years marked an increase of the insolvent customers' phenomenon. In some Member States (Italy among them) suppliers have only few leverages to fight



against this phenomenon: they consequently face the risk of entirely bear the bad debt (including distribution costs, system costs and taxes). Therefore, we believe that, where this happens, there is a need to reconsider the structure of the credit risk allocation among the involved parties: the distributor (for grid services: dispatching, distribution and measurement costs), the State (taxes) and the supplier (for retailer services and energy)<sup>1</sup>.

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<sup>1</sup> This should be foreseen for those insolvent points of delivery that, although the supplier's request, are not disconnected,