



European
Commission



**Local Distributors and the role in the
European Energy Market – How to assure fair
representation of distributors at EU Level**
11 May 2017



Context

➤ Challenges:

- High amount of RES connected to the distribution grids
- Increased constraints on the grids
- Current Regulatory framework does not provide the necessary flexibility

➤ Opportunities

- Digitalisation
- Active consumers

AIM:

- ✓ Active neutral Market Facilitator

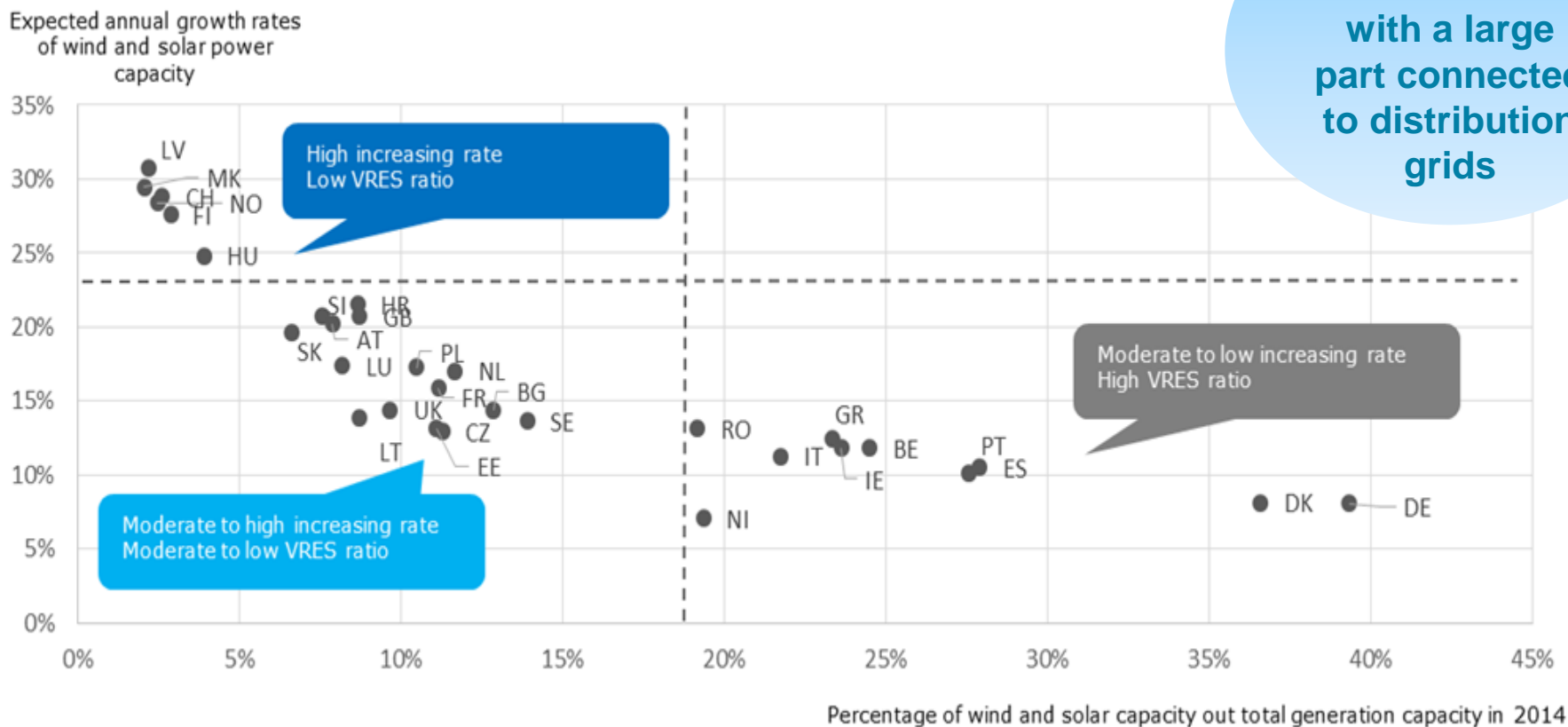
Impact:

- ✓ 3,5 to 5 bn € per year of savings from avoided distribution investments

Making distribution networks more flexible I

Wind and solar growth and ratio to total capacity

Wind and solar is on the rise with a large part connected to distribution grids



DSO use of flexibility

Electricity Directive: Articles 31, 32

- **Improve existing provisions** that require DSOs to consider demand response, energy efficiency and distributed generation in grid planning
- **Allow DSOs to procure services** from distributed energy resources for managing local congestions and technical problems
- Procurement through **market based procedures**, with definition of required products and technical modalities → level playing field
- **Member States to define the exact regulatory framework** including incentives for DSOs and adequate remuneration



AIM:

- ✓ Improve efficiencies in operation and development of network
- ✓ Avoid unnecessary grid expansions → lower grid costs and tariffs

DSO use of flexibility

Electricity Directive: Article 32

Distribution network development plans (Art. 32)

- Distribution investments for the next 5 to 10 years
- Emphasis on RES integration, new loads, use of flexibility

- DSOs shall submit to the NRA every two years
- (Member States may exempt from the obligation DSOs with less than 100.000 customers)

- NRA to consult system users
- Results of the consultation to be published

- ✓ Transparency in network planning
- ✓ Demonstrate use of flexibility and RES integration
- ✓ Development of smart grids (Art. 59.1)

Role of DSOs in storage

Electricity Directive: Article 36

- **DSOs should not be allowed** to own, develop, manage or operate storage facilities
- **Member States could derogate** and allow DSOs to get involved:
 - ❖ If other parties are not interested to be involved in such activities
 - ❖ Only to ensure the reliable, efficient and secure operation of the distribution system
 - ❖ The unbundling rules remain unchanged

- ✓ Open tendering procedure
- ✓ Regulatory authority approval
- ✓ Reassess the market every 5 years



DSO to phase-out activities if market interest exists

Role of DSOs in EV recharging points

Electricity Directive: Article 33

- **National frameworks shall facilitate connection of recharging points** and ensure cooperation of DSOs and EV recharging service providers
- Electric vehicles infrastructure development should be developed mainly by commercial market parties
- **Member States may allow DSO involvement under conditions**, within the framework of existing unbundling rules

- ✓ Tender procedure / other market parties not interested
- ✓ Regulatory approval
- ✓ Reassess the market every 5 years



DSO to phase-out activities if market interest exists

Distribution network tariffs

Electricity Regulation: Articles 16 and 55 - Electricity Directive: Article 59

- Existing regulatory framework for fixing/approving distribution tariffs or methodologies remains unchanged
- Additional principles for distribution network tariffs:
 - ✓ More explicit **transparency requirements** on regulatory authorities regarding tariff methodologies and underlying costs (Electricity Directive Art. 59.8)
 - ✓ **Non-discrimination** between generation connected to transmission and distribution (Art. 16.1 of Electricity Regulation)
 - ✓ Non-discrimination or disincentives against storage and demand response
 - ✓ **Cost-reflective tariffs** including the possibility of time-differentiated tariffs (Art. 16.7)
 - ✓ Regulatory authorities to provide **incentives to DSOs for use of flexibility and innovation** (Electricity Regulation Art. 16.8)

Distribution network tariffs

Electricity Regulation: Articles 16 and 55 - Electricity Directive: Article 59

The proposal provides for more specific rules on network tariffs including distribution:

- ACER recommendation (Electricity Regulation Art. 16.9)
- network code on transmission and distribution tariff structures and connection charges (Electricity Regulation Art. 55.1)

Why?

- ❖ Up to 90% of variable RES E generation is connected to distribution system
- ❖ Network access conditions are an important element for the participation of distributed generation and other resources to national and cross-border markets
- ❖ Uncoordinated policies may lead to diverse access conditions, affect the functioning of the internal market and the integration of RES

Improving the institutional framework – EU DSO entity

Electricity Regulation: Articles 49 to 53

Current situation and problem

- Distribution networks are gaining importance; however, DSOs are not formally represented in the EU institutional framework
- Cooperation of DSOs and TSOs on a voluntary basis; however, a closer cooperation also in the context of network codes is required

Proposal

- Adapt the institutional framework to the new realities, including the establishment of a EU DSO entity
- EU DSO entity to work in specific areas and cooperate with ENTSO-E