



“A BRIDGE TO 2025”

EXECUTIVE SUMMARY



The ACER Bridge to 2025 is built upon on a holistic analysis of Europe's energy sector. The actions it sets out reflect regulators' ambition to achieve five key objectives for the Internal Energy Market (IEM) by 2025:

- ❖ Establishing liquid, competitive and integrated wholesale energy market*
- ❖ Enhancing Europe's security of supply and channelling the external element of IEM*
- ❖ Moving to a low carbon society with increased renewables and smart, flexible responsive energy supply*
- ❖ Developing a functioning retail market that benefits consumers*
- ❖ Building stakeholder dialogue, cooperation and new governance arrangements*

Energy Regulation: A Bridge to 2025

Introduction

In the 'Bridge to 2025'¹, we look beyond immediate priorities to identify the challenges Europe's energy markets will face in the coming ten years in order to inform the energy regulation agenda. We shall continue to engage in a dialogue with all energy actors, including consumers, stakeholders and European Institutions, to meet future challenges and take necessary and appropriate action.

The full implementation of European energy legislation, including the electricity and gas Network Codes and the application of Target Models, to achieve liquid, interconnected electricity and gas markets, and consumer rights, energy efficiency and market integrity measures, will continue to be our central priority. We call upon all energy actors to join us in achieving the full implementation of the Third Package measures.

Europe's energy market in 2025

The energy sector is embarking on a profound period of change – in how we produce, consume and transport energy – designed to promote a more sustainable and efficient energy sector. 2025 will see Europe moving to a low-carbon society with increased renewable energy and smart responsive energy supply.

Very real changes will emerge in the way consumers engage with the market and much greater and active involvement of smaller consumers in the energy (principally electricity) market will be needed.

We anticipate a major increase in generation from renewable sources which will give rise to a much greater need for flexible response from other sorts of generating plants and from the demand side itself.

Changes in technology (smart grids, smart meters) will enable, and empower, smaller consumers to help provide this flexible response. New services will help consumers to manage their energy needs more effectively.

Uncertainty over the size of the future gas market in Europe will remain, as will concerns about the security of our gas supplies. However, there are likely to be new applications for gas, such as in transport and in providing fuel for flexible power generating stations, which are needed to respond to greater levels of non-programmable renewable generation.

Architecture to realise the benefits of the Internal Energy Market

We must press ahead even more urgently towards the achievement of a fully functioning, competitive and well-interconnected Internal Energy Market (IEM). The Third Package laid the foundations to address the regulatory gap at European level including through the establishment of the European Networks for Transmission System Operators (ENTSOs) and the Agency for the Cooperation of Energy Regulators (the Agency).

¹ Energy Regulation: A Bridge to 2025" Conclusions Paper, 19 September 2014 - Recommendation of the Agency for the Cooperation of Energy Regulators No 05/2014 of 19 September 2014 on the regulatory response to the future challenges emerging from developments in the internal energy market

In the time horizon to 2025, the role of these European bodies will inevitably evolve and be enhanced in response to the pace of market integration.

As markets integrate, arrangements for the oversight and accountability of these bodies must therefore be sufficient to ensure that the trust of customers and other stakeholders is maintained. We must similarly assess the appropriate level of regulatory oversight for bodies performing pan-European functions such as power exchanges, other market coupling operators, and trading and capacity allocation platforms.

As markets integrate, the need to ensure that there is adequate cooperation between the ENTSOs for electricity and gas will be essential; similarly, there will be closer interaction of the wholesale and retail markets and thus the need for greater cooperation between distribution system operators (DSOs) and transmission system operators (TSOs). We make some specific proposals in this respect and invite the European Commission to enhance the cross-fertilisation of information, including in respect of electricity, gas and retail market developments, to improve awareness across all segments and sectors of the market.

The development of the IEM will also strengthen interactions with our geographical neighbours, some of whom have already committed to adopt the European Union (EU) energy *acquis*. By interacting with their regulatory bodies, we can help their development and build appropriate levels of regulatory capacity along IEM principles.

Overview of our key proposals

Based on extensive consultation, a number of regulatory measures are proposed. They include proposed actions for the European Commission, Member States, regulators themselves, and for energy market actors (also consumers).

Key amongst these are the following proposals:

- ❖ to implement fully the Third Package framework, including necessary network rules based on the Electricity and Gas Target Models (including grid connection, system operation, balancing, system adequacy, gas tariffs, capacity allocation, gas entry-exit systems) that will help establish and maintain enduring liquid and integrated gas and electricity markets;
- ❖ to establish common criteria for a well-functioning retail market and develop a Roadmap aimed at competitive, reliable and innovative retail markets by 2025;
- ❖ to develop the Gas Target Model to help manage the uncertainty about future gas demand and the future role of gas as another source of flexible response in the electricity market;
- ❖ to facilitate the development of flexible response, including participation of the demand side;
- ❖ to ensure that the market for new service providers is not foreclosed by incumbents (notably monopoly DSOs);
- ❖ to ensure that consumers continue to be properly protected as these changes occur;

- ❖ to give consumers further rights and tools to empower them to participate actively in energy markets (principally through the development of the CEER-BEUC 2020 Consumer Vision);
- ❖ to establish stakeholder panels, which include stakeholders and consumer representative bodies, so as to facilitate discussions on the future energy market developments in an holistic way (i.e. across gas and electricity, and across segments including wholesale, retail, networks, storage and supply);
- ❖ to improve the arrangements for regulatory oversight of the ENTSOs and other bodies, given their critical functions under Network Codes and Commission Guidelines (e.g. nominated electricity market operators - NEMOs);

- ❖ to promote more formal participation of certain third country regulatory authorities (including Norway) in the work of the Agency, and for parallel treatment to be given to those countries in the work of the Council for European Energy Regulators (CEER), including in respect to access to training.

Next steps

These initiatives will be outlined and developed in the Work Programmes of the Agency and CEER and, where necessary, will be recommended to the European Commission and other relevant actors for action. Regulators are committed to developing our proposals in dialogue and consultation with the energy sector and to regularly reviewing and strengthening the 'Bridge to 2025'.

Summary of conclusions

The actions below recap the key recommendations in the “Bridge to 2025” and reflect five key objectives for the Internal Energy Market (IEM) in 2025 and how to achieve them:

- ❖ Establishing liquid, competitive and integrated wholesale energy markets
- ❖ Enhancing Europe’s security of supply and channelling the external element of the IEM
- ❖ Moving to a low carbon society with increased renewables and smart, flexible responsive energy supply
- ❖ Developing a functioning retail market that benefits consumers
- ❖ Building stakeholder dialogue, cooperation and new governance arrangements

In recognition of the efforts required, we have differentiated the tasks by the time-scales for their delivery as follows:

When	Cross-sectoral	Who
Imminent - Medium	<p>Collective action is needed to achieve the implementation of the Third Package to deliver consumer rights, energy efficiency and market integrity; to ensure the speedy adoption of Network Codes and Comitology Guidelines in gas and electricity, where possible, ahead of their entry into force; and to join efforts to ensure the rapid application of the present Electricity and Gas Target Models which regulators commit to evolve, as appropriate, in consultation with all stakeholders, consumers and EU Institutions. Gas and electricity sectors’ collaboration should be improved (in practical ways, including timelines for the organisation of the gas and electricity markets before and after gate closure, information flows, and European network planning), and co-operation between the TSOs for gas and electricity intensified.</p> <p>We propose greater cooperation between DSOs and TSOs. Recommendations to clarify the distinct roles and responsibilities of TSOs and DSOs will be made to strengthen cooperation and technical data exchange between them.</p> <p>All stakeholders, and in particular consumers, will be as fully involved as possible so as to strengthen consumers’ and other stakeholders’ awareness and participation. We shall continue our dialogue with all energy actors, including consumers, stakeholders and European Institutions to meet future challenges and take appropriate action.</p>	<p>EU Institutions, ACER, NRAs, All energy actors</p> <p>EC</p> <p>ACER, CEER</p>

	We invite the European Commission to ensure the cross-fertilisation of information, including between electricity, gas and consumers' market developments thereby enhancing awareness of the IEM.	EC
When	Electricity	Who
Imminent - medium	<p>We commit to deliver liquid and integrated electricity markets and to:</p> <ul style="list-style-type: none"> ❖ improve communication of the benefits of the Electricity Target Model which consumers can expect; ❖ promote liquidity and integrations of intraday markets; ❖ monitor pilots including balancing; and, ❖ monitor Regional Security Coordination Initiatives (RSCIs) and whether they need to be strengthened. 	ACER, NRAs
Imminent - Medium	<p>We commit to developing a regulatory framework promoting competitiveness and security of supply and more coordinated and consistent approaches to assessing system adequacy.</p> <p>We shall advise on the design of interventions (in particular Capacity Remuneration Mechanisms (CRMs)) and their impact on the IEM, and develop Recommendations so that the goals of security of supply and competitive markets are met.</p>	European Energy Regulators
Imminent-Medium	We shall identify good practices in infrastructure regulation to be shared amongst NRAs in order to support the achievement of a well-interconnected IEM.	ACER
Imminent	We shall continue to monitor developments of Member States' Renewable Energy Sources (RES) support schemes and work to bring RES within the market through the Electricity Target Model.	European Energy Regulators
Imminent	<ul style="list-style-type: none"> ❖ We will continue to monitor developments in support schemes across the EU, building on the Commission's State Aid Guidelines and its Public Interventions Package, and will help to facilitate renewable trading, including through identifying and exchanging good regulatory practices 	CEER
Medium	<ul style="list-style-type: none"> ❖ We will seek to bring renewable generation more into the market through the Electricity Target Model, which will treat all forms of generation (and demand/storage) on a non-discriminatory basis. Markets will continue to be monitored to ensure that market rules do not favour some forms of generation over others and to assess how best to manage the growth of non-programmable generation. 	ACER/NRAs

Imminent	<ul style="list-style-type: none"> ❖ We will promote energy efficiency in as much as it falls within the scope of the regulatory responsibilities of individual National Regulatory Authorities (NRAs) (for example in relation to network losses and tariffs). 	CEER
Medium - Long	<p>We will aim to ensure that barriers to the development of flexible response are removed and that it can be provided by both the supply and the demand sides on a non-discriminatory basis. In particular, an appropriate framework for the evolution Demand Side Response (DSR) on a non-discriminatory basis will need to be developed so that DSR can be established as a viable product. To this end we shall:</p>	ACER, CEER, NRAs
Medium	<ul style="list-style-type: none"> ❖ define an action plan to identify and remove (regulatory, technical, legal or market-related) obstacles to the development of DSR and to facilitate DSR deployment; 	European Energy Regulators
Imminent - Medium	<ul style="list-style-type: none"> ❖ develop the concept of “flexible response” to be traded in the electricity market by defining the appropriate regulatory arrangements to facilitate the development of markets to enable competition between different DSR-options to be developed by market players; 	European Energy Regulators
Imminent - Medium	<ul style="list-style-type: none"> ❖ explore how trading in flexible response may operate in, or interact with, other markets and other mechanisms (e.g. day-ahead, intraday and balancing markets and CRMs); 	European Energy Regulators
Imminent	<ul style="list-style-type: none"> ❖ assess the potential benefits of DSR as a key contributor to flexible response; and, 	European Energy Regulators
Medium	<ul style="list-style-type: none"> ❖ develop an approach for the management (including the collection, dissemination and protection) of consumer data, which is essential for the development and operation of a market in DSR. 	European Energy Regulators
When	Gas	Who
Imminent - Medium - Long	<p>We recommend to EU Member States that national, regional and EU measures should be developed to mitigate emergency situations.</p> <p>We recommend measures to be put in place to encourage efficient use of gas storage and development of storage products.</p> <p>We shall make proposals to remove barriers (identified) to the integration of gas from unconventional sources into the IEM.</p>	<p>MSs</p> <p>CEER</p> <p>ACER</p>
Imminent - Medium - Long	<p>We propose that each NRA reviews the progress made towards the development of fully functioning wholesale markets based on entry-exit systems to facilitate the development of competition</p>	ACER, NRAs

<p>Medium</p>	<p>For this purpose: We will refine the Gas Target Model criteria for a well-functioning market.</p> <p>Where the criteria for well-functioning wholesale markets are not met, the NRA should assess whether the evolution of the market(s) can be expected to ensure that these criteria are met.</p> <p>In this latter case, the concerned NRA(s) should be invited to propose a plan by which the target criteria can be achieved (including the possibility of regional market integration along with a comprehensive cost benefit analysis).</p> <p>We propose that NRAs report periodically on the implementation of such plans.</p>	<p>ACER</p> <p>NRAs</p> <p>NRAs</p> <p>NRAs</p>
	<p>Regulatory arrangements should be developed that facilitate: new uses of gas; removal of unnecessary regulatory barriers to powers to gas and other technologies; and, removal of barriers to the extension of the gas distribution grid to new areas and customers.</p>	<p>NRAs, CEER</p>
<p>When</p>	<p>Consumers and retail markets</p>	<p>Who</p>
<p>Medium - Long</p>	<p>For the well-functioning of retail markets we shall:</p> <ul style="list-style-type: none"> ❖ establish common criteria for a well-functioning retail market and develop a Roadmap aimed at competitive, reliable and innovative retail markets by 2025; ❖ establish key features of retail market design to provide a level-playing field; 	<p>CEER</p>
<p>Imminent - Long</p>	<ul style="list-style-type: none"> ❖ determine minimum standards to remove market barriers; ❖ develop guidance to facilitate the phasing out of regulated end-user prices as soon as practicable; and, ❖ identify market distortions through effective market monitoring. 	<p>EER</p> <p>ACER</p>
<p>Imminent - Medium - Long</p>	<p>To facilitate more active participation by smaller consumers in the markets we will:</p> <ul style="list-style-type: none"> ❖ establish a toolbox of good practices to encourage and empower consumers (through spread of information on new technologies, on the new opportunities and on the financial benefits of active participation, and through exploring the potential benefits of a more coordinated approach to smart technologies); ❖ prepare a Roadmap to secure reliable supplier switching within 24 hours no later than 2025 unless the cost benefit analysis is negative; ❖ simplify the comparability of offers available in the market; and, ❖ develop further and apply the “RASP principles” of CEER 	<p>CEER</p>

	<p>2020 Vision into practical actions to enable market development across Member States, while protecting and empowering consumers.</p> <p>We propose to examine the scope of the potential for retail market integration at both regional and European levels.</p>	
When	DSOs	Who
Medium	<p>CEER will:</p> <ul style="list-style-type: none"> ❖ monitor the activities of vertically integrated DSOs to ensure a level-playing field; will assess the adequacy of the current rules on business separation against the evolving role of DSOs; ❖ define DSOs functions to facilitate the development of potentially competitive services; ❖ develop a toolbox for the regulation of DSOs to ensure the market is not foreclosed; and, ❖ identify and share good practices of distribution network tariffs and Guidelines of Good Practices for incentive schemes. 	CEER
When	Governance	Who
Imminent	<p>The European Commission should consider establishing effective representation for smaller consumers' organisations (including through funding).</p> <p>The Agency, CEER and, where appropriate, NRAs will strengthen consumers' and other stakeholders' involvement by establishing stakeholder panels, including representatives from consumer organisations, to provide views at a strategic level on future market developments.</p>	<p>EC</p> <p>ACER, CEER & NRAs</p>
Imminent	The Agency will develop specific mechanisms to further enhance cooperation between NRAs.	ACER
Medium	This may also include proposals for legislative changes to give the Agency the powers to adopt directly decisions to approve legally binding instruments in case of EU-wide proposals	EC
Medium	<p>The European Commission should consider whether new legislation is required to ensure effective regulatory oversight of the EN-TSOs, due to their evolving role.</p> <p>The Agency will further develop detailed advice in 2015.</p>	<p>EC</p> <p>ACER</p>

Medium	More institutionalised cooperation between ENTSO-E and EN-TSOG is needed , in particular regarding their work on the European network planning and, where appropriate, in the development and implementation of Codes.	EC
Medium	It is recommended that the European Commission considers proposing new legislation so that the Agency be empowered to take decisions directly rather than only in those cases where all NRAs fail to agree especially in the case of EU-wide proposals – with clarity on division of responsibilities between regulatory bodies and with due respect to the European legal framework and subsidiarity.	EC
Medium	It is recommended that the Commission considers proposing a stand-alone Guideline on governance in order to establish clear common arrangements for all Guidelines related to energy regulation, including in respect of their development, initial drafting and modification.	EC
Medium	The Agency shall undertake an in-depth evaluation of the effectiveness and efficiency of the framework for the regulatory oversight of the NEMOs, two years after the entry into force of the CACM Guidelines and make recommendations to the European Commission.	ACER
Imminent - Medium	EU TSOs bodies should be subject to regulatory oversight by the Agency on the basis of a specific governance guideline proposed by the EC.	EC
Imminent - Medium	Bodies with essential EU functions which are not natural monopolies are subject to normal competition rules. However, where competition rules are not effective and there is no foreseeable prospect of competition developing, it is recommended that a framework of rules is put in place and there is ex ante regulatory oversight by the Agency.	EC
Imminent-Medium	<p>NRAs from third countries which have concluded agreements with the European Union committing them to adopt and implement the EU energy <i>acquis</i> should be allowed to participate in the Agency and its activities pursuant to its founding Regulation.</p> <p>We propose that they are allowed to join the Agency’s Working Groups, as well as being involved in the Regional Initiatives activities. If the European Commission agrees, the NRAs from these countries could participate, as observers, in the meetings of the Board of Regulators.</p> <p>NRAs from European Economic Area countries, and in particular Norway, should be able to participate in certain aspects of the Agency’s activities with immediate effect. Certain other Energy Community Contracting Parties may also fulfil the conditions for participation in the near future.</p>	EC/ACER

	The Agency should have a role in monitoring developments internationally which may impact on the operation of the IEM (for example, international gas developments could have a direct impact on Europe's supply security and energy prices). This could be included in the Agency's annual Market Monitoring Report.	
Imminent - Medium	<p>CEER will offer parallel treatment to NRAs of third countries.</p> <p>Where appropriate, CEER will extend its training programme to include NRAs of Energy Community countries, and will develop specific courses for non-EU NRAs.</p> <p>CEER will also examine ways for its members to develop capacity building arrangements, including twinning programmes (assuming appropriate European Commission funding is available).</p>	CEER
Medium	<p>The present checks and balances on the Agency's decisions should continue to apply in respect of any new powers it might receive. In the third package areas, the Agency's powers and decisions should reflect complementarity of regulatory action at national and European level including the need for the regulatory decisions to be subject to a favourable opinion of the Board of Regulators.</p> <p>If the inter-institutional non-legally-binding "Common Approach" relating to EU agencies is to be applied to the Agency, it should be done in a way which preserves its current internal governance structure and allocation of responsibilities among the Agency's bodies, including with respect to decision making and the appointment of staff, and its regulatory independence.</p> <p>The Agency costs (which should remain under the scrutiny of the EU institutions) should be partially funded through fees.</p>	EC
Medium	The European Commission should consider proposing new legislation so that the Agency is given adequate powers to fulfil its monitoring functions including in respect of information gathering in a way that ensures full and effective enforcement.	EC
Medium	Should the Agency be granted decision making powers through new legislation, as we recommended, then appropriate measures should be put in place to ensure compliance with those decisions as far as it is legally possible to do so.	EC