



Technology that Benefits Consumers
CEER White Paper series (paper # II) on the
European Commission's Clean Energy Proposals
26 May 2017

1. Introduction

This Regulatory White Paper provides the views of the National Regulatory Authorities in the Council of European Energy Regulators (CEER) on technology that benefits energy consumers. The aim of this Regulatory White Paper is to deepen understanding and to assist the EU Institutions in assessing the proposals contained in the "Clean Energy for All Europeans" legislative package of 30 November 2016¹.

2. CEER's Key Recommendations

CEER welcomes the proposals in the European Commission's Clean Energy package which, with some more flexibility in approach, should help unlock significant benefits for Europe's energy consumers. With this in mind, CEER recommends the following legislative changes, as detailed in the next sections.

- ***Maintain a flexible approach to smart meter roll-out***
 1. Smart meter roll-out is a national (not individual customer level) decision typically taken on the basis of a cost-benefit analysis. If a Member State's smart meter cost-benefit analysis is negative, an individual customer should not be entitled "on-request" to a smart meter as this is neither practical nor cost efficient.
 2. For Member States that have already begun smart meter deployment, customers should not have an entitlement to receive an upgrade when the meter does not comply with the proposed Directive requirements, if such an upgrade would drive disproportionate costs.
- ***Facilitate but avoid mandating dynamic prices***
 3. Member States should ensure that suppliers do not face any undue barriers if they choose to offer dynamic price contracts to customers. However, suppliers should not be obliged through EU legislation to offer dynamic price contracts as this could hinder retail competition, ultimately harming consumers. Furthermore, the definition of a dynamic price contract should be reassessed.
- ***Interoperability is key for data format***
 4. A common European data format may generate high costs in the transition period from national standards to an EU standard, although it may bring long-term benefits. Before deciding on a common data format, energy regulators recommend a final analysis on the

¹ For ease of reading, references to the Electricity Directive and its Annexes refer to the re-cast Electricity Directive COM/2016/0864 final/2 - 2016/0380 (COD) and its Annexes. References to specific Articles in the proposed recast legislation relate to the revised texts (corrigenda) published by the [European Commission](#) on 23-02-2017.

implications for innovation and retrospective compatibility. If a common European format is not required, interoperability should be allowed as a more cost-effective approach to facilitating retail competition between suppliers from different Member States.

2. Maintain a flexible approach to smart meter roll-out

Decisions about a widespread or selective smart metering deployment at national level are typically based on an economic assessment of whether the introduction of such systems is economically reasonable and cost effective. Article 21 of the proposed recast Electricity Directive goes a step further by ensuring customer entitlement to receive a smart meter in Member States, even where the cost-benefit assessment has been negatively assessed.

CEER's view is that entitling consumers to a smart meter, even when the national decision taken is against systematic roll-out of smart meters, would be a disproportionate and ineffective measure. This is because smart meters cannot be considered as standalone devices. Their roll-out relies on the deployment of IT and communication infrastructure that represent a significant share of the cost. Much of this cost is fixed and is subject to significant economies of scale, such that a limited smart meter roll-out only to customers on request could prove disproportionately expensive on a unit basis.

Moreover, some Member States have already begun (or even completed) the roll-out of a national smart meter programme. These systems may not fully comply with the proposed recast Electricity Directive requirements, for example capturing consumption during 15 minutes settlement periods. The current proposal would entitle individual customers to receive an upgrade to their meter, potentially generating disproportionate additional costs.

Smart Metering:

<p>CEER supports the following of the Commission's proposals in relation to smart metering:</p> <ul style="list-style-type: none"> • Ensuring incentives exist for customers to engage in the market. • Developing the infrastructure necessary to improve billing accuracy and the information customers are provided about their consumption. • Improving possibilities for demand side-flexibility. • Improving DSO quality of service and efficiency. • Introducing smart-meters based on an economic assessment concluding that the introduction of such systems is economically reasonable and cost effective for consumers, taking into account their level of consumption. 	<p>CEER sees scope for change in the following areas of the Commission's proposals in relation to smart metering:</p> <ul style="list-style-type: none"> • In practice, where the cost-benefit analysis of a systematic roll-out of smart meters has been negatively assessed, entitling customers to "on-request" smart meters is not economically justifiable or practical. • Giving households the right to a smart meter with characteristics defined in the Directive may give rise to unrecoverable costs in Member States that have already made investments in smart meters with alternative specifications.
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3. Facilitate but avoid mandating dynamic prices

Article 11 of the proposed recast Electricity Directive entitles every final customer, “*on request, to a dynamic electricity price contract by his supplier*”; while a dynamic electricity price contract is defined by Article 2 of the proposed directive as “*an electricity supply contract between a supplier and a final customer that reflects the price at the spot market or at the day ahead market at intervals at least equal to the market settlement frequency.*”

CEER supports the Commission’s effort to improve consumer participation in the market and to offer greater choice and potential savings to consumers. In this context CEER recommends that Member States should ensure that suppliers do not face any undue barriers if they choose to offer dynamic price contracts to customers. In an open and well-functioning market, customers who want to benefit from spot price variations can switch to those suppliers who offer these contracts.

However, regulators believe that entitling consumers to a dynamic contract from their supplier would, in practice, make it compulsory for all suppliers to offer these contracts. CEER believes that this should not be mandated in European legislation. Such an obligation may create an additional hurdle and/or market entry barrier for new suppliers, hindering retail competition and in the end reducing consumer choice and welfare. In addition, introducing this obligation for all suppliers, including incumbents, while such contracts are not the standard in many Member States, may remove a potential competitive advantage for a new entrant whose strategy relies on offering such contracts.

Furthermore, Article 10(b) provides for the notification of price adjustments to apply to the calculation – including the mark-up – of dynamic price contracts, but should not apply to the variations in the actual wholesale price. In addition, focusing only on contracts that reflect the spot or day-ahead market price is unduly restrictive, and the definition of a dynamic price contract should therefore be reassessed.

Dynamic Pricing:

<p>CEER supports the following of the Commission’s proposals in relation to dynamic price contracts:</p> <ul style="list-style-type: none"> • Encouraging price-driven incentives for customers to react flexibly to wholesale market conditions. • Increasing the variety of offers available for the consumer • Improving the demand side-flexibility of the system. • Ensuring adequate information is provided about the opportunities and risks of dynamic electricity price contracts. 	<p>CEER sees scope for change in the following areas of the Commission’s proposals in relation to dynamic price contracts:</p> <ul style="list-style-type: none"> • Rather than making it compulsory for suppliers to propose a specific kind of contract, Member States should ensure that suppliers do not face any undue barriers if they propose time-of-use or dynamic retail price contracts • If it is retained, any definition of a dynamic price contract in the directive should be reassessed. The provision of Article 10(b) regarding the notification of price adjustments should apply to the calculation – including the mark-up – of dynamic price contracts, but should not apply to the variations in the underlying wholesale price.
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4. Interoperability is key for data format

CEER underlines the importance of retail competition and, where beneficial, a common EU data format for market players, including suppliers, at a time where digitalisation of the energy sector is increasing. Digitalisation brings benefits as it simplifies the exchange of energy customer and metering data and enables efficient market operations. Standardisation of the data format helps stakeholders to reap the benefits of digitalised data access and exchange. A common data format facilitates interoperability in the European energy market while reducing costs for investments and operations.

However, rather than rushing to introduce a common European data format, further research is necessary in order to gain full understanding of the total cost and benefits, e.g. “retrospective compatibility”² and the effects, both positive and negative, that standardisation could have on innovation. The merits of data interoperability instead of implementing a common EU data format should be assessed.

To conclude, a common European data format may generate high costs in the transition period from national standards to an EU standard, although it may entail long-term benefits. Hence, data interoperability may be sufficient to facilitate competition between suppliers from different Member States.

Interoperability for data format:

<p>CEER supports the following of the Commission’s proposals:</p> <ul style="list-style-type: none"> • A transparent procedure for eligible parties to access data • Final customers should have access to data free of charge 	<p>CEER sees scope for change in the following areas of the Commission’s proposals:</p> <ul style="list-style-type: none"> • A common European data format may generate high costs in the transition period from national standards to an EU standard, although it may entail long-term benefits. More research is needed. • Data exchange can be addressed by other means, such as interoperability.
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Annex 1: Relevant ACER/CEER Papers

The White Paper builds on the “[European Energy Regulators’ Overview Paper - Initial Reactions to the European Commission’s Proposals on Clean Energy](#)”, published by ACER and CEER on 23 January. It is part of a series of regulatory White Papers covering key topics related to the Clean Energy package. For further background reading and positions please see below the list of relevant publications of the European Energy Regulators.

<p>European Energy Regulators (ACER-CEER) White Paper #1 Renewables in the Wholesale Market, May 2017</p>

² This refers to a property of a system or technology that allows for interoperability with an older legacy system.

European Energy Regulators (ACER-CEER) White Paper #2 Role of the DSO , May 2017
European Energy Regulators (ACER-CEER) White Paper #3 Facilitating Flexibility , May 2017
CEER White Paper (no. I) on Distribution and Transmission Network Tariffs and Incentives , May 2017
European Energy Regulators' Overview Paper, "Initial Reactions to the European Commission's proposals on Clean Energy" , 23 January 2017
CEER Benchmarking report on removing barriers to entry for energy suppliers in EU retail energy markets , April 2016
CEER Position Paper on well-functioning retail energy markets , October 2015
CEER Advice on Customer Data Management for Better Retail Market Functioning , March 2015
