



E.DSO Position Paper on the revised TEN-E regulation proposal

March 2021

Aligned with climate objectives



Recast the criteria of the Smart grid project category

-> RES & EV connected at lower voltage level + Active customers



Ease PCI process for DSOs: time consuming & overlapping



Transcribe DSOs as recognised enablers of the energy transition



Update the cross border approach
-> Data sharing & replicability effect



Seek synergies between EU funds, programs & legislative proposal
-> Horizon EU, Innovation Fund, Invest EU & regulation such as TEN-T



Headnote

E.DSO welcomes the Commission’s proposal¹ for revising the Regulation (EU) No 347/2013 (the ‘TEN-E Regulation’) and would like to take the opportunity to comment for the next actions and decisions to be conducted at European level.

Representing leading distribution system operators in Europe, E.DSO and its members are committed to rolling-out and maintaining a high-class infrastructure to European citizens. By guaranteeing reliability and quality of electricity supply in an interconnected Europe while substantially contributing to the EU’s climate agenda and decarbonisation objectives (90% of RES generation is connected to the distribution grid), **DSOs have a key role to play in the future Trans-European energy networks.**

Accelerated electrification of end-uses and higher loads of RES will require grid reinforcements mainly at distribution level and grids will have to get smarter to better integrate these new evolutions. Strengthening smart grids development in Europe is key, including through legislative frameworks such as the TEN-E Regulation and dedicated funds such as the Connecting Europe Facility (CEF). Indeed, a recent study carried out by Eurelectric, E.DSO and Deloitte, highlights that approximately 400 billion € of investments are required in the distribution networks to fully achieve the energy transition in 2030².

As a preface we welcome some positive advancements of the proposed revisions, namely: 1) scrapped support for oil and gas, 2) improvements of the “one-stop-shop” for Smart Grid projects; 3) recognition of the EU DSO Entity (Article 11); and 4) dedicated focus on large scale Smart Grid projects.

Considering all the foregoing, and for a successful clean energy package implementation, E.DSO recommends ironing up the following shortcomings of the TEN-E Regulation proposal:

1. Acknowledge the growing role of DSOs and smart grid projects

The initial aim of the Regulation was to support the completion and interconnection of the internal energy market. TEN-E regulation succeeded in developing cross-border projects which achieved geographic integration of the market. **Following the Green Deal’s shift of priorities to the overall decarbonisation of the economy**, namely developing a customer-centric and sustainable European energy system and connecting higher shares of RES, DSOs’ activity corresponds to these challenges and their role and missions should be better acknowledged in the proposed revision.

1.1. Criteria for Projects of common interest (PCI) (Article 4)

With regard to the criterion of projects involving at least two Member States by directly crossing the border, the proposal regulation does not take into consideration new kinds of cross border cooperation which does not necessarily implies physical and geographical contiguity. Projects may have beneficial implications or synergies for more than one Member State, not necessarily involving a common border but with a replicability effect among different Member States.

Concerning projects located on the territory of one Member State and having a “significant cross-border impact”, the criterion is still relevant but should be adapted to new situations. The mandatory support of the transmission system operators (TSOs) cannot define alone the significant cross-border impact of DSOs projects. Some smart grids projects only deal with full-DSOs matters (*smart metering, local congestion management and distributed renewable resources*). The interoperability and cross-border aspects are already effectively guaranteed through the involvement of DSOs from two Member States

¹ <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12382-Revision-of-the-guidelines-for-trans-European-Energy-infrastructure>

² [Connecting the dots: distribution grid investments to power the energy transition](#) – Monitor Deloitte, Eurelectric, E.DSO (2021)

building a common project together. Accordingly, E.DSO suggests that all references to the TSO mandatory support for DSOs project to be eligible under the PCI list shall be deleted.

1.2. Administrative process (Article 8- Article 10)

E.DSO welcomes the determination to reduce administrative burden in the application process for existing projects. The permitting procedure has been smoothed for smaller projects which seem to include smart grid projects. Recognising that projects can be processed differently depending on their size is a great step, but E.DSO also regrets that size of the projects and the applicants are not considered in the overall administrative procedure, especially at the application stage.

1.3. Incentives [Article 16 & 17 (former Article 12 & 13)]

Projects related to Smart Grids should also be able to benefit from the incentives in Article 16 and 17. The main driver for project promoters to receive PCI status is the possibility to also receive financial support from the Connecting Europe Facility (CEF). However, in many Member states, regulated businesses are rather disincentivized to obtain PCI status and receive a grant from CEF. There are several good examples as well, since some Member States are incentivizing EU projects with via bonuses e.g., *Smartness bonuses* or at least the possibility to receive regulatory depreciation on assets funded by the grant.

We consider that incentives should not only be provided at EU level (e.g., via CEF) but the national regulatory systems should enable the required investments. This precondition is not restricted to incentives according to Article 17 of the TEN-E Regulation. We believe that the promoters would be highly inclined to realize such projects if a minimum bonus is implemented at the national level. This bonus (benefit) could be ensured regardless of receiving the EU funds since in any event, this fund will be used at once.

We would like to highlight the importance of multiple opportunities instead of privileging an alternative relation among the solutions proposed in Article 17 (3). We highly consider that multiple solutions would increase the incentives for the promoters to make use of this provision.

Currently, regulated businesses (such as DSOs) have a negative business case when carrying PCI projects, since assets cannot be included into the regulated asset base (RAB) while still driving upwards operational expenses (OPEX). Furthermore, PCI projects remain problematic since DSOs are not incentivized to consider the complex PCI process, and there is not a significant interest to invest time and resources into a process that turns out to be financially unattractive.

E.DSO members consider that the framework for regulatory incentives should reflect the evolving nature of needed investments and the costs. In this regard, investments in digitalization and OPEX areas should be equally incentivized as CAPEX. Regarding OPEX, all costs by the project should be recognised and reimbursable to provide more chance to achieve regulatory depreciation.

The financial disincentives are one of the major reasons that up to now there are only six projects on the PCI list. If large-scale Smart Grid projects would widen their scope and across the border and contribute to the greater system, the incentivisation process will be resolved.

It is of utmost importance that in general the national regulatory framework provides enough stimulus for investment projects. It should be also pointed out that the framework for regulatory incentives should reflect the evolving nature of the necessary investments and the costs.

The above could be achieved as follows:

- DSOs are incentivised by raising OPEX and adjust with efficiency requirements for their PCI projects.

- DSOs can benefit from future regulatory depreciation allowance for any CAPEX related to maintenance, repair, or replacement of project-related assets.

Furthermore, financial incentives do not necessarily have to be connected to grants. Projects under the PCI list could benefit from a “smartness bonus” because there already a well-functioning PCI selection process on the EU level. This alternative could foster other kinds of mechanisms for the grid infrastructure rather than just the quite limited CEF-budget.

Lastly, a connection could also be made to the Horizon Europe program, where innovative solutions to support the energy transition are created. This would not only benefit the PCI project itself, but create innovative solutions such as flexibility platform.

1.4. Smart grids projects criteria (Annex 4)

E.DSO acknowledges the efforts made by the European Commission in improving the conditions related to the criteria from previously requiring the fulfilment of all of them to the current possibility to fulfill only two of the three criteria, making the smart grids category more accessible to DSOs. However, **a broader definition of smart grids and clarity in the criteria would allow decentralised projects to apply for PCI statutes when they offer replicability across Europe, build synergies for more than one Member State or implement cross-border virtual connections.**

Regarding smart gas grids, they must only meet one of the three criteria under the current proposal. To establish a level playing field, they should be submitted to the same requirements as smart electricity grids. Alternatively, the latter should be subject to the lighter criterion. For smart electricity grids, the project is designed for equipment and installations mainly at high-voltage and medium-voltage level.

Lastly, there is need to increase the eligibility to mainly high and medium voltage levels networks in the description of the smart electricity category.

1.5. Regional groups (Article 3 – Annex 3)

Considering the importance that Regional groups play in the TEN-E Regulation by defining projects of common interest, E.DSO deeply regrets that DSOs are still not automatically represented in these groups. It remains at the invitation of the TSOs and does not ensure a fair representation of DSOs when they are involved in smart grids projects or other eligible projects. Moreover, the EU DSO Entity should be the counterpart to ENTSO-E with the support of the concerned DSOs. They should be always associated to regional groups’ work and discussions.

2. Ensure coherence with other EU initiatives

2.1. Sustainability of the PCI list

E.DSO fully support the new provisions of the TEN-E regulation which make it consistent with climate neutrality. In the future, projects benefitting from a Projects of Common Interest (PCIs) status should contribute to meeting the EU’s decarbonisation objectives and be funded under Connecting Europe Facility (CEF).

Nevertheless, the scope of the sustainability indicator for smart electricity grid projects (annex 4, 4.a) is quite limited. While the recital 16 recognises that sustainability is assessed regarding “the integration of renewable energy sources into the grid or the reduction of greenhouse gas emission” , the annex 4 only targets the integration of RES for smart electricity grids. This approach of sustainability should encompass smart electricity grids ability to reduce CO2 emissions.

2.2. Energy system integration

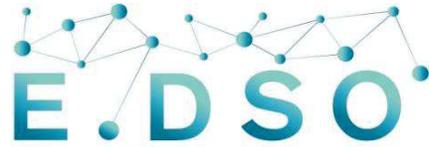
As assessed in the Energy System integration strategy, “future network planning will require a more integrated and cross-sectoral approach, notably of the electricity and gas sectors”, and for this reason, a better alignment shall be encompassed by this revision. Electricity stakeholders also have a key role to play in integrating sector and the regulation should be aligned accordingly.

2.3. Synergies

E.DSO welcomes the inclusion of digitalisation in the revision but other aspects should be embedded in the general objectives (cybersecurity and resilience).

The ongoing revision of the Regulation on the Trans-European Energy network (TEN-E) should also seek more synergies and alignment with the upcoming TEN-T Regulation, to strengthen opportunities to coordinate energy infrastructure planning and decarbonisation of transport.

Modern, smart, efficient, and connected infrastructure are the backbone of the low-carbon, energy and digital transformation - and as such the TEN-E Regulation shall be essential for successful implementation of the Clean Energy Package, the EU Green Deal goals and the European Union’s ambition for climate neutrality by 2050. E.DSO members stand ready to play its part.



SHAPING SMARTER GRIDS FOR YOUR FUTURE

E.DSO is a European association gathering leading electricity distribution system operators (DSOs) **shaping smart grids for your future.**

www.edsoforsmartgrids.eu

