

GEODE KEY MESSAGES ON DSOs' NETWORK TARIFF DESIGN



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- ◆ Network tariffs are developed at national level and their structure differs widely across European countries, reflecting local and/or national grid conditions and customer needs.
- ◆ Tariffs should be developed according to the following principles:
 - Cost reflectiveness – driving efficient use of the network.
 - Fairness to customers – avoiding discrimination.
 - Market development – avoiding conflicts with retail pricing and reflecting the development of new market services (e.g. demand response).
 - Energy efficiency – promoting, supporting and contributing to overall system efficiency.
- ◆ Transforming the electricity grid for the future requires innovation as well as capital investments which should be reflected in regulatory frameworks.
 - Regulation should allow efficient DSOs to have a reasonable return on investments.
 - DSOs have to be allowed to finance R&D projects through tariffs.
 - Investments in innovation with higher risk and lower asset lives may need to be taken account of in the regulatory framework, e.g. higher return and adjusted depreciation.
- ◆ Tariff structures should be cost-reflective, thus reflecting the real costs of the network company.
- ◆ Tariff structures should contribute to future developments in grids, incentivising DSOs to integrate new technology into the grid that benefits the energy system.
 - It should be possible to establish tariff structures for demand side response and other “smart grid” related topics which support the network usability and optimise network development.
 - Investments in cyber-security should be promoted as it is crucial that grids are protected from this threat.
- ◆ A combination of more capacity based grid tariffs¹ and energy based supply pricing provides customers with incentives to optimise their consumption and production while contributing to the efficiency of the whole energy system.
 - More capacity based pricing is a fair tariff system for customers as it is cost reflective.
 - It encourages customers to participate in demand response activities.
 - It enables customers to minimise distribution costs by optimising the capacity needed.
 - It meets the demands of the Energy Efficiency Directive (2012/27/EU).

- ◆ Network tariff structures must promote new business models that can engage customers to provide services to support the operation of the network.
 - In general, grid costs should be shared among network users based on each individual's contribution to the infrastructure's costs, including customers with self-generation.
 - Contracts between DSOs and customers/prosumers should be allowed, guaranteeing them better tariffs, in exchange for occasional and limited curtailment / grid disconnection / activation of storage.
 - Customers should be rewarded for changing their consumption in response to signals.
- ◆ Access to metering data enables DSOs to develop better designed network tariffs and fair billing.
- ◆ Dynamic tariffs can offer incentives for customers to shift consumption away from peak times and allow DSOs operate their grids more efficiently. However, such tariffs face a number of challenges. These include:
 - Predictability – it is not always possible to predict the generation from renewable energy sources, in particular wind and solar. This would make offering dynamic tariffs unpredictable as well.
 - How to notify parties – DSOs have to react quickly to varying energy generation from renewables. This makes it challenging to notify consumers in time for them to react to dynamic and/or varying tariffs.
 - Consumers' level of response – it is not certain to what extent consumers would react to dynamic tariffs given the relatively low amount of possible monetary savings. This makes it very difficult to use dynamic tariffs as an alternative to network investment.
- ◆ Methodology decisions on grid tariffs by NRAs should be stable. Changing rules within regulatory periods should be kept to a minimum.

¹ **Volumetric tariffs** charge consumers on the basis of the total volume of energy a consumer withdraws from, or feeds into, the grid. The measuring unit is watt per hour (Wh, KWh, MWh).

Capacity tariffs are based on the maximum amount of energy withdrawal potential (and in some cases feed-in) at a connection point at any one time. The measuring unit is the watt (W).



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