

Investments in distribution networks: A decisive element of the planned Electricity Market Reform

Brussels, 15 March 2023 - EU associations representing Distribution System Operators (DSOs) are calling on European policy makers to adequately reflect the need for investments in distribution grids' infrastructure in the ongoing reform of the Electricity Market Design.

On March 14, the European Commission unveiled its proposal to revise the Electricity Market Design (EMD). The undersigned associations – representing DSOs in Europe – consider this reform as a **unique opportunity to acknowledge the crucial role of distribution networks in EU legislation in an appropriate and sustainable way. The energy transition takes place in distribution grids which are facing** an increasing penetration of renewables, flexibility assets and new loads.

In this spirit, we welcome the Commission's amendments, acknowledging the importance of anticipatory grid investments, including flexibility resources and flexible connection agreements.

However, a quick upgrading and reinforcement of the grid infrastructure is required if the ambitious EU decarbonisation objectives – set by the Fit for 55 Package and REpowerEU – are to be achieved, and a more prominent role should be assigned to DSOs. This includes a clear mandate which entitles them to adjust, upgrade and expand the grids – a fundamental prerequisite for the envisioned transformation of the energy system and to ensure security of supply.

Against this background, the presented reform should **more clearly support timely and efficient investments in network infrastructures, intended as the physical expansion and maintenance of the grid, its voltage stability to ensure quality of service as well as the procurement of emerging network technologies and assets, flexibility services, automation, and digitalisation.** The latter must be considered as an indispensable investment target as the distribution system will depend on smart services and access to greater amounts of data to be able to cope with new technologies and an increasingly decentralised and complex environment.

National regulatory barriers for upgrading electricity grids and permitting procedures should be removed, while ensuring stable and clear regulatory frameworks providing visibility on returns for such investments. In this context, we support a **stronger role for OPEX in the system operators' remuneration schemes to set the right incentive** to increase their investments in flexibility – such as demand response, energy storage and EVs. It will help to reduce overall costs and increase the efficiency of grid operations considerably, while at the same time preventing to rely solely on traditional generation assets. Therefore, **EU legislation should enable investments decisions, by finding the optimal balance between grid investments and flexibility use.** Focus and incentives for investments should also be on the functionality of the system and the added social economic value, where DSOs can provide innovative and digital solutions, in combination with the “most valuable network investments”. This should also include storage for grid purposes, also allowing a forward-looking assessment of the intrinsic societal and techno-industrial value of the investments implemented.

Building on the Commission's proposal, we urge EU co-legislators to further strengthen the role of distribution networks in the Electricity Market Design reform. The major DSO representations remain available to cooperate with all involved parties in the next steps of the legislative process.