GEODE welcomes the ACER-CEER discussion paper “Energy Regulation: A Bridge to 2025” launched on 6 November and thanks for the opportunity to provide initial views before a Green Paper will be developed and officially put to consultation.

Answers to the questions

- **THE OVERARCHING PAPER**

**Question 1: Do you agree with this overall approach? Would your emphasis be any different?**

GEODE welcomes the overall approach of the ACER Paper linking EU energy policies with concrete fields where improvements or further efforts are still needed. GEODE as the voice of European local energy distributors would like to highlight that DSOs are absolutely critical to meet the energy challenges of the future. The move towards smart grids marks the development of the DSOs’ role, one that forges a new and innovative path that consumers can actively engage in.

**Question 2: Do you agree with this broad analysis and/or do you have further suggestions?**

In principle GEODE agrees with the analysis of ACER paper. Please see comments to the Consumer and Distribution Networks Paper for further suggestions.
**Question 3: Do you think the list of suggested measures is complete or do you have further suggestions?**

The list of measures proposed in the ACER paper is sufficiently detailed. However **GEODE** thinks that measures on how to incentivise and support investments on the distribution grid (apart from those in transmission networks) are lacking. *Please see below GEODE’s comments to the Consumer and Distribution Networks Paper on this topic.*

**GEODE** strongly supports ACER's approach of the importance of the synergies between the distribution of gas, electricity and heating and cooling. However there is no further description of proposed actions or measures on how to make these happen.

- **Do you think that the requirements for infrastructure investment in gas are the same as in electricity?**

Although both, electricity and gas infrastructure need investments, the electricity sector has a more urgent need of huge investments in infrastructure and technology for the deployment of Smarts Grids and Smart Meters to become reality. Once the needed infrastructure is in place an efficient RES integration and market flexibility will be achieved.

At the same time GEODE wants to highlight the changing role of the gas distribution networks. Gas can play a major role meeting both the 2050 carbon targets and the 2020 renewable energy targets. Investments in research and innovation to further develop future usage of gas, such as power to gas and gas to power and the deployment of biomethane injection into the gas distribution network, roll-out of district heating, and/or the use of combined electricity and gas, dual fuel systems for domestic heating are also crucial.
What further ideas do you have on the future role of consumers?

Please see below GEODE comments to the Consumer and Distribution Networks Paper on this topic.

CONSUMERS AND DISTRIBUTION NETWORKS

C1. Do you think that further European level measures should be taken to enhance the operation of retail markets to the benefit of consumers?

As different models for customer service are applied in Europe today, GEODE believes that each Member State should be allowed to choose which model suits its market best, taking into account local circumstances. A pan-European approach and legal mandates risk being over-prescriptive - rather than supporting and invigorating progress – and could have the opposite effect.

It is absolutely necessary that before deciding about a change of the market model a thorough examination of consequences in combination with cost-benefit-analysis for every Member State is required. It is clear that a system change introduces additional costs. To contrast these costs with the expected benefits is the task of the CBA. Only if benefits outweigh costs the change is advisable.

Therefore - before developing further European legislation or measures - the principle mentioned above should be carefully taken into consideration in order not to inhibit national solutions where they are cost effective and capable of delivering success.

C2. Can you suggest ways in which we could enhance the voice of consumers in the development of Europe’s energy market?
GEODE believes that customer acceptance of smart metering systems is essential for obtaining the full benefits and therefore the European Commission, Members States and national regulators have a key role by taking appropriate measures and actions to promote it.

To facilitate customer engagement, Member States should retain the right to choose the market model that brings the most benefits to their region and customers based on historical traditions, technical development and current market structure, keeping costs of any changes as low as possible.

It is GEODE’s belief - based on experiences from Nordic countries - that customers fully benefit from new technologies when meters are provided with an open interface that provides customers information about their energy consumption. This information can be accompanied with pricing information, steering activities and other any services innovative markets can offer and create based on customers’ preferences.

C3. What are the main questions that you consider the proposed CEER review should address with regard to the future role of DSOs and also to ensure that the regulation of distribution networks remains fit for purpose in 2025?

From GEODE’s point of view, the main topics the CEER review should address concerning the operation of distribution networks are the following:

- **Adequate incentives for DSOs investments**

Current incentive based regulation models used to set grid tariffs in most Member States focus on short term cost reductions, and give almost no incentives for innovation and investments for the future. In order to fully take advantage of the new technology related to the smart grid, the regulatory models have to be updated.
GEODE believes that the following criteria should be taken into account by Regulators when setting DSO grid tariffs:

- **Sustainability, future oriented and long run predictability:** is essential as the DSO business has a planning horizon of decades and the challenges are changing in line with the development of the energy policy of the EC to achieve the decarbonisation of the energy market.

- **Investment and innovation friendliness:**
  - To allow investments in technical equipment and ICT infrastructure enabling the implementation of intelligent solutions and to make the necessary reinvestments in the “conventional” components of the grids (transformers, cables).
  - To allow DSOs to strongly commit to R&D and demonstration projects to be part of the creation process of the electricity networks of the future in good time.

➢ **Incentives for Research and development**

As DSOs are prime movers in the deployment of smart grids it is essential they are empowered by an adequate regulatory framework to take an active part in this deployment.

As DSOs are essential in the deployment of Smart Grids it is necessary that all DSOs, small, medium and large, are able to participate in R&D projects. Larger and more numerous R&D funding programmes than the currently existing ones are needed on national and European level. Such funding should be accessible to all network operators regardless of their size.

An example of good regulation incentivising R&D work within the DSOs exists in Great Britain (GB). In 2009, the GB energy regulator Ofgem launched the Low Carbon Networks Fund (LCNF) to help drive innovation and promote new technologies to deliver the intelligent grids of the future. The LCNF is one of the most significant investments in network innovation in Europe.
**DSOs tariff structure**

Re-thinking the **DSO’s tariff structure** is crucial. The current tariff structure has to be developed further in order to address the absence of adequate cost reflectivity and to improve customer incentives for network optimisation, customer savings and reasonable investments by DSOs.

**GEODE** recommends the following general principles for the future development of DSO tariffs.

- Tariffs should be cost reflective, easily understandable and transparent.
- Customer has a genuine opportunity to affect the distribution charge.
- Tariffs should promote peak demand management and aim to reduce infrastructure costs purely for peak demand.
- Tariff structure should encourage distributed generation, demand response, and efficient energy consumption [from the distribution system perspective].
- Tariff structure should enable sufficient and predictable revenues for DSOs investments now and also in the future.
- Tariffs should be technically feasible to implement (metering and control).
- Tariffs should promote well-functioning electricity markets.
- Tariffs should support the European Union and national energy and climate policy.
- Tariff structure should not conflict with overall regulation and legislation.
- **GEODE** proposes a DSO power based tariff approach as one tariff scheme, among others, that better suits the requirements DSO’s tariff structure should fulfil.

Regulation must not prevent DSOs from developing better functioning and more cost-reflective tariff structures keeping overall efficiency as the main guideline.

For further information please see the **GEODE Report on on the Development of the DSO’s Tariff Structure** at:
Definition of roles and responsibilities

There is a need for clear market rules and **definition of roles and responsibilities** of different parties (i.e. retailers, distribution system operators, third party aggregators, energy service companies, etc.).

In order to create competition and encourage efficiency, the future smart electricity market must allow a high degree of flexibility when it comes to the different actors and their tasks. Although many new roles on the market, such as commercial storage providers and “prosumers” should be unregulated, it is necessary to define a number of key responsibilities for the market actors.

When defining the role of the DSO **GEODE** believes that:

- The DSO is the neutral market facilitator that ensures the reliability and stability of the system while facilitating the commercial activities of other market actors and above all safeguarding the interests of customers.
- DSO should as well retain responsibility for metering as the meter is the logical end point of the DSOs electrical grid (exception made in UK and Germany).
- To create further market opportunities, all Smart Meters should be equipped with a standardized open interface. The customer will have access to their consumption information via a standardized open interface in the Smart Meter.
- Meter data should be provided to other market actors authorised by the customer, using the afore mentioned standardized open interface in the Smart Meter. With this in place, existing unbundling requirements are sufficient enough for new market services to develop by new actors (aggregators, ESCOs) for customers.
• DSOs must without restriction be allowed to use information from the Smart Meters in order to fulfil their regulated duties such as system stability and billing.

• The efficient use of Smart Metering will make possible to reach other targets set in for example in ACER Bridge 2025 Paper “Electricity”.

• DSO is the central point of contact for customers in grid related issues and the link between DSOs and the customer should be maintained.

✈️ ELECTRICITY

E4. What measures may be required to ensure that the market receives the most appropriate signal for the value of flexibility?

It has to be ensured that all actors (producers, independent of technology, consumers and TSOs) face correct price signals for their electricity produced and consumed.

E5. Do you think that other, for example institutional arrangements should be considered? Is greater TSO and DSO coordination required? If so, what should NRAs do to facilitate this?

Again, the rules on a European level must acknowledge the different starting points for the DSOs in different countries of the EU. In general, it is important to have clear roles for DSOs and TSOs.

In fixing or approving the tariffs or methodologies and the balancing services, the regulatory authorities shall ensure that transmission and distribution system operators are granted appropriate incentive, over both the short and long term, to increase efficiencies, foster market integration and security of supply and support the related research activities.
E6. How should regulators facilitate demand side participation (including demand side response and electricity storage)?

With an increasing number of decentralized generators the importance of local balancing, real-time controllability and congestion management for DSOs will grow in importance. DSOs are the responsible party for stability and security in distribution grids. If there are activities or services which could help the DSO to fulfil this core task it is key that DSOs are allowed to do so and have an adequate access to such services.

The DSO, as the operator of the metering system, acts as an enabler of DSF functions for the market by providing the physical infrastructure for the market and also by providing actual consumption information. Without Smart Meters that are able to measure electricity usage on at least hourly basis, it will not be possible to deliver an effective price signal to the customer telling them to reduce or increase their consumption during particular periods. Timely implementation of smart (e.g. hourly) metering is a prerequisite for a large-scale application of DSF.

The DSO has a keen interest in avoiding overload in the grid by ensuring that the average peak load is kept at an acceptable level. In order to achieve this, the DSO must to be actively engaged in the operation of demand response functions.

However, in order to avoid unnecessary network investments in the future, a broader view is needed. In all regulation, legislation and market actions the idea of overall efficiency of the whole energy system needs to be the main guideline. In GEODE’s view, it would be essential to have knowledge about the potential of demand-side flexibility of different customer groups and therefore developed cost-benefit analyses are needed before starting to set the scene with regulatory and/or legislative measures.
GEODE believes that relevant potential might be found in electrical heating, cooling, air conditioning and ventilation. These potentials should be the focused on DSF measures. The potential of household equipment such as washing machines is small and unreliable.

E7. How can NRAs support, or incentivise TSOs and DSOs to invest in ‘smart networks’. What actions are needed, in particular from regulators, to promote more active distribution networks? Do we sufficiently reward avoiding ‘dumb’ investments?

Please see comments to the Consumer and Distribution Networks Paper for further suggestions on this topic.

E11. What actions, identified in these papers, should regulators prioritise?

GEODE believes that investments in the distribution networks are essential. As DSOs are prime movers in the deployment of Smart Grids it is essential they are empowered by an adequate regulatory framework to take an active part in this deployment.

Please see comments to the Consumer and Distribution Networks Paper for further suggestions

Brussels, 17 December 2013