

IEM Market Consultation

Selected question for DSO Entity

Questions for Stakeholders:

Q 3: How should the necessary investments in network infrastructure be ensured? Are changes to the current network tariffs or other regulatory instruments necessary to further ensure that the grid expansion required will take place?

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*The deployment of renewables and the further electrification of transport and heating go hand in hand with **the renewal, expansion and smartening of DSO grids**. Currently 70% of the installed renewable capacity is connected to the distribution grid¹. To facilitate this fast transition, which is now additionally accelerated through REPowerEU, three points are central:*

- (1) **The early active inclusion and involvement of DSOs in the planning of generation projects.** Cooperative planning processes and the early involvement of DSOs are key to identify technically feasible connection points to prevent problems at a later stage, especially for larger generation projects. Since also grid infrastructure projects imply extensive planning and permitting procedures grid operators need to be informed about plans for new installation of power generation sites in order to be able to start as early as possible with grid planning.*
- (2) **Faster permitting procedures for grid infrastructure expansion.** A recently conducted internal DSO Entity survey showed that DSOs are facing severe problems with costly, complex, long and protracted infrastructure permitting processes and administrative hurdles (lack of resources and flexibility from authorities). A more streamlined permitting approach to reduce complexity, one-stop-shops and faster procedures with less delays would improve the situation.*
- (3) **National regulatory regimes that sufficiently incentivize the expansion and smartening of the grid.** In general, amendments to grid tariff structures should remain in the responsibility of the regulatory authorities in the respective Member States since they are best familiar with the situations and needs in their countries. **However, the EU level should give three clear signals to Members States:***
 - First, a clear signal to Members States to **remove regulatory barriers** that work against the needed upgrade of electricity grids. So, Members States should be requested to abolish all obstacles to the necessary and efficient growth of the infrastructure that might be existing in the national regulatory regimes. A problem in this respect is also that most regulatory systems today will only recognize investments that are being used i.e., the DSO are usually only building grids after a demand has actually been realized. This leads to a situation in which DSO grid investments must “tail” the demand.*

¹ Eurelectric jointly undertaken with E.DSO and Deloitte (2021), ‘Connecting the dots: Distribution grid investment to power the energy transition’, URL: <https://www.eurelectric.org/connecting-the-dots/>

- *Second, the European level should give appropriate guidance to ensure that national network tariff structures are designed to allow for efficient cost allocation, optimize long-term infrastructure investments and facilitate the economic sustainability of the system. The market reform must also issue clear instructions to Member States to ensure that **the economic regulation of grid operators is dependable, stable and with sufficient economic return (WACC) that ensures enough investments and sector investability.***
- *Third, reflecting **cost-effectiveness in grid tariffs.***

Given the massive transition of the energy system, severe grid investments will be needed in the physical infrastructure (i.e. reinforcement of capacities, expansions, roll out of smart meters) and in the smartening of the grid, (i.e. improving operations and network management, digitalization and sensorization). Even if all possible flexibility options could be harvested for free a major grid expansion is necessary and urgently needed.

It must not be forgotten that the economic value of timely and efficient investments in electricity distribution networks is of utmost importance. If this is not considered when establishing the regulatory framework, there is a risk that electricity distribution networks will suffer congestion, bad quality of service, curtailments and delays in customer connections.

Alternatives to Gas to Keep the Electricity System in Balance

Q8. What further aspects of the market design could enhance the development of flexibility assets such as demand response and energy storage?

2000 character(s) maximum

- *Development of a network code on demand response based on the Framework Guidelines from ACER that enables the conditions to attract investment on flexibility assets. Given the high level of technicality of the development of flexibility assets it is important that rules are developed through post-legislative measures (derived legislation) in the form of implementing and delegated acts and not addressed in ordinary legislative decision-making processes.*
- *Further, the enhancement of the interoperability of processes as for instance currently ongoing with the works on the Implementing Act on data interoperability (according to Art. 23/24 of the Electricity Market Directive (2019/944/EU)).*

Q9. In particular, do you think that a stronger role of OPEX in the system operator's remuneration will incentivize the use of demand response, energy storage and other flexibility assets?

- **Yes**
- **No**

Do you have additional comments?

2000 character(s) maximum

Flexibility requires an optimal CAPEX/OPEX balance, however, when it comes to OPEX some changes in the current systems could incentivize the use of flexibility assets. The regulation models are often designed for cost efficiency and thus forcing the reduction of OPEX, which creates a negative incentive to purchase flexibility services.

Currently there are two effects in the remuneration of SO which prevent an unbiased decision between grid reinforcement and flexibility use: OPEX are in most national regulatory systems only adapted with a considerable time-lag while CAPEX usually become effective immediately. The time-lag for OPEX must be corrected. In addition, , incentive mechanisms must be designed on a national level that make it attractive for SOs to use flexibility and enable them to earn a return from these activities.

Q10. Do you consider that enabling the use of sub-meter data, including private sub-meter data, for settlement/billing and observability of demand response and energy storage can support the development of demand response and energy storage?

- **Yes**
- No

Do you have additional comments?

2000 character(s) maximum

*Currently, the term “sub-metering” is not defined in any legal framework and various definitions among EU Members States are in use. These definitions are influenced by individual national regulations as well as business procedures of involved utilities. Therefore, DSO Entity would like to underline that the definition and use of sub-metering should be addressed in the upcoming network code on demand response. The Framework Guideline on demand response drafted by ACER introduces the use of sub-meter as a flexibility asset, as provided under the points (19) and (33). The draft Framework Guideline foresees that **the network code shall define sub-meters and describe the conditions for the use of sub-metering (including notably the questions of respective roles, data collection and compliance with relevant standards).***

To ensure the reliability of the system, flexibility is better measured at the main meter. All data from submetering must be available to the system operator in real-time. However, further assessment is necessary to ensure the mass deployment of submeters do not jeopardize the reliability of the network. This assessment will be addressed through the development of the Network Code.

In general, all meters used for measurement and settlement must comply with the same requirements, for instance with the upcoming interoperability standards or reference models (Implementing Act on data interoperability according to Art. 23/24 of the Electricity Market Directive (2019/944/EU)). On the one hand, where the smart-meter rollout has not been completed submeter data can potentially have a positive effect on the development of distributed flexibility. On the other hand, for member states where smart meters are fully rolled out the settlement should be measurable in the connection point in order to validate the service.

Q11. Do you consider appropriate to enable a product to foster demand reduction and shift energy at peak times as an ancillary service, aiming at lowering fuel consumption and reducing the prices?

- Yes
- **No**

Do you have additional comments?

2000 character(s) maximum

*Ancillary service" is regarded as a service for DSOs. Demand reduction is a **task of the government not for DSOs** in general. Such product developments should be left to the market and the competition. Price of electricity will correspond with the availability. (Although it might have short term impact) the requirements for implementing these kind of time variable tariffs are not given.*

In general, preventing peaks is always enhancing grid efficiency for instance introducing additional products to shift demand.

Q13. Do you see any further measure that could be implemented in the shorter term to incentivize the use of demand response, energy storage and other flexibility assets?

- Yes
- **No**

If so, what would that be?

2000 character(s) maximum

Do you have additional comments?

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The current regulatory framework is sufficient and should be used

Better consumer empowerment and protection

Questions for Stakeholders:

Energy sharing and demand response

Q 1. Would you support a provision giving customers the right to deduct offsite generation from their metered consumption?

- **Yes**
- **No**

Do you have additional comments?

2000 character(s) maximum

Customers should have the right to deduct offsite generation from their metered consumption behind the main meter/grid connection point or like foreseen for Energy Communities in locally restricted areas (i.e. customers must be connected to the same substation). However, for long-distances, deducting off-site generation from metered consumption would create an undue and unfair cross-subsidization in the system that would increase costs for consumers that do not have off-site generation. Allowing the reduction of offsite generation over long distances would reduce network tariffs, taxes and levies for some customers, while not reducing the overall costs. This would create an incentive for “free-riding” while leaving a burden to other customers, possibly also to vulnerable customers. Regarding grid tariffs we generally see no sound basis for a general reduction of grid tariffs if the generation is not located behind the same connection as the customers. Any approximation of grid cost reductions for production and consumption located near to each other and synchronized in time must be carefully evaluated and balanced against the additional complexity connected with such a scheme.

Q 2. If such a right were introduced:

(a) Would it affect the location of new renewable generation facilities? (Yes/No)

Do you have additional comments?

2000 character(s) maximum

We are not convinced that the location of new renewable generation can be significantly influenced by Using-the-grid tariffs. These locational incentives should come from connection fees.

(b) Should it be restricted to local areas – why? (Yes/No)

If yes, why?

2000 character(s) maximum

Grid tariffs should be cost-reflective. Any reduction in grid tariffs for certain customers must mirror a reduction of grid costs. Because individual reductions depending on the particular situation would be too complex, an approximation of the grid cost reduction caused by collective self-consumption can be reflected in the grid tariffs. In order to be as close as possible to approximated grid cost reductions, the methodology should not be based on a geographical distance (km) between producers and consumers, but on grid topology. A possibility would be to provide this option for all customers behind the same (primary or secondary) substation to reflect the probability that use of higher voltage levels could be avoided. In any case the grid cost reductions must be carefully evaluated and reflected in the grid tariffs to prevent any unjustified subsidies to collective self-consumption at the expense of other grid users. The methodology also must be sufficiently simple and transparent.

(c) Should it apply across the Member State/control/zone? (Yes/No)

Q 3. Would you support establishing a right for customers to a second meter/sub-meter on their premises to distinguish the electricity consumed or produced by different devices?

- **Yes**
- **No**

If yes, what particular issues should be taken into account?

2000 character(s) maximum

- *The installation of a multipath or second meter is possible without problem if they fulfil the applicable requirements for measuring devices (following the EU Measurement Instruments Directive) and are integrated into the prevailing market communication architecture (e.g. interoperability).*
- *DSO Entity underlines that the topic of submetering will be addressed in the upcoming network code on demand response. The Framework Guideline on demand response drafted by ACER introduces the use of sub-meter as a possible solution to provide flexibility, as provided under the points (19) and (33). It is foreseen that the network code shall **define sub-meters and describe the conditions for the use of sub-metering, including notably the questions of respective roles, data collection and compliance with relevant standards.***