

Document officer: JSM
Secretary:
Case no.: s2016-867
Document no.: d2016-18134-3.0
2. december 2016

25 issues to look out for in the Winter Package

Prioritization is always a useful exercise. No less so, when the European Commission presents 1000 pages of legislation and 3000 pages of supporting documents on the same day.

The eight legislative proposals in the so called Winter Package provides an excellent starting point for empowering energy consumers, improving energy markets, increasing shares of renewable energy and reducing energy consumption.

The package covers various parts of the energy sector. In the current paper, we have grouped the most important issues in five categories covering each their part of the energy value chain:

- Generation (renewables)
- Wholesale Markets
- Distribution
- Retail Markets
- Consumption (energy efficiency)

In each category we have outlined five issues we find to be of particular importance. We have furthermore provided our initial comments to each of the 25 issues in total.

We hope you will enjoy the paper, and find it useful.

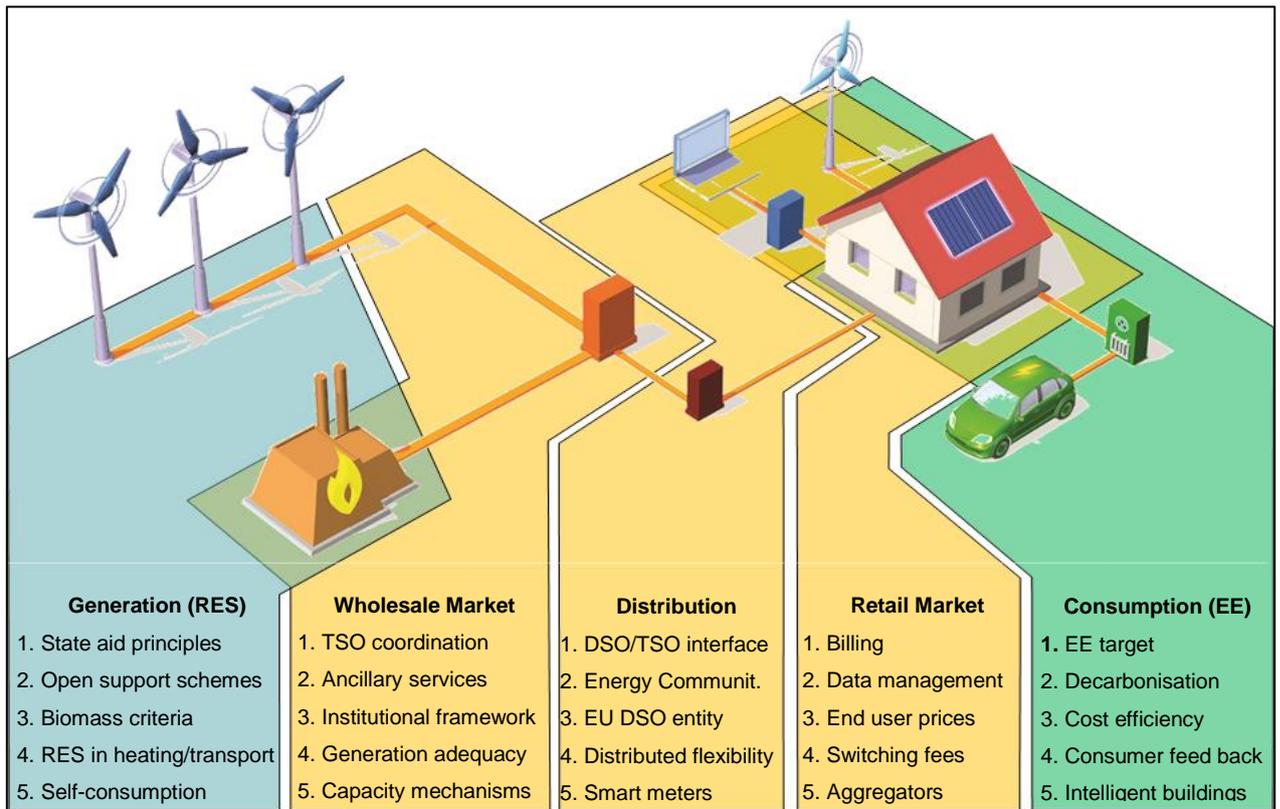
The task ahead for the European Parliament and the Council is significant, and will have major impact on the energy sector. We look forward to providing further input and expertise in the process going forward.

Yours sincerely
Dansk Energi

Jørgen Skovmose Madsen
Head of European Affairs
+32 491 25 30 23
jsm@danskenergi.dk

Anders Stouge
Deputy Director general
+45 35 300 490
ast@danskenergi.dk

Main priorities and their place in the energy value chain



Relevance of legislative proposals on the energy value chain

	Generation (Renewables)	Wholesale Market	Distribution	Retail Market	Energy Efficiency
Directive on the internal market for electricity	(X)	X	X	X	(X)
Regulation on the internal market for electricity	(X)	X	X	X	
Regulation on the establishment of ACER	(X)	X	(X)	X	
Regulation on risk-preparedness in the electricity sector		X	(X)	(X)	
Directive on the promotion of use of renewable energy	X	(X)	(X)	(X)	(X)
Regulation on governance of the Energy Union	X	(X)	(X)	(X)	(X)
Directive on Energy Efficiency	(X)		(X)	(X)	X
Directive on the energy performance of buildings	(X)		(X)	(X)	X

Document officer: JSM
Secretary: KEG/CSJ
Case no.: s2016-867
Document no.: d2016-17637-13.0
2. December 2016

Winter package - Top 5 most important Generation (Renewable) issues

The promotion of renewable energy in the EU is enshrined in article 194 of the Treaty:

*"...Union policy on energy shall aim, in a spirit of solidarity between Member States, to:
...promote... the development of new and renewable forms of energy; ...*

Concretely this is done through a variety of measures, most notably the Renewable Energy Directive¹. State aid guidelines² also constitute an important element by providing a framework for national measures to support renewable energy. The EU emissions trading system has had little (if any) impact on investments in renewable energy, with a CO2 price well below €10 since the early 2010s.

In October 2014 The European Council established that renewable energy should make up at least 27 % of final energy consumption in 2030. The Danish Energy Association finds this target not to be sufficiently ambitious. This is just one of the issues the European Commission seeks to address in its recently proposed reform of the renewable energy directive.

This document provides a short summary of the top 5 most important initiatives in the field of renewable energy in the winter package and the views of the Danish Energy Association on these initiatives.

1. Principles for the allocation of state aid³

Long term stability and predictability is key for investors in the energy sector. This is not least true for investors in renewable energy sources.

In the electricity sector, non-combustible renewables, such as wind and solar PV, often operate in markets with low wholesale prices. Furthermore, the electricity price varies and price formations may change due to future reforms of the market design. Also, technology costs and changes in the ETS price, could impact electricity prices in the 2020-2030 period.

¹ [Directive 2009/28](#) on the promotion of the use of energy from renewable sources.

² [2014/C 200/01](#) Guidelines on State Aid for environmental protection and energy 2014-2020

³ RES Directive – article 4

The Danish Energy Association therefore supports provisions to clearly outline the long term ground rules for state aid in the Renewable Energy Directive.

As long as wholesale electricity prices do not give incentives to investments in clean energy capacity in the electricity sector, subsidies are needed to secure stable energy supply and progress towards decarbonisation. This is likely to be the case after 2020 as well.

Renewables support should be as cost effective as possible to maintain public support. Subsidies for renewables should be based on the following criteria:

- Competition: Subsidies need to be allocated via a competitive process that enables technologies to lower their costs over time
- Potential for cost reduction: subsidies should be allocated to technologies which within a reasonable amount of time can demonstrate a significant potential for cost reduction per MWh produced
- Broad technology mix: Member States should have the flexibility to allocate specific subsidies for technologies deemed vital to achieve diversification in the energy system and technologies which have a significant potential in the long term.
- Support should not be granted during negative price hours and should limit production when the market situation does not warrant it.
- Renewables, prosumers and demand response management should be integrated into the wholesale market and be subject to the same rules, responsibilities and benefits as conventional energy.
- Planning and administrative procedures should be harmonized across energy sources and carriers, and ideally across Europe.

2. Opening of support schemes⁴

Deploying renewable capacity where conditions are best rather than where support is highest is a sound principle. One way of – at least partly – achieving this objective, is by partly opening up national support schemes to deployment in other member states. Such a measure should lead to a convergence of subsidy levels over time.

If deployment of renewable energy depends more on technology costs and less on differing subsidy levels, this should lead to a more cost efficient build out. At the same time, opening up of support schemes will result in subsidies paid by one member state to finance build out of capacity in another member state. This is likely to be met with some political and popular resistance.

The Danish Energy Association believes that a partial opening of support schemes could become a valuable measure in further driving down costs of renewable energy. However, it is essential that this is done in small steps to not risk the support for renewable build out from member states, who may have a legitimate scepticism towards directly funding projects in other member states. Also essential is to ensure that the implementation of such openings does not lead to increased costs. Finally, attention should be paid to the risk of renewable deployment happening in areas with good regulatory, rather than good resource conditions. Thus, finding the right design and pace for the implementation of this measure will be crucial.

⁴ RES Directive - article 5

3. Sustainability criteria for biomass⁵

Biomass is an excellent renewable alternative to conventional fossil fuel-based power plants. Power plants using biomass are a necessary supplement to other renewable sources, as they can produce electricity and heat when the sun and wind cannot. In all projections for increases in renewable energy generation, biomass plays a significant role.

The Danish Energy Association believes that as the use of biomass in the energy sector increases, so does the need for a European binding framework to ensure sustainable practices and a level playing field. It would be wise to build on the schemes already existing in some member states.

Future subsidies to biomass-based electricity generation should be based on compliance with European sustainability criteria.

4. Renewables in heating and transport⁶

The heating sector represents 50 % of energy consumption in the EU and 75 % of primary energy supply for heating comes from fossil fuels. Nearly all fuels used in transport are fossil fuels as well. In other words a significant potential for reducing both the EU's carbon intensity and import bill exists in the heating and transport sectors.

The Danish Energy Association supports the ambition to increase the share of renewables in the heating and transport sectors. However, the proposal in its current form should be improved.

Firstly, a stronger emphasis on the integration between renewable electricity and heating and transport (e.g. in the form of heat pumps and electric vehicles) should be pursued as a particularly relevant measure. Electricity generation is already on the path toward decarbonisation in several member states, and the heating and transport sectors can add flexibility on the demand side if heat pumps and electric vehicles were to be rolled out - in the case of heat pumps both individually and in connection with district heating plants. The Directive lacks a clear focus on electrification when it comes to heating, cooling and transport, ignoring that electricity from low or no carbon sources is the energy carrier of the future.

Secondly, fulfilling the renewable energy target should not be measured on a year to year basis, but rather every 5 – or even every 10 years. Switching the energy content in for instance heating supply often requires significant changes to production assets and for each supplier to do this will require significant investments. Likewise in the transport sector, where car ownership typically lasts many years, changing towards more electric vehicles is a process that takes time. Therefore, more flexibility in the target achievement should be ensured.

⁵ RES Directive - articles 26-30

⁶ RES Directive - articles 23-25

5. Special conditions for self-consumers⁷

On-site generation of renewable electricity will play a significant role in the long term ambition of decarbonising the European economy. Already now, solar PV panels are becoming very competitive especially in the Southern part of Europe.

As electricity supply shifts from centralised power plants to decentralised small scale assets, regulation needs to change as well.

The Danish Energy Association finds it particularly important that a more decentralised electricity system is accompanied by revisiting the remuneration structure for distribution system operators (DSOs). The time where distribution grids formed a one way street from the transformer station to the consumer is over. As increasing shares of renewable energy are connected at distribution level, the distribution system operators will become a central part of the “nervous system” of the electricity sector. This requires new and innovative solutions, which should be reflected in the way DSOs are remunerated. Specifically, a shift from purely volume-based remuneration to one based more on capacity is needed.

Also renewables, prosumers and demand response management should be integrated into the wholesale market. Remuneration for electricity and services should reflect the wholesale market value of electricity and all actors should be subject to the same rules, responsibilities and benefits as conventional energy actors.

Finally, planning and administrative procedures should also be harmonized across energy sources and carriers, and ideally across Europe. The Danish Energy Association welcomes the directive’s intent to ease some of the administrative processes related to renewable energy deployment.

⁷ RES Directive – article 21-22

Winter package - Top 5 most important Wholesale Market issues

The Third Internal Energy Market Package from 2009 laid the foundation for increasing competition and improving security of supply in the European wholesale market. The Third Package also created the possibility to enact secondary legislation for the European electricity market in the form of the network codes and guidelines that are being adopted these years.

The challenges for the electricity market are however continuously increasing with the vast deployment of capital intensive low marginal cost and variable electricity generation from renewable energy sources. In the light of the Energy Union framework, the European Commission is now proposing a new set of legislative measures in the so-called Winter Package with the aim to address these challenges.

The challenges for the wholesale market are summarised in a range of initiatives to better facilitate variable generation, create a more level playing field for operating generation assets and strengthening security of supply.

This document provides a short summary of the top 5 most important initiatives regarding the wholesale market and security of supply and the views of the Danish Energy Association on these initiatives.

1. Better coordination among TSOs¹

The European wholesale market is heavily reliant on well-functioning cross border trade and this highlights the need for TSO cooperation in the operation of the grid infrastructure.

The European Commission proposes to enhance the current set up of existing Regional Security Coordinators (RSCs) by creating Regional Operational Centres (ROCs), centralising some additional functions at regional level over relevant geographical areas and delineating competences between ROCs and national TSOs. A limited number of well-defined regions, covering the whole EU, based on the grid topology should be defined to play an effective

¹ Electricity Directive - articles 40, 61, 62 and Electricity Regulation - articles 3, 5, 31-48 and ACER regulation articles 7-10.

coordination role. One ROC will perform all functions for a given region. This option envisages an enhanced cooperative decision-making with a possibility to entrust ROCs with decision making competences on a number of issues

The Danish Energy Association sees a need for a much stronger TSO cooperation than we can expect to materialise the coming years. The current establishment of Regional Security Centres (RSCs) as mere advisory bodies to the national TSOs will not deliver the needed regionalisation of grid and system operation. The Danish Energy Association supports the approach of allocating responsibility and decision making mandates to Regional Operation Centres (ROCs) to secure a planning and operation of the physical grid that best serves the internal market and cross border trade.

2. Market-based procurement of non-frequency ancillary services²

Non-frequency ancillary services – reactive power, inertia, black-start capability – become increasingly scarce as power station capacity is reduced. There is a need to find ways to endure continued provision of these services.

The EC notes that there is a big difference across Member States of how - and if - these services are remunerated. The EC emphasize that there is a need for guidelines and principles for how Member States should procure non-frequency ancillary services and from whom.

The Danish Energi Association supports the EC in their suggestion. We believe that all products which are needed to operate the power system – frequency or non-frequency – must be procured in market places. If not there is a risk that valuable assets will close, because owners do not see price signal for all his services. We note that the EC provides a valuable interpretation of the future direction, by not only having a very strong focus on making markets for ancillary services, but also to ensure that these markets are driven by competition between market participants and not gradually becoming included in the realm of TSOs.

3. Improve the institutional framework³

In the development of new European regulation it is imperative to make sure that existing regulation is complied with in order for the regulation to maintain a high credibility. A closer linked internal market requires a more focused regulatory framework to counteract national or individual interests and the current state of the internal market portrays pertinent regulatory gaps.

The European Commission suggests to adapt ACERs decision making power to these regulatory gaps.

² Electricity Directive – article 40, 54, 59

³ ACER regulation - several articles

The Danish Energy Association believes that the internal energy market would benefit from a stronger European regulatory voice. This can partly be implemented by ACER more proactively using its mandate to monitor the market and highlight practices that are not compliant with the market regulation, but it is also clear that additional decision making powers and responsibilities are needed to meet the increasing issues of cross-border relevance. The suggestions for ACER to guarantee regulatory oversight over the Regional Operational Centres (ROCs) and at its own initiative make recommendations are steps in the right direction.

4. Improved generation adequacy methodology⁴

The assessment of security of supply is currently done by each individual Member States, each with their own method, assumptions and input data. Regional assessment of security of supply is often done, but not to the extent necessary. Currently, Member States have a fair amount of leeway in tailoring their assessments to the problem at hand, and to 'by pass' the role of a regional security of supply assessments. There is a risk that this influences neighbouring countries negatively if capacity markets are implemented when other measures could have been used, because markets participants do not compete on a level playing field. The question is not whether generation adequacy assessment methodologies should be harmonised, but rather the degree of harmonisation.

The EC prefers a very high degree of harmonisation. Concretely, the EC proposes a model where 1) ENTSOE develops a common method covering the entire EU, and 2) ENTSOE is the only method used in the evaluation of need for capacity markets – not the Member States which faces problems to security of supply.

The Danish Energy Association agrees that there is a need for harmonisation. However, we do feel that the Commission goes a bit too far: having a single method, with calculations exclusively carried out by ENTSOE, puts quite a bit of pressure on having a method from the start which adequately reflects certain local characteristics, e.g. correct handling of how CHP-plants contribute to security of supply.

5. Cross-border participation in capacity mechanisms⁵

Cross-border participation in capacity mechanisms is a clear demand from the EC, so that market participants outside Member States with capacity mechanism can compete for capacity contracts. Finding a method for cross-border participation is notoriously difficult, especially where some countries have energy-only markets and some supplement with a capacity market. The precise method for how cross-border participation is done is an important part of keeping a level playing field for market participants within the internal energy market. None of Denmark's electrical neighbours have capacity markets. This will change with Viking link (interconnector between UK and Denmark) as of 2022. In previous years, Germany has considered capacity markets. Getting the method right from the start is very important.

⁴ Electricity Regulation - article 18, 19 and ACER Regulation - article 10,

⁵ Electricity Regulation - article 20, 21, 23

The EC has not presented a preferred solution, but is likely to be contained within 1) issuing guiding principles for the method + governance of participation and 2) harmonising the capacity mechanism itself (not just the cross-border participation) on top of the elements in 1).

The Danish Energy association believes that harmonisation of both capacity mechanisms and sound guiding principles for cross-border participation is the right solution. This gives electricity producers the best position for competing in the EU internal market.

Document officer: JST
Secretary: JSM
Case no.: s2016-867
Document no.: d2016-17636-11.0
2. December 2016

Winter package - Top 5 most important Distribution (DSO) issues

With ambitious targets for production and consumption of renewable energy, the electricity sector is undergoing massive change. More dispersed generation and new technology making more flexible consumption a possible tool for both balancing and grid optimisation puts Distribution System Operators (DSOs) at the core of the electricity system.

Until now, EU regulation of DSOs has mainly dealt with their tasks and their functional and legal attachment to TSOs and other activities in the electricity sector. In the light of the Energy Union framework, the European Commission is now proposing a new set of legislative measures in the so-called “*winter package*” with the aim to strengthen the regulatory framework as DSOs take up an increasingly central role in the electricity system.

The issues concerning DSOs in the winter package aims primarily at activating flexible consumption and distributed resources, and strengthening retail competition. Important tools are better cooperation between market parties and more focused incentives.

This document provides a short summary of the top 5 most important initiatives regarding DSOs and the views of the Danish Energy Association on these initiatives.

1. DSO-TSO cooperation¹

As the energy system evolves and becomes more complex due to the use of dispersed renewable energy sources and flexibility of demand, the need for coordination between market parties becomes even more important. Thus, the European Commission proposes to strengthen the legislative framework for cooperation between DSOs and TSOs to ensure that all necessary information and data, e.g. regarding daily operation and long term planning of the networks, are shared, and that the use of distributed resources are coordinated.

The aim is to ensure cost-efficiency and secure and reliable operation of the networks.

The Danish Energy Association agrees to the need for a stronger and more formalised coordination between the parties. As the energy system becomes more complex, legislation should ensure that decisions are taken from a broad perspective and that costs are not inef-

¹ Electricity Regulation – article 53.

ficiently transferred from one voltage level to another. This requires coordination but also flexibility in remuneration frameworks so that the ability to recover costs are able to follow related tasks.

2. Local energy communities²

The European Commission believes that local energy communities can be an efficient way of managing energy at community level – with or without a connection to distribution systems. Therefore, member states are requested to adopt a legal framework that ensures the possibility of local energy communities to own, establish, or lease community networks within the new market design.

The Danish Energy Association supports making it possible for local communities to build and operate their own network in cases where the local DSO cannot deliver a necessary service. However, relevant legislation should be designed very carefully to avoid unnecessary costs from a socio-economic perspective. This could either be in terms of unutilized existing capacity (e.g. duplication of networks) or foregone economics of scale, which would result in unfair costs to be borne by other consumers. Distribution assets often have a lifespan of 40-50 years. If part of the consumers disconnects themselves from the network there is a risk of stranded assets, and a larger burden paying off existing assets will have to be borne by remaining consumers. Furthermore, there is a risk that the fundamental pricing principle of socialisation of costs between the same types of consumers is compromised, if consumers in low cost areas (e.g. located near production centres) creates their own networks leaving remaining consumers to finance networks in higher cost areas (e.g. in rural areas).

As distribution networks are critical infrastructure, member states should remain the authority of handing out distribution system operation licences, including the discretion to determine appropriate geographical areas and number of licenses, as to ensure an appropriate and efficient company structure and security of supply. Furthermore, to ensure a level playing field, local energy communities should comply with standard unbundling requirements for DSOs and other DSO regulations.

As well as prosumers, local energy communities must cover the costs they inflict on other networks if connected. Efficient managing and transport of electricity can only be achieved if local energy communities are not subsidised – either directly or indirectly – by other electricity consumers. Finally, with regard to existing networks, it should be ensured that neither the directive nor resulting legislation violate (private) property rights.

3. EU DSO entity for electricity³

To promote the completion and functioning of the internal market in electricity and the cooperation between DSOs and TSOs, the European Commission proposes that DSOs shall cooperate through an EU DSO entity. DSOs will be able to apply for membership and should, with administrative support from ACER, submit a proposal for statutes and rules of procedures on consultation of ENTSO-E and other stakeholders.

² Electricity Directive – article 16.

³ Electricity Regulation – articles 49-52.

The tasks of the entity should be coordination of operation and planning of distribution and transmission networks, data management and development of network codes among other things. The entity shall cooperate with ENTSO-E.

The Danish Energy Association welcomes the establishment of a common EU DSO entity. The entity could become an excellent forum for discussion and expertise for EU decision makers. As electricity issues are complex and numerous, we find it important that the entity only engage itself with electricity issues – at least for the coming years.

To have legitimacy and attaining sustainable solutions across member states, the entity must be able to speak on behalf of all EU DSOs. Ensuring this is not an easy task, as differences between DSOs in terms of size, geographical location, ownership structure, regulatory framework, operational challenges etc. are significant – even between DSOs based in the same country. The Danish Energy Association believes that there is a sizeable risk that members of such an entity would not be representative for all EU DSOs, unless representatives from all 28 member states have a seat in the entity. Thus we find it important that the DSOs of each country are presented with the opportunity to elect a country representative responsible for coordinating inputs and nominating experts to working groups.

4. Active distribution system management⁴

In order to pull the flexibility of demand response and distributed generation into the grid optimization at DSO level, the European Commission proposes that member states shall provide for a regulatory framework that incentivises DSOs to procure flexibility services from end consumers or generators through aggregators. Aggregators are intermediaries that pool flexibility from small individual sources thereby making aggregate services available for DSOs and TSOs as a means of active system management. The aim is to improve overall efficiency of the systems by making a new operational management tool available for system operators.

The Commission proposes that member states shall put in place a regulatory scheme that allows for DSOs to recover their costs for procuring flexibility resources, including expenses for the necessary information and communication technologies.

The Danish Energy Association agrees that DSOs play a central role in facilitating the development of markets for flexibility services and supports the proposal for a remuneration scheme that incentivises DSOs to procure flexibility resources for optimisation of the distribution system. Traditionally DSOs mitigate capacity shortage by investing in new network capacity (CAPEX). However, the use of flexibility services (OPEX) in the optimisation of the grid may serve to postpone or offset expensive network investments and thereby increase overall cost-efficiency. Current regulatory schemes tend to favour investments in capacity rather than operational costs, including costs related to the purchase of flexibility services. This gives undesirable incentives and poses a risk of inefficient investments. Moreover, such remuneration schemes will also facilitate innovation and development of new systems services based on demand response that may improve overall efficiency of the electricity system.

5. New technical functionalities for smart meters⁵

⁴ Electricity Directive – mainly article 32

Where smart meter systems are positively assessed or systematically rolled out, the European Commission proposes that a number of requirements are fulfilled. Some of those requirements are minimum functionalities, e.g. that information shall be made available to final customers at near-real time, and that the meter systems are interoperable.

The Danish Energy Association finds it important that such new requirements do not induce unnecessary costs on DSOs and consumers. Some of the proposed requirements will be expensive to satisfy – especially in countries where new smart meter systems are already being rolled out. Because of this, we recommend that the requirements should only be applicable when existing smart meter systems are being replaced naturally.

⁵ Electricity Directive – articles 18-20, 22.

Document officer: JSM
Secretary: CHA/HGB
Case no.: s2016-867
Document no.: d2016-17635-13.0
2. December 2016

Winter package - Top 5 most important Retail Market issues

The retail market is traditionally regulated mainly at national level. However, as electricity suppliers and increasingly other actors in the electricity sector (e.g. aggregators), operate on several markets, increased harmonization of retail market regulation is relevant to consider.

The five Retail Market priority issues below follow at large from the Commissions proposed revision of the Electricity Directive (3rd Directive) in the Winter Package. Included is also the views of the Danish Energy Association on these initiatives.

1. Billing¹

In the winter package almost all provisions from the Energy Efficiency Directive and the 3rd electricity package on billing and billing information are kept and merged in the revised Electricity Directive.

The merged provisions include a list of minimum requirements for billing and billing information e.g. (a) price to pay, (b) energy consumption for billing period, (c) name of supplier, (d) contact details of supplier incl. consumer support hotline, (e) tariff name, (f) duration of the contract + date of end of contract + deadline for sending an advance notice of cancellation if fixed contract + length of advance notice period for contracts of indeterminate duration.

Further, where appropriate, the following info should be prominently displayed in or with bills and periodical settlement bills: (a) current actual prices and actual consumption of energy, (b) comparisons of customers' current energy consumption with consumption for the same period in the previous year in graphic form, (c) contact information for consumer organisations, energy agencies or similar bodies

Where a breakdown of price is presented in bills, Member States shall ensure that the European Commission's definitions of the 3 main components (energy & supply / network / taxes, fees, levies and charges) are used

¹ Electricity Directive - article 17 + annex II

Further the proposal requires that final customers with smart meters shall have the possibility of easy access to complementary information on historical consumption. And finally there is a requirement of disclosure of energy sources.

The Danish Energy Association believes that electricity bills should be as simple as possible. Over regulation of bills could limit the room for suppliers to diversify products thus creating a barrier to competition. While over regulation of bills at national level is a well-known issue, the proposal stops short of proposing any tangible solution to tackle the issue. In addition the potential of innovative forms of communication through digital technologies is not sufficiently addressed.

It is unclear what is meant by bill and billing information. There is a need to further stress the distinction between a bill (consumption + price to pay) and billing/other information (which could be provided in many different forms (paper, apps, email, personal webpage etc.) depending on consumers need.

2. Common framework of data management²

The Commission proposes to establish common rules for data management. Member states are obliged to specify who may have access to data of the final customer with the customer's explicit consent. Data in this context includes metering and consumption data and data required for switching and the parties potentially gaining access to these data are customers, suppliers, TSOs, DSOs, aggregators etc.

The parties granted access to the above mentioned data shall gain access to the data simultaneously in a non-discriminatory manner and under clear and equal terms.

Member States shall authorize/certify the parties managing data, and there is no specific data model recommended. According to the proposal regulated entities which provide data services cannot gain profit from that activity, and no additional costs can be charged for from final customers.

Member States are required to ensure that market participants apply a common European data format and non-discriminatory and transparent procedures for accessing the data. Such common European data format shall be determined by the Commission by means of an implementing act

The Danish Energy Association supports the purpose behind the proposal but remain concerned about the introduction of a common European data format. While this could underpin a market developing for aggregators it should not be introduced before a proper impact analysis has been carried out (pros, cons, costs).

3. End user energy prices³

The Commission seeks to ensure that the retail price paid by the electricity customer is market based rather than the result of regulatory or political decisions.

² Electricity Directive - article 22,23,33

³ Electricity Directive - article 4

A derogation is however provided for Vulnerable Customers (VC) for a period of up to 3 years. After that, Member States shall in principle ensure the protection of VC in a targeted manner by other means than public interventions in the price-setting for the supply of electricity.

The Danish Energy Association supports the proposal of deregulating the end user energy prices. Furthermore, the derogation for vulnerable customers allows for reasonable flexibility for member states. Prices should be market driven and not regulated by national regulators thereby hampering competition. See also ACER's annual market reports 2016

4. Switching fees⁴

The proposal establishes a right for customers to require switching to take place within 3 weeks. Unless the customer terminates his/her contract before its maturity, switching shall happen without any fee.

Fees in the context of termination of a running contract may only be charged if customers receive a demonstrable advantage + they shall not exceed the direct economic loss to the supplier of the customer terminating the contract

The Danish Energy Association supports this proposal as it sends an important signal to the market that switching should happen in a swift and smooth way for the customer in order to stimulate competition. Further the proposal protects the customer against penalizing switching fees that could prevent the customer from switching and thus creating a barrier to competition. Finally the proposal allows suppliers to cover losses stemming from customers terminating their contract before it's expiry date.

5. Aggregators⁵

The European Commission seeks to create better market access for aggregators to increase the uptake of demand response services.

Firstly, an aggregator is defined as a market participant that combines multiple customer loads or supplied electricity for sale, for purchase or auction in any organised energy market. An independent aggregator is an aggregator that is not affiliated to a supplier or any other market participant

Member States are to ensure that, where a customer wishes to conclude a contract with an aggregator, such engagement shall not require the consent of the customer's electricity supplier. National regulatory frameworks shall ensure (a) the right for each aggregator to enter the market without consent from other market participants, (b) transparent rules clearly assigning roles and responsibilities to all market participants exist, (c) transparent rules and procedures for data exchange between market participants that ensure easy access to data on equal and non-discriminatory terms while fully protecting commercial data, (d) aggregators shall not be required to pay compensation to suppliers or generators; (e) a conflict resolution mechanism between market participants.

⁴ Electricity Directive Articles 2 (13,14),11

⁵ Electricity Directive Articles 2(15,16),12

To ensure that balancing costs and benefits induced by aggregators are fairly assigned to market participants member states may exceptionally allow compensation payments between aggregators and balancing responsible parties - to be approved by national regulatory authorities and monitored by ACER

The Danish Energy Association finds that aggregators should be welcomed at the electricity market as actors potentially activating demand side flexibility. However, it is important that aggregators provide compensation to balancing responsible parties (suppliers) for unfair costs stemming from pooling and selling flexible consumption. Thus, it is important to have a level playing field and not give special rights to single parties at the expenses of others in the market.

Document officer: JSM
Secretary: RIS/NNR
Case no.: s2016-867
Document no.: d2016-17634-37.0
2. December 2016

Winter package - Top 5 most important Consumption (Energy Efficiency) issues

Introduction

The Danish Energy Association welcomes the proposed revision of Energy Efficiency Directive (EED) and Directive on the energy performance of buildings (EPBD) with special concern to the energy efficiency elements of the directive. Energy efficiency is an important tool to reduce GHG emissions, improve sustainability, reduce dependency on imported fossil fuels and ensure job-creation and competitiveness.

1. Ambitious energy efficiency target that goes hand-in-hand with a reform of the ETS¹

The Energy Efficiency directive suggests a 30% binding target for the European Union as a whole, as well as indicative targets for each Member state to support the overall EU target. Member States shall also, according to Article 7, achieve cumulative end-use energy savings of at least 1.5 % of annual energy sales to final customers by volume.

The Danish Energy Association welcomes an ambitious energy efficiency target of 30 %. We believe however, that a highly ambitious energy efficiency target needs to go hand-in-hand with a reform of the ETS, to enable the ETS to become the main driver of investments in carbon abatement and ensure the overall cost efficiency of EUs energy and climate policy.

Given that the EU has to fulfill several policies to meet the competitiveness, economy growth, independence of imported fossil fuels, reduction of GHG, job-creation, the energy efficiency target cannot be separated from other EU policies and is not a goal that can be isolated from other goals and policy-instruments. Therefore the energy efficiency target should not be defined as an absolute target for reduction in energy consumption, but rather as an energy intensity target, that allows for economic development.

Furthermore we support that the annual binding target of 1.5 % should be revised more often than suggested in the EED in order to ensure a cost optimum of measures in the directive.

¹ Energy Efficiency directive Article 3 and 7

2. Energy efficiency policies with focus on decarbonisation and electrification²

Both directives, but in particular the EPBD is aligned with the overarching long-term EU target of decarbonizing the energy sector by 2050. The EED suggests that the default primary energy factor (PEF)³ for electricity that is based on annual average values is amended to take technological development into account. Therefore the PEF is changed from 2.5 to 2.0 for electricity.

The Danish Energy Association believes that a strong focus on decarbonisation should be the driving force behind energy efficiency policies in EU. Electrification of particularly heating and transport should play a crucial part in contributing towards that objective.

The PEF as proposed in the Directives is an obstacle for increased electrification which undermines effective use of clean energy in our homes, industry and heating sector. We strongly believe that the PEF must mirror the development of the future share of renewables in the energy system. The directives should pave the way for decarbonisation and electrification of the energy system and hence the primary energy factors should be defined to support this development. Therefore we strongly recommend that the PEF for all non-combustible renewables is to be set to zero, as they have no primary energy use.

It should still be possible for member states to establish the default primary energy factor for electricity. The methods used to establish the default primary factor for electricity should be forward looking and projected on basis of the development of the electricity system 5 to 10 years ahead.

3. Cost efficiency as the main driver in energy efficiency policies⁴

In both the EED and the EPBD cost efficiency is the main argument when defining energy efficiency policies. Nevertheless in the proposed revision of both directives the increasing share of detailed regulations compromises with the cost efficiency.

The Danish Energy Association believes that the directive should include sufficient flexibility to ensure that cost efficiency from a societal point of view is the main argument in the energy efficiency policies implemented. Not all energy savings contribute equally to decarbonization of the energy system. Thus in order to save the right energy and to change the energy system as cost efficient as possible it is important that enough flexibility is ensured in the chosen instruments to reach the 2050 decarbonisation target. This means accepting that not all energy savings contribute equally to decarbonisation.

Overall cost efficiency of the transition towards decarbonisation can only be achieved effectively when interlinkage between different directives are promoted and non-overlapping. We believe that promotion of renewable energy should happen in the Directive on Renewable Energy rather than in energy efficiency regulation. Also such promotion should to the furthest extent possible be market based, thus not discriminating between onsite and offsite genera-

² EED – annex I (annex IV in existing directive),

³ The PEF is used to calculate primary energy input from final energy consumption (i.e. factoring energy losses in the process from generation to consumption)

⁴ EED and EPBD - several articles

tion units. The focus of the directive should be towards end-use savings in households, industry etc. not towards savings in the energy system.

4. Market driven feed-back on energy consumption⁵

The EED suggests that consumer's rights to clear and timely information about their energy consumption is strengthened to provide for frequent and enhanced feedback on gas, heating, cooling and hot water supplied from central sources. Similar provisions for feed-back on electricity consumption are included in Electricity Directive.

The aim of providing customer's with frequent and enhanced information on energy consumption is to allow customer's to actively take part in changing and reducing their energy use.

The Danish Energy Association believes that consumers should be given every opportunity to better control their energy consumption - thus providing information and feed-back on energy consumption is an effective tool to make energy consumption more visible for customers. Hence the Danish Energy Association supports the overall approach, but finds that requirements for feed-back and billing information should be flexible and market driven, to allow energy suppliers to introduce the most cost-efficient solution.

5. Intelligent buildings with possibility to interact with the energy system⁶

Introducing provisions for building automatization and the smartness indicator the EPBD provides the pathway for more intelligent buildings that enables interaction with the energy system promoting demand response and activate the customers to take ownership of their energy use. Further integration with the energy system is sought through provisions for charging infrastructure for electro-mobility.

The Danish Energy Association believes it is important that energy efficiency and energy flexibility go hand-in-hand and support each other in the correct proportions. Efficient use of our increasing share of renewable energy calls for further integration of the energy system. In EPBD we welcome the increased focus on intelligent building systems that allows for communication with the energy system e.g. on price signals from the market. Furthermore we welcome the development of a smartness indicator to promote knowledge of intelligent buildings.

We also see the promotion of charging infrastructure for electro-mobility as an important part of the review of the EPBD and support that infrastructure of electro-mobility should be considered as part of the technical systems of a building.

While we welcome the increased focus on both intelligent buildings and electro-mobility we stand skeptical on the nature of the regulation which is both detailed and specific in relation to certain technical solutions and need. We believe that there is need for flexibility in the implementation of the directives.

⁵ EED - articles 9-11 (current directive) and Electricity Directive - article 17

⁶ EPBD – article 8 (current directive)