

## Position paper

# Draft CEER 3D Strategy and CEER 2019 Work Programme

BDEW answers to the consultation

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## General remarks

On 5 June 2018 CEER launched a public consultation on its regulatory policy strategy for the period 2019-2021. It was named the “3D Strategy”, standing for Digitalisation, Decarbonisation and Dynamic Regulation.

The present paper contains BDEW’s comments on the draft “3D Strategy” and on the draft Work Programme for 2019, following the questionnaire of the public consultation (see <https://www.ceer.eu/3d-strategy-and-2019-wp>).

## 1. Questions on the 3D Strategy

### 1. To what extent have we captured the key ongoing and anticipated trends and challenges as part of the changing energy system?

The 3D strategy bases on important trends and challenges of the evolving energy system. BDEW agrees that the three “3Ds” are major drivers of the energy sector’s development:

#### a) Digitalisation

BDEW agrees that digitalisation is a key driver for the whole economy, including the energy sector. It will considerably influence business models, offer new possibilities for energy market participants, including consumers, and shape the way they interact. Therefore, CEER is right to take digitalisation into due consideration when setting up its policy strategy.

#### b) Decarbonisation

BDEW agrees that the climate agenda and the “Clean Energy” objectives are major policy drivers for changes in the energy sector. BDEW supports the policy instruments described in the paper, i.e. the development of renewable energies and green mobility, the improvement of energy efficiency, and the recently agreed reform of the Emissions Trading Scheme (ETS). From BDEW’s point of view, “Decarbonisation at least cost” – without neglecting the challenges of ensuring adequate security of supply – should be considered the main energy policy objective for the upcoming years. CEER rightly incorporates this aspect in its policy strategy.

In order to emphasise the predominant importance of this objective, CEER could reflect whether to place “Decarbonisation” in the first place in its strategy paper.

#### c) Dynamic Regulation

BDEW supports CEER’s approach to encourage regulators to adapt their regulatory policies to the technological developments and the decarbonisation objectives. However, it is important to emphasise that “Dynamic Regulation” does not mean sudden changes in regulation policies. CEER correctly writes that regulation must be stable and reliable, but not static. The challenge for regulators will be to adapt their instruments to the fast-changing energy markets while maintaining predictability for those addressed by the regulation.

Furthermore, the adaptations of the regulatory system need to set adequate incentives for market participants to develop the energy system in the desired direction, i.e. mainly a balanced and technology neutral regulatory framework that allows for the implementation of the best, innovative solution.

In addition, CEER writes that regulators will reflect on how to regulate an industry/network with potentially continuing reduced energy volumes and throughput. BDEW welcomes that regulators want to tackle this topic. From BDEW's point of view it is important to recognise that also networks with reduced throughput will still be needed in the future. For example, even if the demand for natural gas in Europe declines (due to substitution by other primary energies or by energy efficiency progresses in heating appliances) the gas infrastructure will be most valuable to transport biomethane, synthetic gas (from power-to-gas) or hydrogen. Thus, the existing gas infrastructure can play an important role in the decarbonisation of the energy sector as a whole.

The example shows that regulation has to adopt a system-wide approach. BDEW welcomes that CEER already implemented it in the present strategy paper.

Summing up, with "digitalisation" being one key driver, "decarbonisation" representing the central energy policy objective for the upcoming years and "dynamic regulation" being the regulators' approach to tackle the resulting challenges, the "3D strategy" is a well-formulated way to describe the challenges, opportunities and strategic objectives for the regulation of energy networks in the near future.

## 2. To what extent do our proposed strategic objectives protect and empower consumers in light of the identified opportunities and challenges?

Answer:

From BDEW's point of view, energy policy and regulatory policy should take all efforts to gain the consumers' support for the energy transition and for the decarbonisation objectives. This is not trivial since today not all consumers are able to participate actively in the energy markets and to achieve personal benefits (e.g. from electricity production or from energy efficiency gains). Frictions between those who take profits and those who face risks and costs have to be avoided. Therefore, BDEW supports that CEER intends to promote the participation of consumers in the energy market, without discrimination between consumers and prosumers (see Chapter D2 "Decarbonisation at least cost").

## 3. Please indicate if you identify any missing objective on which regulators should focus.

BDEW does not identify any missing objectives in the presented strategy.

However, with regard to the factors influencing the energy markets (and thus the regulation policy), the structural change in the electricity generation could be displayed separately. The shift from a top-down system with large production sites feeding into higher voltage grids to a more decentralised system with a huge number of smaller production units mostly connected at distribution level is one of the basic challenges for network operators. This

“decentralisation” implies that DSOs have to assume a more active role in system operation. Among others, for keeping their grid “in balance”, they might have to make use of flexibility which they should primarily procure from market participants. In this regard, the mechanism of procurement (contract-based, market-based, ...), should be carefully defined. In order to ensure security of supply while continuously decentralising the energy system, also TSOs need more information from DSO grids and vice versa. This implies that the cooperation between TSOs and DSOs is of utmost importance.

In any case decentralisation can be seen as a broad trend such as digitalisation and decarbonisation.

Hence, “decentralisation” could be either added as

- the third “D” with dynamic regulation as an approach to all of the three trends

or

- a fourth “D” and constitute, next to “digitalisation”, the second factor substantially influencing the energy system.

When following this idea, CEER should duly take into account that the location of energy production sites mainly follows the availability of primary energy sources (e.g. wind-intensive places) rather than densely populated areas with high energy demand. This means that “decentralisation” does not eliminate the challenge to transport energy over long distances.

In this context the influence of demographic change may be mentioned as well. Linked to an increasing urbanisation, both demographic change and urbanisation will have a strong impact on grid infrastructure.

## **2. Questions on the individual deliverables of the draft work programme 2019**

In its draft work programme for 2019, CEER lists 17 items and marks their respective connections to the three “3Ds” presented above. As in previous years, the items are categorised following the fields

- Consumer and retail markets,
- Gas,
- Electricity, and
- Cross-sectorial

BDEW supports CEER’s continuous monitoring activities with regard to consumer empowerment and protection as well as to the functioning of the retail markets (items no. 2, 3).

However, BDEW is critical with regard to recommendations on dynamic price implementation (item no. 4): BDEW strictly rejects the European Commission’s proposal to oblige all electricity suppliers to offer a dynamic electricity price contract (see draft recast of Electricity Directive, Art. 11). From BDEW’s point of view the decision to offer such contracts

should be left to the market participants. With the recast of the Electricity Directive being object of the triologue negotiations between the European Commission, the Council and the European Parliament which most probably will be concluded in December 2018 at the earliest, it would be premature to investigate in potential implementation barriers and to set up recommendations already in 2019.

One important deliverable will be the Report on Gas Infrastructures and the Energy transition (item no. 6). In this context, the Report on Decarbonisation Developments in the DS Grid (item no. 13) is of particular relevance as well: it addresses, among others, the short and long term usage of natural gas grids and the position of gas during the energy transition and explores the potential of hydrogen. The two reports should be drafted in close correlation with each other. As already explained in section 1, the gas infrastructure can make a major contribution for the energy transition since it can guarantee the transportation of considerable volumes of energy (e.g. in form of synthetic gas or hydrogen) over large distances. This CEER project should take into consideration the results of previous works such as the “FROG” study (CEER, March 2018: Future Role of Gas from a regulatory perspective) and – as soon as available – the studies currently developed for the European Commission: Study on the role of the Trans-European gas infrastructure in the light of the 2050 decarbonisation targets, and the decarbonisation study.

With regard to the consultation questions, BDEW evaluates the items commented above as follows:

Item no.	Title	Importance	Achievement of 3D strategy objectives	BDEW participation in consultation etc.
2	ACER/CEER Market Monitoring Report on Consumer Empowerment and Protection Chapter	Important		
3	Retail Market Monitoring Report	Important		
4	Recommendations on Dynamic Price Implementation	Not important		Yes
6	Report on Gas Infrastructures and the Energy transition: An analysis of needs and economic evaluation of investments	Very important		Yes

8	Benchmarking report on power losses	Important		
10	Benchmarking report on quality of electricity supply	Important		
13	Report on Decarbonisation Developments in the DS Grid	Very important		Yes
14	Report on Procedures of Procurement of Flexibility	Very important		Yes
17	Cyber Security Regulatory Workshop	Important		

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