



E.DSO Position Paper on the Reform of the EU Electricity Market Design

E.DSO, the European Association representing the leading Europe's Distribution System Operators (DSOs) and serving as an interface between DSOs and the European institutions, welcomes the European Commission's legislative proposal to reform the electricity market design, which aims to tackle the shortcomings of the EU energy market in the wake of the supply shock to the system following war in Ukraine.

We affirm the objectives of the legislative proposals to optimise the current electricity market design for a decarbonised energy system and to improve affordability for consumers with due account for security of energy supply.

1. Positive developments

We fully support:

- Anticipatory investments to support the use of flexibility services, efficient investments including solutions to optimise the existing grid and facilitate demand response.
- Acknowledgment of the positive outcome of introducing incentives for efficient investments in networks, including flexibility resources and flexible connection agreements.
- The new indicative national flexibility objectives mandating the Member States based on the input provided by System Operators to evaluate how much demand side response and storage capacity (flexibility). This is needed to enhance system security the realization of the existing flexibility potential.

We also appreciate the proposal for Regulation in which it is spelled out that flexibility objectives should clearly allow for the consideration of national circumstances (including specific level of smart grid development). However, the latter shall be accompanied with necessary investment signals to secure the availability of reliable and affordable electricity when needed.

2. Proposed improvements

We do have some concerns on the interpretation or impact of specific provisions. The need for greater clarity and a strong articulation of the provisions is particularly needed in the light of the revision. Notably, these concerns areas where we as the European DSOs can play a key role and where actions are needed to achieve benefits for all market players. These priority areas are described in detail beneath:

2.1 Flexibility

We call for the mobilisation of distributed flexibility, as well as its integration into the greater energy system, based on energy infrastructure projects, especially cross-border, that produce, store, and distribute energy efficiently. Crucially, renewables, energy efficiency and energy infrastructure must



also play a key role in achieving these objectives in the long-term, while enabling progress towards European energy sovereignty and a net-zero economy.

In addition, it might be too soon to expect a first national assessment report of flexibility needs by January 2025. We argue for a 6-month period after the approval by ACER of the methodology developed EU DSO Entity and ENTSO-E (*Article 19 c (3)(6)*), based on the fact that it requires gathering complex data and many interim approvals from different European and national institutions and organizations to determine, for instance, the type of data and format, as well as developing a methodology for the analysis of the flexibility needs by system operators.

Similarly, this activity shall consider a methodology to prepare Network Development Plans with proper assessment of flexibility potential. Moreover, it is our understanding that the national assessment reports on flexibility needs would not cover technical actions of DSOs on the level of its specific installations used for technical stability of the network (*technical flexibility, usually automated*) but would rather look at potential of flexibility from the market as flexibility services such as demand response and storage. However, the design principles for adding flexibility should take into consideration locational criteria to ensure that investments in new capacity take place in optimal locations and that they do not create or worsen congestion in the grid.

2.2 Grid investments

We consider that the current reform presents a unique opportunity to recognise the critical role of distribution networks in EU legislation in a sustainable and appropriate way. The energy transition takes place in distribution grids, which are increasingly integrating renewables, active customers, and new loads. While we appreciate the efforts made in the proposal to acknowledge the role of distribution networks in EU legislation, we believe that there is still room for improvement. Specifically, we believe that the proposal falls short in addressing the substantial investment challenge that is necessary for further electrification.

To achieve EU objectives and ensuring that the necessary infrastructure is in place to facilitate the energy transition, it is crucial that DSOs are supported by compensation models that are fit for purpose. As an industry that, by its nature, is CAPEX-intensive, it is vital that the regulatory framework provides stability and predictability to attract necessary investments. With the DSO industry gradually moving towards innovative and digital solutions, it is equally important that the framework incentivizes these solutions in a positive way.

Future revenue models should include incentives for OPEX that encourage and inspire DSOs, rather than penalising them. This means, that the acquirement of economically sensible flexibility services, which would lead to an increased OPEX, would be enabled. An increased OPEX can be beneficial for the customer if it is due to (partly) replacing investments with acquiring flexibility services. It is important to note that DSOs may have different capabilities based on factors such as size and geography, making it essential to have an adaptive framework that supports the unique needs of each DSO.



2.3 Peak shaving

We are concerned that demand-side is only limited to the peak shaving product for TSOs while other flexibility can be used by DSOs and other market participants under fast development of distributed generation. The proposed peak-shaving mechanism and the proposed flexibility support schemes for new storage and demand response should be integrated via an enhanced participation of demand response and storage in all short-term energy markets or ancillary services and in capacity mechanisms, rather than establishing separate and non-harmonized mechanisms which discriminate among technologies providing flexibility and firmness or between existing and new assets.

2.4 Price support schemes/ CfDs

In the event that Member States choose to implement the traditional two-way CfD, this would mean that there will no longer be a financial incentive for generators to provide services to the grid. At the same time, these services to the grid are crucial for the security of supply. Therefore, **it should also be explicitly mentioned that direct support schemes for new investments in generation in energy from renewable sources take into consideration locational criteria to ensure that new investments in generation take place in optimal locations** that do not create or worsen congestion in the grid and that incentive mechanisms to provide services to grid operators are developed. As stated in *Article 19c* (Principles applicable to support schemes for new investments in generation) in the leaked document and deleted in the final proposal.

2.5 Energy sharing

The article on energy sharing is a good initiative towards consumer participation in the energy transition, but clarifications on how to manage energy sharing are needed.

We believe that the proposed legislation is not totally satisfactory since it does not tackle the opportunity to use energy sharing as a lever to reduce grid congestion or how to manage the potential risk for greater congestion resulting from energy sharing. **The proposal could introduce incentives to match local generation with local consumption – thus we propose that energy sharing should not span the whole bidding area but be limited to a single DSO area.**

2.6 Dedicated Metering Device

We understand the rationale for this proposal from the Commission to provide further access to households and businesses to demand response participation especially in Member States where the rollout of smart meters is not yet completed. The proposal also introduces a new definition for ‘dedicated metering device’ as a device attached to or embedded in an asset that sells demand response or flexibility services on the electricity market or to transmission and distribution system operators.

We fear nonetheless that the broadness of this definition leaves the door open to a variety of sub-standard instruments to be implemented which may not be readable by System Operators. We equally believe that it is extremely challenging to integrate multiple different measurement devices also in terms of cost efficiency and additional very complex regulation for individual cases.

For this reason, we believe that the “regulated meter” should be the main meter (usually the connection point) or a second meter (if more than one is needed), while the dedicated metering



device should only be used for observability and the settlement of the demand response and flexibility services, as stated in the Electricity Market Design proposal, but not for DSO billing purposes. Moreover, we argue that when data from submeters are involved in DSO responsibilities, they should meet the same technical, metrological, and legal requirements (e.g. EU Measurement Instruments Directive) as the main meter.

Further, **we call for clear differentiation between dedicated metering devices and sub-meters.** The sub-meters are connected to the DSOs' metering management system and fulfil the demands on data handling and balance settlement. Dedicated metering devices are meters owned by customer (or service provider) used for follow-up of market-based consumption flexibility and can have a level of granularity, quality of data and communication system defined by the service provider (e.g. *supplier or independent aggregator*). The meters are not connected to the DSOs metering management systems and are not used for the settlement process. If the DSO wants to have information from the dedicated metering devices that can be mandated in specific data format

Furthermore, **we would like to highlight that all metering and billing points behind the single connection point must be clearly separate electrical installations (e.g. separate metering and billing points for electric car charging point or hot water boiler and the rest of the apartment/house) in a way that one electrical equipment/installation can only be part of one metering and billing point.** This ensures electrical safety and clarifies the metering, billing, and balance settlement.

2.7 Capacity available for new connections

As it is a good proposal to allow RES development in the most suitable locations, we would like to underline that the problem of sensitivity of data and their commercial value should be considered. It remains unclear if this new connection information should be considered as a firm obligation also from the perspective of potential investors starting the connection permitting process and not finalising it in reasonable time.

We believe that further discussion is needed on what the optimal level of sharing connection information is, as this was not defined in the proposal. We consider that striking a balance between transparency and critical infrastructure protection is crucial.

We look forward to actively contribute to the debate on the Electricity Market Design reform to accelerate the transition to a decarbonised, reliable, and affordable European power system.

We are aware that the responsibility for getting this market design right now lies with the EU Member States in the Council and with the European Parliament. They must keep the balance of the Commission's proposal.