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## **ERDF's response to ACER's public consultation on « European Energy Regulation: A bridge to 2025 »**

Electricité Réseau Distribution France (ERDF) welcomes the opportunity to respond to ACER's public consultation on its proposed work program for a new regulation towards 2025 and is pleased to provide with views on the consultation document from a DSO perspective.

**ERDF favors a “customer centric” approach of energy policy.** Facing 250 million customers in Europe, investing 400 billion € by 2020, the 2400 DSOs will play a key role facilitating transition toward a more diverse electricity world, which remains secure, affordable and environmentally friendly.

In the transformation of the energy system, DSOs are in most EU countries best placed for managing detailed data and ensuring data privacy. Moreover, they can contribute to improving consumer awareness via targeted communication to customers on network-related issues. The DSO has to be clearly identified contact point in order to guarantee the quality, metering accuracy and performance of the electricity delivered.

This is why ERDF recommends:

- To consolidate neutral and regulated DSOs active role as a system manager
- To give DSOs the possibility to use the new local tool of flexibility for its own needs (in order to carry out such truly active system management) in coordination with TSOs
- To integrate in future market rules not only issues such as energy adequacy, but also peak power issues at more local levels
- To introduce more capacity-based tariffs allowing distribution users to pay fair and transparent network costs
- To foster research and innovation (and reward risk taking regarding new technologies)
- To improve attractiveness in long term investments in network infrastructure, that ensure a secure, sustainable and reliable electricity supply to Europe' citizens
- To integrate DSOs upfront in coordination process to define future retail market rules.

### **The Priority questions:**

1. **Have we identified correctly the issues and trends within each area of the energy sector?**

**ERDF agrees with this comprehensive approach** including a wide range of regulatory issues such as renewable, smartness, distribution networks, consumer protection and empowerment demand side response and flexibility.

From a DSO perspective, the list of suggested measures is quite exhaustive. Creating and enabling a framework for time-of-use (TOU) and dynamic demand-side-response (DSR) definitely begins with an easy but indispensable step which is an adequate network tariff. **The network tariffs have to reflect the costs structure of networks** and correctly allocate these costs according to the use of the network. More specifically, the capacity related part has to be drastically increased, compared with the energy one.

**More time differentiation on network tariffs should also be encouraged to reflect costs.**

The requirements for infrastructure investment in gas are probably more located on the TSO scale, whereas the requirements for infrastructure in electricity are probably more located on the DSO scale as, for instance in France, roughly 95% of the decentralized renewable generation injects at the DSOs levels of voltage.

**A new regulation should be very careful with new trends such as net-metering for instance as they do not reflect the real cost of the network** (the needed 24/7 availability of network has a cost) and do not encourage instantaneous and permanent synchronization of consumption and generation. An important development of net metering would require incentives that would create value for the power system (such as connection costs that encourage to a good placement of users or a network tariff that reflects the costs induced by the users).

**DSOs should be involved in defining flexibility mechanisms because the solution discussed has a consequence on distribution network.** The need to take into account distribution infrastructure is pivotal since it should be properly fitted to allow a fluid market.

## **2. Have we identified an appropriate regulatory response?**

**Dealing with setting in place the design for a DSR market, ERDF stands for a step by step approach. Maturity, reliability and liquidity of the market are needed first in order to define the best set of rules.**

ERDF suggests also experimenting complementary regional approach, as the DSR market will be the place where local offers can converge in order to solve some local constraints on the distribution grid.

Keeping in mind what has initially been done for the wholesale market, **ERDF recommends to let as a first step, the best practices emerge from all the Smart Grid (SG) demonstrators which are testing different approaches for setting some rules for the new DSR market.** Let us remember that the wholesale market has begun on a regional level and is now converging on an EU-IEM.

In order to be sure to catch the best practices, ERDF considers that the regulators (NRAs, ACER) could do the relevant cost-benefit analysis (CBA) in cooperation with the relevant SG project owners. It will be hazardous for instance to push for close to real time changes in supply and demand without any CBA. Close to real time has to be coherent with the data measurement of the smart meters (from 10 minutes to 30 minutes usually).

The simplest market-based route for flexible tools to participate will be the best one. When DSOs will ask for flexibilities, they will ask either for a forward (for instance seasonal or day ahead) or for an intraday resolution of a capacity problem. Flexibility offers will be rewarded.

**The market will receive the most appropriate signal for the value of flexibility through following tools**, which have to be developed as soon as possible: network tariff structure to be revised (a higher capacity related part); retail TOU and/or Critical Peak Pricing prices to be introduced; the different types of system services to be defined and the relevant payment

for them. Dealing with generation flexibility, a measure could be to use dynamic curtailment for a small amount of energy which could be released from the firm energy contractual part.

Dealing with regulated network tariffs, the NRAs should give impulse to have a structure better reflecting the costs created by consumers connected to DSOs grids and give a higher rate of return for smart investments.

**The DSOs are in a great majority legally unbundled** (those above 100 000 delivery points) and they are monitored by NRAs to ensure non-discriminatory behavior in customer connection to the network and in the field of data handling. **As a consequence of it, DSOs are already neutral actors in the market. Further unbundling would not help flexibility nor would it foster a more efficient data-management system.**

Indeed, unlike commercial actors, DSOs do not need the customers' data to increase sales. ERDF reminds that all data collected are either for grid operation and security of supply, or for market participants, provided that this will not breach data privacy regulation. In this respect, data protection and cyber security are key priorities for DSOs. If further requirements occur dealing with data protection or cyber security measures, the relevant costs will be minimal for the society if dealt by the DSOs as a neutral regulated stakeholder. He decides to whom he gives his consumption data (energy services company or curtailment operator for instance).

The need for big flows of data through huge data hubs has to be assessed as the competitive stakeholders providing energy services or aggregation or flexibility offers will mainly have to adapt the local consumption (energy and time of use). The data are basically mainly in home data.

### **3. Which regulatory actions are most important and should be prioritised?**

**Regulatory approach should remain in a step by step approach:** the regulatory approach can not define a new market design for DSR from scratch, a so called Target Model.

**Most important regulatory approach is definitely to have the customers on board.** Having them on board through the customers associations would be a first step. Having them on board means having them concerned with energy issues, making the difference between energy consumption and time-of-use. The time-of-use (related to the power) is a key issue for all electrical system. One has to keep in mind during the peak hours the costs of the externalities such as the CO2 quantity emitted through the source of peak time generation and such as the investments needed in order to re-enforce the transmission and distribution networks.

It is important to find a compromise between protection and empowerment of the customers in order to have them on board. **Using the consumption data in order to take part in the flexibility market will bring some advantage and comfort to the end user (reducing eventually the bill) for the benefit of the entire society as it is a way of delaying or reducing investments.**

ERDF suggest that NRAs promote communication and education of consumers on energy issues and encourage stakeholders such as suppliers and DSOs to coordinate in developing

customer focused actions. This is a necessary condition for consumers to benefit from different supply offers and system services offers. As a first point, the consumers have to understand that the electricity system is defined both by capacity / power issues and energy issues. They have also to understand that DSOs and suppliers offer complementary services different in nature (regulated and commercial). Both DSOs and suppliers are legitimate to be a point of contact for customers. **Dealing with all missions related to the public services, the DSO is definitely a contact for customers (for connections, quality of supply, security of supply, maintenance or disconnections).** CEER should reaffirm such key principles in a customer centric model for the management of the relation with the customers. **Any evolutions at the boundaries of regulated activities and competitive markets should be assessed using a CBA for the benefit of customers.**

**Very important is an EU functioning whole sale market: going on with the relevant network codes is crucial.** It seems crucial that EU level focuses on the cross border impact of policies.

The European Commission has asked stakeholders for their views on the annual priority lists for the development of network codes and guidelines for 2015 and beyond. ERDF welcomes this consultation paper as a timely occasion to discuss the main work areas to be tackled by the Commission, ACER and the ENTSOs in the coming years. In particular, we support the list of proposed codes for 2015 and stress that the network codes are paramount to complete the internal energy market. **ERDF also stresses the need for more transparency and close involvement of stakeholders throughout the process, especially the DSOs as their networks are at stake.**

**Correlatively the design for a local flexibility market is not the priority as all the stakeholders first have to learn from the SG local experiments.** It will take time until a mature, reliable and liquid DSR market will exist. Furthermore it will have to be coherent with the energy wholesale market such as the balancing market as it will eventually have consequences on them.

**Regulators can facilitate demand side participation by:**

- enabling DSOs to use DRM services for their own needs (in order to carry out such truly active system management)
- giving DSOs the right to contact the market players for DRM services
- giving DSOs the right to sign contracts with the market players for DRM services (cost efficiency)
- confirming DSOs the right to activate directly load control in some extreme network situations when system security is at stake
- recommending communication standards which are needed for a secure exchange of data between DSOs and flexibility providers, as well as between the DSOs and the TSOs.

**Last but not least, a greater coordination between TSOs and DSOs will definitely be crucial. NRAs could put in place local working groups with all relevant stakeholders.** Local flexibility has to be defined according to local network congestions (it should be the same level as the local capacity market if any). The example to have in mind in putting such working groups in place is the current Regional Working Groups.

#### **4. Are there other areas where we should focus?**

Two further issues are not addressed sufficiently in the current consultation paper and should be considered very carefully as they will need a EU approach to be tackled correctly: on one hand the personal data protection and on the other hand the cyber security.

**Dealing with personal data protection**, ERDF thinks that there is room for the relevant EU regulatory bodies to work together in order to define recommendations for standards for content, format and exchange of customer data.

**Dealing with cyber security**, ERDF recommends that the relevant EU bodies point out the good practices as a nasty cyber attack could generate a regional black out and have dramatic social consequences.



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