



## E.DSO response to consultation on EIB energy lending policy

### ***Q1: Do paragraphs 15-27 above provide a reasonable characterisation of the long-term energy transformation? Are there additional dimensions that the Bank should consider when reviewing its Energy Lending Policy?***

The general trends outlined in paragraphs 15-27 provide a good overview of what can be expected in the following years and decades – as a consequence of the Paris Agreement and the EU's commitment to curb emissions by 40% until 2030 as well as the 2050 long-term strategy that foresees a climate-neutral Europe by mid-century.

E.DSO welcomes in particular paragraph 18, stating that energy consumers and citizens will be at the centre of the energy transition and that impacts of the transition 'will need to remain fair across regions, across society.' A just transition, in our understanding, also means that the emergence of new modes of energy consumption and production (e.g. prosumerism, collective self-consumption, energy communities, etc.) should not result in an uneven distribution of costs (e.g. tariffs) at the expense of other (vulnerable) consumers.

More specifically, the consultation document highlights various trends that we deem very important, including increasing shares of variable renewable sources (paragraph 21), decentralisation (paragraph 22), digitalisation (paragraph 23) and electrification (paragraph 24). These trends are inter-linked and explain why smart investments in the grid, especially at distribution level, are becoming paramount. The volatility of renewables will increase the need for flexibility, and therefore new services and technologies, alongside additional grid reinforcements. Since most of the renewable capacity (up to 90%) is connected at DSO level, major infrastructure investments are needed. Wherever new services (storage, demand response, etc.) are more cost-efficient and can provide the necessary security and quality of supply, these solutions should be implemented. The needed (financial) incentives to make use of these services should be in place.

This does not replace the need for grid extensions – which will become necessary for the electrification of the energy system. Digitalisation (incl. smart meters, grid sensors, data analytics, etc.) is needed to enable a smart, active operation of the network, facilitate grid planning, and to enable flexibility services. The DSO, as an active system manager and neutral market catalyser, takes a primary role in these new developments. The energy transition can only succeed with appropriate, smart investments into the distribution grid.

### ***Q2: As set out in Box 1, the Bank believes it has a robust framework to ensure that energy projects being financed are compatible with long-term climate targets. Do you agree? Are there areas where the Bank can improve?***

E.DSO agrees with the framework in place, incl. the two safeguards to ensure climate-compatibility of investments, i.e. the economic assessment of pollutants' external costs as well as the Emissions Performance Standard. We note however that it would be welcome to further increase the proportion of investments into 'energy efficiency, renewable energy, including connection to power grids' beyond the current percentage of 70%. This should include network investments, not only referring to



'connection to power grids', but adopting a wider perspective that looks at network digitalisation to make the grid more reliable and smarter.

***Q3: Within the broad areas of renewables, energy efficiency and energy grid, are there particular areas where you feel the Bank could have higher impact?***

The EIB can play an important role in the energy transition as it is able to assume higher risks than commercial banks, providing affordable funding. We appreciate the Bank's efforts to support electrification – which we believe is the way forward. In particular, we believe the EIB can have a higher impact in providing financing to R&D which is crucial for ensuring the affordability of the energy transition while boosting the EU's economy.

Moreover, one must keep in mind that many new energy technologies have high up-front costs. The EIB can facilitate this initial investment which could be critical to help markets and products get traction. At the same time, increased electrification must be supported by a reliable and affordable grid – and therefore enough funding should be available to make this possible.

This includes modernising existing infrastructure, particularly on the LV distribution networks, providing additional functionality to optimise network performance, new ICT infrastructure of monitoring and control and enhanced smart metering infrastructure to enable the provision of advanced customer information and the implementation of new market schemes (e.g. p2p/blockchain technologies).

Another crucial point is the regional deployment of smart and resilient grids. This includes the large-scale deployment of innovative solutions to facilitate:

- Integration of (distributed) renewables
- Supporting customer engagement
- Providing EV charging infrastructure
- Automation
- Predictive modelling
- Local focus on sustainability: enable digitisation of the energy system
- Physical security and cyber security
- Installing/upgrading smart meters to meet full requirements of the digitised energy system in terms of customer interface and market framework. Adaptation of Smart Meter Interface solution to customer preferences for accessing energy data, and a wider distribution area

***Q4: How can EIB reinforce its impact towards ensuring affordability, addressing social and regional disparities and support a just energy transformation?***

When making investment decisions, the EIB should take into account how the investment would affect the overall sharing of system costs between different system users. Support for new modes of production and consumption (e.g. energy communities) should not result in an unfair cost-increase to other consumers. These 'fairness' considerations should be taken into account when assessing the impact of possible investments.



Moreover, it should be noted that the energy transition will likely affect some geographies more severely than others. In any case, we recommend incorporating the EU sustainable finance taxonomy as a way to disclose the full impact of investments on sustainability.

***Q10: Are there ways in which the Bank could provide more targeted support to distributed resources (demand response, small-scale generation and storage projects)? Are new business models or technologies emerging in this context, with specific financing needs? Is the Bank's portfolio of financial products and instruments adequate to support this technological transition?***

The challenge for the EIB, most often acting as a provider of large-scale funding, is giving support to generally small-scale initiatives. This could be facilitated, concentrating direct funding on the largest industrial-commercial projects and leveraging on electricity sector players committed to the deployment of decentralised assets, ensuring the efficiency of investments, i.e. investments incurred to reduce the overall system costs.

Providing competitive financing to final customers would facilitate the transformation. DSOs are essential to reach the final customers for promoting the transformation.

Hence, we would like to emphasise the need for financing development of new projects supporting managing the grid by operators, such as R&D on smart metering and smart grids.

***Q11: The Bank has developed a number of products – both financial and advisory - targeted to supporting innovative energy projects. Do you have a view on these instruments? Can the Bank improve or better target the financing needs of the energy demonstration sector?***

Yes, the time of the appraisal stage should be reduced.

***Q13: In light of the long-term nature of the network development plans, which type of projects should the Bank focus upon? In addition to PCIs, should the Bank prioritise newer investment types, for instance in digital technologies?***

As stated above, the energy transition can only succeed with appropriate, smart investments into the distribution grid. Networks need enhancement and digitisation to allow DSOs to integrate multiple transactions in a world with active customers and decentralised facilities. Grids will be needed to support the deployment of recharging points and increasingly important platforms for cities and company services.

New business models are based on the existence of a robust grid that requires large investments in networks, digital innovative solutions, smart meters and batteries.

With multi-directional power flows at both transmission and distribution level, roll-out of smart metering and smart grids will become a key issue, to facilitating the connection and operation of growing amounts and capacity of distribution-connected resources providing flexibility services.

While Projects of Common Interest are crucial, to date only four DSO smart grid projects have been selected as PCIs to be implemented under the TEN-E Framework – out of 170+. E.DSO has been [advocating for a revision of the TEN-E Regulation](#) to reflect the changing character of the energy



system and the important role of DSOs. More recently, in the final Trilogue on the CEF Regulation, the European Parliament and Council have agreed that the Commission should assess the need for a revision of TEN-E by 2020, which we greatly welcomed. However, until the PCI criteria are revised, we recommend not solely prioritising the list of Projects of Common Interest when making investment decisions.

A crucial point on the revision of TEN-E is that smart grids and smart metering on DSO level should also be eligible. A second point is that network development is key to ensure RES integration. Direct RES integration requires connection to the system, especially of offshore wind farms, generating high expenses. Internal network development is needed to overcome constraints resulting from RES development. Additionally, development of interconnections, enabling the maximum use of RES energy across the EU is key to a successful transition. Direct RES integration requires support, whether it has a direct cross-border impact or not. Internal RES integration projects should therefore be considered as Projects of Common Interest.

***Q14: What is your view on the investment needed in gas infrastructure to meet Europe's long-term climate and energy policy goals, while completing the internal energy market and ensuring security of supply? What approach could strike the right balance to prevent the economic risk of stranded assets?***

Every large infrastructure investment should be based on a rigorous cost-benefit analysis. E.DSO believes that priority must be given to electrification as a pathway towards decarbonisation. Nevertheless, we recognise the importance of sector coupling which can reduce the economic cost of the energy transition.