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CZ MIT comments the Consultation on “Energy Regulation: A bridge to 2025”

The document contains a number of topics that are in the Czech Republic successfully introduced, or are in various stages of assessment, or are the subject of pilot projects.

Summary answers the questions in the Introduction are as follows:

1. Have we identified correctly the issues and trends within each area of the energy sector?
Overall, the trends are identified correctly. We have a different opinion on some of the specific details. Our view is reflected in the comments below at some of the paragraphs in the document.
2. Have we identified an appropriate regulatory response?
Suggestions of certain regulatory actions are not properly formulated or are redundant. Any regulatory actions of the electricity and gas market must be assessed very carefully before the implementation. Optimizing of behaviour and costs cannot be ensured by regulation in the long-term perspective, but only through undistorted market. The essential for market participants is the long-term stable regulatory environment and not frequent changes. Investments in infrastructure have a return of 20 or more years (also 40 years), but individual regulatory period for calculation of the costs and benefits of regulated companies (TSO, DSO) is only several years (four years in the Czech Republic). This contradiction must be resolved by the stability of regulatory framework.
3. Which regulatory actions are most important and should be prioritised?
NRAs and ACER should focus mainly on two themes:
 - to assess each intervention on the market already in the stage of considerations and preparation , especially from the point of view negative impact on other countries in region;
 - to protect the interests of consumers by not introduction of any measures, where the cost for consumers will be higher than benefits; benefits and costs of specific measures need to be assessed for different consumer segments separately.
4. Are there other areas where we should focus?
The scope of the proposed regulatory issues is very ambitious and should instead be narrowed. It is appropriate to focus on solving critical issues - see question 3

Comments on some specific paragraphs

Paragraph 3.1

The analysis does not ensure the optimization of bidding zones. It is necessary to determine the process that will lead to redefinition of bidding zones based on the analysis. See also CZ comments on the draft CACM Network Code in January 2014. Czech Republic proposes to add text Code as follows: *Commission shall adopt within one year from the review of the Bidding Zone configuration publication appropriate measures to implement the changes reflecting the review outcomes and recommendations.*

Paragraph 3.2

It is necessary to solve the functioning of the European short-term electricity markets in mutual relation day-ahead, intraday and the balancing market. The focus only on some of them, e.g. aforementioned intraday and balancing markets, is not the right approach.

Trading in the spot markets will naturally have also an impact on the forward markets.

Paragraph 3.3

The electricity and gas markets will work in next several years within the constraints of the existing infrastructure. The amount of investment required for infrastructure development, including PCI (Projects of common interest), confirms the extent of constraints for the implementation and operation of the target model. In this context, it is important to ensure using the existing capacities in an effective manner. We therefore agree with the fact that it is essential to implement urgently relevant and easy to implement (low-hanging fruit) elements of electricity Target Model, in particular the market coupling.

In addition, not all EU regions have the same conditions for electricity market. Significant differences are in the extent and configuration of the transmission network in regions, in the generation mix and in characteristics of the consumption. Therefore, it is necessary to restrict regulation to the determination of uniform rules and to allow sufficient space for their implementation according to specific conditions of a particular region - see e.g. Flow based capacity calculation method. The method tested currently in the CWE region is not directly applicable in the CEE region. Another example could be specific conditions for balancing. Different national systems have different extent of steer-ability with different level of costs for it, regarding the specifics of generation mix and other conditions. The introduction of detailed rules exactly the same for all markets in the EU would mean a big problem and unjustified costs for some countries.

Therefore idea to focus on the introduction of the Cornerstones of the Target Model is correct.

Paragraph 3.5

Responsibility for the imbalance is one of the necessary conditions to remove current distortions of electricity market. Therefore, the quick introduction of responsibility for imbalance for all market participants should have one of the highest priorities.

The same conditions based on the regulatory framework for the provision of flexibility on the production side and on demand side is a right idea. This means, among other things, equal responsibility for the provision of agreed services if the flexibility is offered as a part of support services. The importance of this responsibility is growing significantly in the case of critical situations. It is also necessary to take into account the technical characteristics (e.g. ramping) and technical limitations of various types of provided flexibility. The regulatory framework should allow their various awards.

Paragraph 3.6

The convergence of national RES support schemes is not a solution that removes distortions electricity market. Removal of market distortions is possible only by setting of non-discriminatory rules for all market participants. Support underdeveloped technology should be in R&D and pilot projects, not through operational support. Also non-financial support, including priority dispatch of electricity from RES and priority access to the network for certain technology, is needed to be removed. Of course, there should be responsibility for deviations mentioned in the previous paragraph. It is necessary not to introduce new distortions of the electricity market.

Consideration about the introduction of CRM (Capacity Remuneration mechanism) should be only part of the overall assessment of the various options to ensure the generation adequacy. Another significant component of this assessment must be "European methodology for evaluating the

adequacy of production capacity," being developed by ENTSO-E (European assessment methodology). The Czech Republic is of the view that CRM must be harmonized at EU level. Each CRM must be cross-border open and not have a negative impact on neighbouring countries. If the CRM market is accepted as a part of the market, we require the determination of the optimal model of non-discriminatory European capacity market (mechanism of payment for the performance of the system respecting the desirable structure of resources in terms of operation of the system), including a comprehensive analysis of the impact of the introduction and options for the exit before deciding on its implementation. If the decision to implement CRM is taken, it must be a long-term, systematic long-acting instrument and not the short-term instrument for a period of 3-5 years. The introduction of CRM is therefore a political decision on the reform of the current electricity market and division "Energy Only Market" to complement "Energy Market" and "Capacity Market". Before such decision an extensive analysis of the impact of both market models in the perspective of 20+ years shall be made.

Paragraph 3.7

NRAs and ACER should primarily assess the implementation of any measures regarding the energy market from the point of view of costs and benefits for consumers. When implementing any regulatory action is to be taken into account that all costs pays the end consumer. The same importance has the assessment (already in the stage of consideration and preparation) of all interventions in the market, especially in view of the negative impact on other countries in the region.

Paragraph 3.24

The regulation should always take into account the costs and benefits for end consumers, even at response to technological development. Therefore CBA should be an indispensable part of the "Smart" regulation.

Paragraph 3.26

We see the request to have the possibility to change supplier within 24 hours as exaggerated. At least a basic comparison of the benefits for end consumer and the costs caused in the system (e.g. ICT) to meet such requirement should be done before the publication of such intention.

National regulators and ACER should assess the implementation of any measures concerning energy market based on the CBA.

It is necessary to distinguish between the functionalities of smart meters and smart grids. Smart meters alone will not ensure a "faster access to network information". The connection of smart meter into the smart grid system is necessary for fulfilment of this criterion.

In terms of cost regulation and their coverage is also useful to distinguish data (their transmission and processing) which are required to meet the terms of the agreement between the distributor and the consumer (consumer, respectively prosumer), and data needed for additional services to consumers. This distinction is important also in terms of privacy and the costs of data protection security.

Paragraph 3.33, 3.34

Implementation of the third liberalization package must first be completed and work for a certain time. Without this condition it is not objectively possible to evaluate its functioning. Stable legal (including regulatory) framework is essential for the stability of the sector and confidence of market participants, including end consumers.

Based on our experience, we do not believe that "competitive markets" for activities carried out by DSOs now will decrease costs. There are side effects resulting from the optimization of processes and their links in DSOs. We do not believe that this case should be the important activity of ACER. The

introduction of "competitive markets" mentioned in paragraph 3.34 will increase the costs that all will be paid by the ultimate consumer.

Paragraph 3.35

NRAs and ACER should propose the implementation of any measures concerning energy market based on the CBA.

Paragraph 3.37

Regulators can utilize the document Eurelectric "Network tariff structure for a smart energy system" issued in May 2013 for the assessment of network tariffs. The balanced assessment of the interests of individual market participants will be an important role of regulators in relation to time-differentiated tariffs and to the dynamic pricing. Specifically, it can be at certain hour conflict between interests of traders and DSOs in the application of time-differentiated tariffs for consumers.

In relation to Chapter 4, there are many open questions. We consider that it is premature to comment this chapter in more detail, e.g. in relation to the current situation when is still unclear situation with the CACM and Guidelines. Adopting of network codes is delayed and it is not clear the way of their future adaptations. Based on experience in the operation, some adjustments will be necessary, however the legislative process of changes cannot take several years.

We recommend, when considering the future process of modifications and changes, to take into account that especially ENTSO-E and ENTSO-G have and will have in the future the technical knowledge in this area.

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