GEODE Reply to CEER public consultation "The future role of DSOs"

1. Do you agree with these three core principles?

Principle 1: The DSO must run its business in a way which reflects the reasonable expectations of network users and other stakeholders

Principle 2: The DSO must act as a neutral market facilitator in undertaking its core functions

Principle 3: The DSO must act in the public interest, taking account of costs and benefits

X	AGREE
	DISAGREE

GEODE agrees, in principle, with these three principles. We would like to take this opportunity to outline that these principles should take into account the changing role of Distribution Networks to Smart Distribution Systems. The increasing broad range of distributed energy resources (DER) will develop more and more decentralized energy markets, with new tasks and opportunities for DSOs. These changes create the need to rethink regulation for DSOs in a way they are not negatively affected by the development of DER. Quite the contrary - DSOs can benefit from the services DER can offer for system operation and planning. At the same time, DSOs have to be incentivized to support the integration of new technologies into the market.

GEODE would like to add a 4th principle to the three proposed by CEER: "The DSO should have economical means to fulfil its duties".

Regulation plays an important role in assuring DSOs can rely on adequate revenues in order to fulfill the three principles as stated by CEER. This should be considered as an important principle as such.

Comments on Principle 1:

We believe that the role of DSOs is described too narrowly. Depending on national market models, the role of DSOs can also involve interaction with the end customers, including domestic consumers (e.g. network service contract and customer relationship) which are not mentioned in CEER's paper and might be relevant in a consumer-centric model which is the one supported by CEER and GEODE. In such a model DSOs need to have a satisfactory relationship with the customer to fulfill grid related tasks. DSOs are the central point of contact for customers in grid related issues and the link between DSOs and the customer should be maintained. Therefore we would like CEER to add the interaction of DSOs with customers.

Furthermore, the DSO is the responsible party for grid stability and therefore its core task is to manage the distribution grid in order to secure safe and reliable energy supply. When considering changing roles and responsibilities of DSOs, e.g. local dispatching, this is the key aspect that always has to be taken into account. This should be added to principle one.

Comments on Principle 2:

In some Member States, small DSOs might benefit from the unbundling exemption - as specified in the Third Energy Package. Therefore the branding and communication policy distinction does not apply. However, we do agree with the principle that customer communication policy should clearly distinguish between the DSO's grid related activities and the supplier's competitive market activities, for a better understanding of the customer.

It should be clarified what "neutral market facilitator" means: the DSO acts in a non-discriminatory behavior towards all market players. We suggest calling DSOs the "active market facilitators" as future challenges will require a more active grid management.

Comments on Principle 3:

We support DSOs to be adequately remunerated when efficiently discharging their public service obligations. This should also be the case when new tasks and/or obligations are imposed on the DSO. NRAs should take into account the new costs and allow DSOs to get the additional cost recovered through grid tariffs or other revenues sources. If CBAs on new tasks or obligations are carried out by NRAs or Member States, DSOs should be properly consulted.

2. What challenges would new forms of stakeholders (e.g. community or municipal energy schemes and ESCOs) bring to DSOs and to existing approaches?

We point out below some of the challenges we can see, but might be others:

- New players entering the market will bring new types of contracts, new products, new services and new technologies
- Clear and transparent rules in case of conflicting targets and roles will be needed. Neutrality will continue to be a challenge
- Community groups
- Communication difficulties, time delay and even cost overrun may come up
- Data protection and cybersecurity are priority topics to be secure
- Costs of securing security of supply increase with the complexity of the electricity system
- Costs of information exchange increases operational costs and need to be taken into account in regulation
- To ensure a high quality customer service (e.g. grid connection, metering) the contact between DSO and the customer is of great importance. See comments to Principle 1 in Q 1.

3. Do you agree with the proposed logical framework? Are there other important questions which should be included in the framework?

Х	AGREE
	DISAGREE

COMMENTS

We agree, in general, with the proposed framework. We would emphasize the need to include also all current activities and not only the new ones.

As stated correctly by CEER market models differ significantly in Member States and there is "no one size fits all model for the regulation of DSOs" (page 5 and 10). Therefore national legislation should be defining which activities - and under which circumstances and conditions these activities - can be conducted by DSOs.

As we have said the DSOs' core activity is to ensure grid stability (see Q 1). Therefore we would like to add to the suggested framework the following questions:

- a) Does the activity influence the operation of the grid? If this is the case, the DSO has to be involved in the activity. It has to be guaranteed that a service operated by any market participant does not harm grid stability. The principle of grid stability must have the highest priority.
- b) Every new activity which is carried out using the infrastructure the DSO is responsible for needs coordination and increases fixed costs as well as risks in terms of technical management issues. Therefore the criteria of "the potential for competition" becomes too narrow and should not be the only one used for determining which new activities are being carried out by DSOs. Other criteria also to be taken into account are :
- What new complexity is created by the new activity?
- Which overall benefit will be the outcome of new activities?
- Who benefits from the new activity?

In case there's no clear benefit for the competition, the new task should be allocated to the DSO whose economic actions are submitted to close monitoring by the regulator.

4. Do you agree with the proposed assessment of activities and are there any additional grey areas for DSOs other than those considered?

X	AGREE
	DISAGREE

COMMENTS

We agree in general but would like to add the following comments on a number of activities:

A1 activities related to the energy network infrastructure / A2 system security: The DSOs' tasks go beyond system security and as said before, DSOs ensure the reliability and stability of the system while facilitating the commercial activities of other market actors - and above all the safeguarding of the customers' interests. Voltage control, reactive power management and interacting with active users are missing in these activities.

According to current text of RfG Network Code to be adopted during this year, the DSO has to carry out compliance monitoring of the different generation units connected to its grid. This is going to be a comprehensive and costly new task for the DSO. We suggest including this new task into the CEER paper.

DSOs must without any restriction be allowed to use information from the Smart Meters in order to fulfil their regulated duties such as system stability and billing. Being a regulated entity with no commercial interest in consumers' data the DSO is in most Member States best positioned to be market facilitator (owning the data hub), managing and storing grid data while providing third-parties non-discriminatory access to customer data. At the same time, DSOs can ensure data privacy for the consumer, which is an essential safeguard for consumers and will enable consumer trust. Meter data should be provided to other market actors only when authorised by the customer.

The DSO's priority access to relevant flexibility services is crucial to fulfil its core tasks as the DSO is the responsible party for grid stability and secure grid operation. In all other situations market actors can act freely as long as the distribution grid is not put at risk.

A5 Managing network losses: In the consultation document CEER states that "*NRA's would pay further attention to measures or incentives to reduce network losses*". In this context it's important to be aware that network losses can be roughly estimated by I²*R. In other words, network losses increase with the increasing utilization of an electricity line. As a consequence and in order to reduce network losses it would be beneficial to build additional lines instead of increasing the utilization of the existing ones. The same effect can appear as many generators as possible are connected to a line by using their flexibility. When NRAs are reflecting on incentive schemes the above mentioned effects should be taken into account.

Furthermore, this activity could be included in activity G1 "Improve energy efficiency of the network", as energy efficiency of the network builds upon network losses.

B1 Energy Generation: Where DSOs have PV on their own premises they should be allowed to operate them like any other grid user in order to reduce their self-consumption.

B3 contracting local temporary generation for the sake of continuity of supply: this activity is growing in importance to cope with future grid challenges and in our opinion should be considered as a core activity.

A DSO should be allowed to operate a generation unit for grid stability purposes (e.g. a generator might be a tool to reduce the load on a line and as a consequence has the potential to allow the connection of additional customers and at the same time avoids to build a new line; this might be a solution for single feeders in valleys). A well placed decentralized generator can be a vital tool respectively puzzle-stone of a smart grid. The idea is to have this option if in case of a market failure there are no adequate flexibility services available.

B4 beyond the meter activities for gas emergencies: we suggest rewriting the assessment of CEER regarding this activity in more general terms as for gas issues, some DSOs are obliged to undertake services beyond the meter and this also under "normal" circumstances, e.g. the periodic check-up of the boiler or the house installations.

It's also important to add that if another party than the DSO is responsible for the reconnection of customers it has to be guaranteed that the DSO is informed in due time.

B5 Last resort supply activity: The DSO should not have any role in selling electricity, not even as a supplier of last resort (this is also the principle in some Member States).

C1: Relationship with retail suppliers: DSOs require a relationship with all kind of customers in grid related issues. In this regard, DSOs should be the main point of contact for customers as this might be necessary to be in line with principle 1 (*"The DSO must run its business in a way which reflects the reasonable expectations of network users and other stakeholders"*). Also direct relationship of DSOs with network users which are able to offer flexibility services that help to cope with local critical network conditions (e.g. overvoltage) will be vital for dealing with future challenges.

C2 Revenue protection action performed on suppliers' request: This should be categorized as a core activity of DSOs as far as this activity consists mainly of actions related to other core activities like F1 (owning and managing the metering equipment) – in those countries where the DSO is responsible for metering which is the case in most Member States - and (A1) Activities related to the (efficient) energy network infrastructure. Moreover, there is not much potential for competition.

D1 Local dispatching of local resources: This activity should be allowed for DSOs as core activity as distributed energy resources and demand side flexibility will grow in importance to cope with future challenges, and the DSO will become a local system operator.

D2 Storage: it is of essential importance already nowadays and even more so in the future that DSOs should be allowed to use and operate storage in order to fulfill its core activities and to guarantee the security of supply.

E 1 & 2 activities related to infrastructure provision for electric/gas vehicles: DSOs should not be prevented from owning charging stations but not operate them.

Nevertheless EV charging, especially fast-charging, has strong impacts on the conditions of the electricity grid and in addition to the already mentioned possible measures (new lines, reinforcement, monitoring, incentives) it should be possible for the DSO to get access to the flexibility of the charging stations to avoid overloading the electricity grid. Smart charging in combination with "flexible grid access" (see EC EG3 report on flexibility) might be a measure to avoid unnecessary grid investments and save grid connection costs and grid usage fees for the customer. When introducing innovation and or a new technology in the grid, the highest priority must be to maintain its stability and the security of supply.

F1 owning and managing metering equipment F2 where metering activities are carried out by separate, independent meter operators: It is important to notice that the main difference between F1 and F2 should not be ownership, but metering responsibility assigned in legislation. If DSOs e.g. are leasing metering infrastructure while having the legal responsibility over it, it should be F1 and not F2.

G3 Providing advanced devices and added-value services for energy efficiency: The activity described as G3 needs further clarification. DSOs should be allowed to provide customers with information in a non-discriminatory way, e.g. providing hourly consumption data is a current mandatory DSO online service offered to customers in Finland.

Also energy efficiency agreements and other national energy efficiency measures currently apply to DSOs. This principle has been seen as effective and shouldn't be changed. According to the Energy Efficiency Directive, Article 7 Member States need to implement an energy efficiency obligation to either distributors or retailers or both (e.g. in Denmark the DSO is the responsible party).

H1 offering services to telecom companies: When operating electricity grids, high security levels are necessary to guarantee a secure and stable grid operation and it is of utmost importance to avoid non-authorized access of third parties to the DSO grid to prevent cyber-attacks. An adequate solution could be a closed dedicated communication infrastructure only for grid operation purposes. About synergies with telecom sector they should be left to the market and DSOs have to have the decision power within their responsibility area about ICT solutions and cooperation partners. Any decision in that respect should not limit the freedom of choice for DSOs.

5. For activities falling in category II and III, under which regulatory conditions could DSO intervention be allowed?

Category II: Allowed under conditions (no potential competition)

Category III: Allowed under conditions (potential competition, but special reason justifying DSO participation)



Figure 1 - Logical Framework for DSO Activities

COMMENTS

In our view, the legal unbundling rules as stated in the Third Energy Package for DSOs set the right regulatory conditions for the activities falling into categories II and III. In addition, DSOs are submitted to close supervision and monitoring by NRAs. These measures guarantee a level-playing field for market actors and bring DSOs into the best position to fulfil their responsibility for grid stability.

European and/or national regulatory conditions must not prevent DSOs from fulfilling their core task – guaranteeing network stability. Therefore DSOs should be allowed to manage constraints resulting from the activation of flexibility by DR parties in real-time or close to real-time by procuring flexibility services or modifying any expected activation of flexibility.

6. Do you agree with the assessment of DSO access to data and data management?

Х	AGREE
	DISAGREE

COMMENTS

Current legal unbundling rules provided by the Third Energy Package are an appropriate framework for the DSO to act as data hub, if strictly implemented.

Ownership unbundling is not the best solution to achieve CEER's objectives. As a neutral and regulated entity with no commercial interest in consumers' data, the DSO is best positioned to be the market facilitator (data hub) for managing and gathering grid data while providing third-parties a non-discriminatory access to customer data.

We disagree with the definition of commercial and technical data as made by CEER. It is problematic how technical and commercial data are divided, as data can sometimes have both, a technical and a commercial purpose. Technical data can easily become commercial data if the market changes. Depending on national market models, DSOs may require also customer specific consumption data to fulfill their duties (e.g. formulation of bills or solving electricity quality issues).

The DSO's access to metering data is essential in order to optimize the operation and planning of the distribution network- the DSO's core activities. For instance, individual customer data is used in network planning and fault repair whereas metering data enables monitoring status, load and voltage in the distribution network. Therefore, the restrictions in accessing advanced meter readings are a barrier for the DSO to fulfill its tasks.

If the DSO's ability to use Smart Metering and other available data is too limited, many of the possible benefits of the Smart Meter roll-out cannot be utilized. This is not in the best interest of the customer and will hamper the development of smart grids. Of course the DSO has - as a regulated entity - to ensure that customer data is handled in line with data privacy requirements.

7. Risks of DSOs participating in "grey areas":

Do you agree that the risk of DSOs participating in some of the 'grey areas' (particularly flexibility and DSR) decreases the more separated a DSO's operational activities are from other competitive activities carried out by other companies within the same vertically integrated group?

"Grey areas" as defined in page 11 of the consultation document:

• Category II. Activity allowed under conditions (no potential competition)

- Category III. Activity allowed under conditions (potential competition, but special reason justifying DSO participation)
- Category IV. Activity not allowed (potential competition and no special reason justifying DSO participation)

	AGREE
Χ	DISAGREE

COMMENTS

The grey areas defined by CEER should be as limited as possible. We believe that the risk is already minimized by effective implementation of the Third Energy Package, an appropriate framework for the DSO to fulfill its task as market facilitator and to take over new responsibilities like proposed in the consultation paper.

As said before, we do not believe that ownership unbundling is the best solution. Regulatory measures have to be proportional and adequate as every change of the regulatory framework leads to additional costs. Regulatory changes also increase the risk of a lack of investments in a sector which requires substantial investment in order to meet the decarbonisation targets.

8. Do you agree with first considerations on the de-minimis threshold?

	AGREE
Χ	DISAGREE

COMMENTS

GEODE fully disagrees with CEER's opinion on the de-minimis threshold. Neither ownership unbundling nor a revision of the unbundling exemption (review of the minimis limit) for those DSOs with less than 100.000 customers is required. There is no evidence that such actions will bring a consequential increase in energy market competition and/or any customer benefits.

With regard to small DSOs that benefit from the exemption of unbundling provisions, their activities are already strictly monitored by regulatory authorities, in a way preventing DSOs from taking advantage of their vertical integration under the Electricity and Gas Directives. Any infringement of the legislation is penalised. Many small companies are, due to their small size, able to work efficiently, in a cost-saving and very customer-focused way. Thanks to their local dimension they have a much closer relationship with the customer, which in a customer-centric model as is supported by CEER should be prioritised.

For these companies stricter unbundling would - when imposing in particular functional unbundling obligations - represent a loss of synergies in terms of human resources and management. This will lead to higher costs for small companies which must be paid for by the customer, or, in addition to this, it could make the company no longer economically viable, thereby reducing competition in the energy market.

Stricter unbundling could also introduce disadvantages that do not exist now. There is no proof that non-unbundled small energy companies are hampering other market actors or that they are in a worse position to meet the criteria for providing flexibility services to the market. Companies making use of synergies should be supported. Furthermore, the market share of DSOs falling under the threshold of 100.000 customers is around 2% to 5% in respective countries – this does not actually pose any threat to market competition!

9.

a. Do you consider all the activities and topics described in this Chapter as relevant to further defining a regulatory framework for DSO-TSO relationship and responsibilities?

Х	YES
	NO

COMMENTS

Yes, the chapter comprehensively describes the relevant activities and topics existing in the DSO-TSO interface. We appreciate that the need for more coordination between DSOs and TSOs in procurement of system services as well as in operation matters is acknowledged. There is a need to define roles and activities of the TSO-DSO relationship.

b. Are any activities or topics missing in the DSO-TSO relationship discussion?

	YES
Х	NO

COMMENTS

10.

Do you agree with the description of the activities and topics in this Chapter? If not, what is your view on your specific activity or topic that is relevant for the DSO-TSO relationship?

X	AGREE
	DISAGREE

COMMENTS

First of all, we would like to state that DSOs are already today actively managing their grid, acting in a transparent and non-discriminatory manner in offering connection terms to customers and providing forecasts for the TSO.

Furthermore we would like to make the following clarifications:

- It is of utmost importance that transparency between DSO and TSO works both ways.
- In real-time grid operation the connection point (legal ownership point) between DSOs and TSOs is the key. All parties have to be aware of what happens in this point and what the operational requirements are at this point and, how one party's actions affect this point. This can be dealt within the connection agreement between DSO and TSO.
- A balance needs to be found between necessary new obligations and overloading DSOs with new information gathering/sharing tasks etc. This requires national considerations, because the right balance depends highly on national situation.
- Activities and topics described in this chapter differ between Member States and therefore national specificities must be taken into account (voltage levels, communication systems...).

11.

Do you agree with the statement that further regulatory guidelines may be required (in addition to current Network Codes) and if so, which regulatory guidelines do you consider necessary?

	AGREE
Х	DISAGREE

COMMENTS

General provisions, mainly in the EU Network Codes that are being drafted or about to be adopted, are sufficient. We do not see any need for additional regulatory guidelines or more network codes.

Additional regulation may need to be developed at national level between the TSO(s) and DSOs taking into account national situations. European guidelines should focus on cross-border issues.

In addition to that we would like to state that DSOs have to be involved from the early beginning in the drafting or evaluation process of Network Codes, together with ENTSOE. DSOs are often strongly affected by rules and obligations written in the Codes.

12.

a. What, if any, are the particular or incremental risks attached to innovative and non-conventional investments? Do these warrant special recognition by NRAs?

COMMENTS

DSOs face the regulatory risk of long-term investments (innovative or conventional) being disallowed by regulators due to changing policies at national and EU level. An additional risk is the technological risk (high failure risk of new unproven technology). For instance, the roll-out of Smart Metering constitutes not only a regulatory risk (uncertainty of operative cost recovery), but also a technological risk in the investment needed for this new and unproven technology. In particular the higher penetration of IT will lead to shorter lifetimes of assets - compared to conventional investment (e.g. smart meter compared to conventional meters).

Taking this into account regulators either need to provide specific funding for research and trials (to reduce the risk to the DSO) or greater rewards within the regulatory framework to offset the risks which it asks DSOs to take.

b. To which extent, if any, is this incremental risk borne by DSOs?

COMMENTS

This incremental risk is borne by DSOs to a large extent. DSOs are facing today major challenges considering that the majority of innovative investments are done in the distribution grid (smart metering, integration of decentralized RES or Electrical Vehicles, Demand Side Management/Response, etc). NRAs shall bear in mind the additional risks borne by DSOs today and in the near future, in order to assure that the stability of the grid as well as the security and quality of supply is maintained.

Often R&D projects mainly consist of personal costs, so R&D increases the OPEX of DSOs whereas the incentive regulation schemes are forcing the reduction of OPEX. To this end R&D&D expenditure should be considered as "pass-through-costs" up to an adequate percentage of the revenues of the grid operators to allow DSOs to take an active role in the development towards smart grids.

E.g. The GB regulator Ofgem has established something similar to this called the Network Innovation Competition and Network Innovation allowance¹.

13.

a. Does the conventional focus on rate of return regulation on capital expenditure, and in some cases limited pass through of OPEX, have the effect of discouraging certain smart grid investments?

COMMENTS

In the mode splitting the total expenditure between OPEX and CAPEX (e.g. Austrian model), CAPEX investments in smart grid are covered (with the associated regulatory and technological risk, as indicated in reply to question 12). However, the recovery of costs for the additional OPEX expenses incurred by smart grid is in several cases uncovered. In general, incentive based regulation models do not allow for increasing OPEX but rather set incentives to reduce OPEX. Therefore, we believe that this could have the effect of discouraging certain smart grid investments.

We would like to outline that not only investments in smart grid infrastructure are needed but also investments to replace conventional grid components that are coming to the end of lifetime (transformers, cables, etc.) and grid extensions (e.g. to connect new customers) which are the backbone of the distribution grid. The current regulatory framework has to allow DSOs to undertake all needed investments, both innovative and conventional ones.

Regulation models have to take into account that only new investments can be influenced by DSOs.

b. What alternative approaches help incentivize DSOs to adopt smart grids?

COMMENTS

- Those smart grid investments of which the lifetime is unclear should be allowed to be assigned a shorter theoretical life time.
- Regulation should include a special innovation incentive not only on the CAPEX side (return on investment) but also on the OPEX side. Real operative costs shall be taken into account, including additional employee costs and the necessary R&D work, among others, to adopt such smart grids.

¹ The detail of these schemes can be found on Ofgem's website: <u>https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation</u>

- Removing R&D costs of grid operators from efficiency targets as imposed by regulation, thereby encouraging grid operator to innovate.
- Regulatory incentives such as an innovation fund to support both small R&D and larger demonstration projects should be supported.
- Higher return on investments and a risk adjusted depreciation period for projects with significant investment and business risk.
- R&D expenditures are considered as "pass-through-costs" up to an adequate percentage of the revenues of the grid operators.

14.

CEER would welcome views from stakeholders on the pros and cons of output based incentives. Please also define for which regulatory incentives they might be appropriate.

COMMENTS

We agree that output based incentives regulation measured by suitable criteria could be an adequate regulatory incentive, but incentive schemes shall not be limited to be output-based only.

Output-based regulation is often implemented with a penalty/reward approach. From our point of view there should be an appropriate balance to allow DSOs to finance their activities.

Nevertheless output-based regulation is not an adequate measure to incentivize R&D&D. It may need additional innovation funding schemes.

It is of key importance that the DSO has a high degree of controllability of the considered output parameters and be able to achieve the objectives and output levels set. It is relevant that NRAs consult DSOs on the practicability, the reachability, the linked effort and eventually to assess additional costs on the output parameters set by regulators.

15.

Do you agree that to allow timely recovery of DSO revenues, assumptions on consumption patterns in tariff models could be updated within price control periods?

X	AGREE
	DISAGREE

COMMENTS

See below in red GEODE remarks on CEER table 1 (page 33):

Illustrative example tariff	Description	Strength of economic signal to consumers regarding cost reflectivity of grid tariffs	Certainty of recovery for DSOs	Simplicity
Flat rate capacity charge	A fixed € per kVA or kW charge based of capacity a customer uses.	high	high	high
Flat rate consumption charge	A € per kWh flat rate charge	low	medium	high
Consumption based time of use tariff	A variable € per kWh charge which could include a higher price during network peak time	medium	medium	low
Capacity based time of use tariff	A variable € per kVA or kW charge which would include a higher price during network peak time	high	high	low

- We suggest adding a fifth column including the criteria "simplicity" as it is one of the 4 key principles of CEER-BEUC² vision and it is important for the acceptance of customers.
- We suggest enlarging the category "Strength of economic signal to consumers" with the wording "regarding cost reflectivity of grid tariffs".
- We think that category "strength of economic signal to consumers" in choice "flat rate capacity charge" is "High" if properly implemented. This option can lead into long term energy savings as opposed to the time of use options which may lead only into short term savings.
- We think that category "certainty of recovery for DSOs" in choice "flat rate consumption charge" should be "Medium".

² A 2020 Vision for Europe's energy customers Joint Statement

GEODE believes that hybrid solutions on network tariffs - e.g. consisting of capacity power demand (kW) and energy (kWh) components - are a realistic option and should be tackled in the final CEER paper.

The target of the DSO tariff structure development should be to establish a pricing scheme for DSOs that encourages end-users to behave in a way the overall efficiency of the energy system, including generation, transmission and distribution, are maximized - while the total costs to the national economy are minimised. This objective is not met by the current energy based pricing tariff structures. That's why the power based component has to be included in the tariff structure.

The majority of the costs incurred by DSOs when connecting new demand or generation to their grids are based almost exclusively on the connected peak demand (power connection) as the DSOs' dimension of grid costs is based on capacity/power and not on the energy flow. Capacity based grid tariffs would encourage consumers to reduce their contracted demand. On the other hand this will be more cost reflective and at the same time, will incentivise the shifting of energy use from peak times to hours with lower demand, encouraging the energy system efficiency. Power based tariffs encourage customers to participate in demand response activities and meet demand of the Energy Efficiency Directive.

These tariffs should be cost reflective, easily understandable and transparent. Tariffs structure that are exclusively energy based will in the long-term – in a more and more decentralized energy system – lead to decreasing solidarity. Consumers who have the possibility to produce their own electricity will not contribute to the necessary investment costs for infrastructure. This is a further argument for power-based tariff structure.

16.

How can ToU network tariffs be coordinated with system energy prices?

Ideally ToU tariffs and system energy prices are independent signals. This should be left to the market, where possible.

From our point of view a pricing structure with time of use pricing in retail prices (by supplier) and power based network tariffs (by DSO) could provide the end-user with the proper cost reflectiveness of the electricity market and network charges.

It should be noted that there are also market models where DSOs are sending separate bills for network charges and market models where DSO formulates the bill before the supplier forwards it to the customer in a transparent way. Thus, the statement on page 34 "*In all circumstances, this tariff would be billed to the supplier who must then decide how it reflects this in the end bill to the customer*", is not correct and should be deleted or reformulated.

17.

a. Are there circumstances under which suppliers should be required to pass through the distribution tariff signal to customers?

Х	YES
	NO

COMMENTS

We strongly favor any increased transparency that allows consumers to have a better understanding of what is included in the bill, as a necessary mean to raise customers' awareness on what they are paying for.

Regardless of the market model in place, the customer should be able to see how his electricity bill is composed. In case the supplier bills the customer, the bill should clearly state the supply price, the network tariff, and taxes, levies and other governmental fees. In case the customer gets separate bills for energy and network usage, each of the bills (the supplier's bill and the DSO bill) should clearly state separately the mentioned concepts. These key components will provide transparency and allow the customer to properly compare current retail prices.

b. If you answered yes to 17a, should there be regulation to ensure this happens?

X	YES
	NO

COMMENTS

In case there is evidence these tariffs could benefit customers and save costs for DSOs and suppliers are un-passing it through, regulation may be needed.

Do you agree with the assessment of different cases when DSOs or other parties should have contracts or agreements with consumers and distributed generators?

	1.Connection Agreement DSO-Customer			2. Additional and commercial DSR contract DSO-Customer			3. Additional and	4. Additional and
	Domestic Customer	Commercial and Industrial Customer	Distributed Generation Customer	Domestic Customer	Commer- cial and Industrial Customer	Distributed Generation Customer	commercial DSR contract with customer via aggregator	commercial DSR contract with customer via supplier
a. Static Time of Use	I	l or ll	I	III* or IV	Ш	Ш	Ш	Ш
b. Dynamic pricing	ш	l or ll	Ш	III* or IV	ш	ш	Ш	Ш
c. Fixed load capping	III or IV	l or ll	Ш	III* or IV	III* or I∨	ш	Ш	Ш
d. Dynamic load capping	III or IV	l or ll	Ш	III* or IV	III* or I∨	Ш	Ш	Ш
e. Direct load control	III or IV	l or ll	Ш	III* or IV	III* or I∨	Ш	ш	Ш

* Only in Member States where DSOs do not carry out data management activities.

Categories of DSO activities:

"Core areas"

I. Core activity

"Grey areas"

II. Activity allowed under conditions (no potential competition)
III. Activity allowed under conditions (potential competition, but special reason justifying DSO participation)
IV. Activity not allowed (potential competition and no special reason justifying DSO participation)

"Forbidden"

V. Activity forbidden (existing activity where competition exists)

	AGREE
Χ	DISAGREE

18.

COMMENTS

• The analysis varies a lot from country to country, depending on the market model while CEER is proposing one model.

See below our comments on CEER Table 2 (page 37)

- For a country like Finland where customers have separate connection agreements (between owner of building and DSO) and network service agreements (between electricity user and DSO), this table does not apply nor assess the situation.
- Most of the contracts described in the table seem to be not applicable in Austria either. In Austria, DSO are in charge and responsible of its grid stability (technical and commercial) and consumers have direct contracts with the DSO.

Therefore:

- We disagree with the DSO activity being IV (not allowed) in cases "c", "d" and "e".
- We disagree with the classification in the table of cases considered as DSO Activity III (allowed, but potential for competition) and IV (not allowed). These cases shall be I or II, as DSO should also have the right to set contracts with consumers and producers.
- In column 2 "Additional and commercial DSR contract DSO-Customer", the correct category for all cells is III, also in countries where DSOs are responsible for data management if seen suitable for the national market model.

Particular comments on the contractual DSR relationships for a DSO:

DSOs should procure commercial DSR services in a transparent and non-discriminatory way, through market agents such as suppliers or aggregators or DIRECTLY with customers (e.g. via grid connection agreements). There is no need to make a difference between the contract with an aggregator / DSO / supplier; in this case, they all act as DSR providers.

In that respect GEODE supports direct contracts between DSOs and customers to procure flexibility services as an appropriate management tool, due to the local dimension of DSOs' requirements and the need for priority access to flexibility services when the distribution grid is put at risk.

For grid operation purposes, it is essential to take the spatial location of grid users into account, namely the location of grid users within the area of a specific primary or secondary substation and/or the connection to a specific power line etc. For example, when having an over voltage problem or congestion on a low voltage line, only the customers connected to this line can offer an adequate flexibility service to solve this problem. As a consequence, only a very limited number of grid users can actually help the DSO to solve local problems on its grid.

We see it as problematic that CEER suggests the option that the "DSO should be able to procure DSR from these customers via the connection agreement, particularly if it helps reduce the connection

cost or time to connect for the customer" (page 35), since depending on the market model, the connection agreement with the customer is not necessarily the same party living/using the building/consumption site (e.g. owner vs. tenant). This could probably be done only by agreeing on a smaller main fuse (peak power limit) in the connection agreement.

We disagree with CEER's statement that "domestic customers are unlikely to know who their DSO is" (page 36). We do believe that also domestic customers are aware of their DSO, especially in local and rural areas and in those countries where customers still receive two bills - one from the DSO and one from the supplier.

Furthermore we would like to outline that since many actions related to home automation could also be performed via Smart Meters, the DSO would have a role in providing this automation infrastructure via the meters whenever the DSO is responsible for meter operation.

19.

Which type of regulatory controls should be adopted by NRAs for DSOs, in cases of contractual arrangements falling under categories II and III?

COMMENTS

Proper implementation of existing EU legislation (Second and Third Energy Packages) is essential in order to allow DSOs to contract for DSR. Overregulation should be avoided for not to put in place additional barriers to innovation.