

GEODE Position Paper Electricity Market Design Reform

Introduction

GEODE – the voice of local energy distributors across Europe – believes the revision of the Electricity Market Design provides a great opportunity to further **strengthen electricity distribution networks**, indispensable to achieve the EU’s decarbonisation objectives. By enabling the integration of an increasing amount of Distributed Energy Resources (DERs), distribution grids will play a crucial role in ensuring the much-needed transformation of the EU’s energy system.

In this short paper – which builds on [our response](#) to the European Commission’s public consultation – we would like to shed light on how the electricity market reform can **make grids fit for the energy transformation** Europe is undertaking.

To this end, GEODE would like to put forward the following recommendations.

Accelerating deployment of renewables

The deployment of renewables can be facilitated through **accelerated permitting procedures** for new grid capacity and infrastructure, **simplified authorisation processes**, and a shortened duration of the different administrative steps involved. Enforcing the measures to accelerate permitting agreed by the Council in December 2022¹ and aligning them with the ones included in the REPowerEU’s amendment to the Renewable Energy Directive is essential.

Other measures include the **promotion of non-firm connection agreements** of renewables with new and existing installations. This would allow network operators to connect a significantly higher amount of renewables as opposed to firm connection agreements (where connecting RES should be enabled to produce with full capacity in any given hour) which in practice limit the ability of network operators to ensure grid connection.

Investments in network infrastructure

Ensuring adequate investments in network infrastructure is essential to decarbonise and transform the EU electricity system. To this end, it is important to support a holistic approach towards investments, including the **physical expansion and maintenance of the grid, the procurement of flexibility services and digitalisation**. The latter must be considered as a relevant investment voice as the transformation towards a distributed system will require smarter networks.

An enabling and proactive framework for investments – anticipating the upcoming needs, volumes and loads (e.g. EVs, heat pumps) – can be ensured considering the following elements:

¹ [Council Regulation \(EU\) 2022/2577 of 22 December 2022 laying down a framework to accelerate the deployment of renewable energy](#)

- **Regulatory certainty** based on a certain, clear, and stable regulatory model allowing DSOs sufficient economic return (WACC) to make investments on first place, having a sustainable flow of revenues in return.
- **Easier and faster permitting procedures** to reinforce and expand grids.
- Support **capacity-based network tariffs** to better reflect the costs of grid operations, maintenance, and investments. This tariff structure provides customers with incentives to optimise their consumption and production, encouraging them to participate in demand response while improving the overall efficiency of the system.

Enabling demand response & flexibility assets

The development of demand side response is in principle best supported through a **market approach** based on clear and undistorted price signals which can incentivise investments in flexibility assets. To accelerate flexibility assets development, the Electricity Market Reform is a golden opportunity to amend the existing regime for storage installations and **allow DSOs to use, own and operate storage assets for grid related purposes in a grid system manner**. This has shown to be necessary especially for networks located in less populated areas where attracting private investments is more complicated. This would help DSOs to manage their grids more flexibly for the benefit of the entire system.

Beyond that, the following additional measures can further support the development of flexibility assets:

- **Support capacity markets** by paying generators and other providers to make capacity available to the grid.
- **Promote ancillary services and balancing markets** by compensating service providers such as frequency, spinning reserves, and black start capabilities.
- **Strengthen interoperability and standardization** by ensuring that different flexibility assets can communicate and work together, and that there are common standards for data exchange. This can be ensured in the upcoming Network Code on demand response and implementing act on data interoperability and data access.
- **Foster time-of-use pricing** as this would encourage consumers to shift their energy consumption to times when energy is less expensive and less in demand, reducing peak demand and increasing the value of flexibility.

Network operators' remuneration

Another key area to consider for the overall improvement of the energy system and the development of flexibility assets is **network operator's remuneration**. In this regard, it is important to strengthen **the role of OPEX**. The latter provides an incentive for system operators to use flexibility assets - like demand response, energy storage, EVs - to reduce their overall costs and increase efficiency, rather than relying solely on traditional generation assets. Additionally, it could allow the system operators to better manage the balancing of the grid, and to reduce or mitigate investments reducing the overall costs of providing grid services.

Overall, OPEX and CAPEX must be balanced in the DSO remuneration regulatory framework, giving DSOs freedom to choose the best solution (CAPEX / OPEX) for the effective operation of the grid and providing the right incentives to the DSO for an optimal balance between investments on conventional assets, IT and digital tools and flexibility services. In a current framework of innovative operational expenditure, OPEX solutions create value for the use of flexibility services, demand response, integration of decentralised generation, storage, EVs charging infrastructure, and energy efficiency solutions.

Submetering data for settlement/billing and observability

The use of data generated by submeters is another topic raised in the current debate. In this regard, GEODE would like to stress that **if submetering data is used for settlement and billing, DSOs must be designated as the responsible party**. In addition, submeters should be standardized, certified and interoperable, so that its data can be read by more parties than just the manufacturers. All the details on the submeters' features should be defined in the upcoming network code on Demand Response, and not in the Electricity Market Design reform.

Consumer empowerment and protection

As a principle, GEODE welcomes adjustments to the existing regulatory framework which can further improve consumer empowerment and protection, especially in these times of crisis. At the same time, attention must be paid to the overall functioning of the system.

GEODE would like to share observations on some of the potential measures considered by the European Commission in the public consultation:

- **Customers' right to deduct onsite generation from their metered consumption.** While we consider digitalization as a key enabler for consumer empowerment, it is recommended that - given the novelty and the challenges related to data management and grid capacity - **this type of provision should be implemented gradually**. A first step could be to geographically limit this opportunity to certain sites within small local areas, for example within the same DSO's network area, where there will not be any problems with data sharing and the allocation of consumption (opposite to „off-site“). It is indeed necessary to consider the potentially negative incentives that such provision could create, especially in relation to an excessive installation of renewables compared to the grid capacity in a specific area.
- **Right for customers to a second meter/sub-meter on their premises to distinguish the electricity consumed or produced by different devices.** Before introducing it, some preconditions must apply. **The main meter should remain the central point of measurement.** A second meter/sub-meter shall only be allowed to customers connected to the public/main grid (i.e. owned/operated by certified DSOs). This possibility should not apply to customers connected to a private grid as it would be technically not feasible for DSOs to meter their consumption.

In addition, their **roll out shall be cost-efficient** and the related costs shall be borne by the customers. This second sub-meter could not be finance via grid fees, as it would be very expensive with limited benefits for small customers.

From a technical standpoint, each meter must be calibrated and comply with the relevant calibration regulations. Furthermore, each meter must comply with the technical specifications and quality criteria of the DSO, and communication with the DSO must be ensured to guarantee interoperability.

Conclusion

As outlined in the points above, GEODE considers the Electricity Market Design reform as an opportunity to further optimize the functioning of the EU's electricity markets and strengthen the role of networks, the indispensable element for the successful transformation and decarbonization of the EU's energy system.

February 2023