

Joint Position on the Fit for 55 Package – key DSO provisions

Introduction

The Fit for 55 package (FF55) is a cornerstone element for the success of the EU's transition to climate neutrality by 2050. Its main goal should be to establish a robust regulatory framework which builds on the potential of all possible sides to contribute to the energy transition to the best of their abilities.

Distribution System Operators (DSOs) are the key enablers of the energy transition fostering the integration of renewable energy sources and flexibility services, the deployment of energy efficient solutions and the empowerment of customers. While the FF55 recognizes the role of DSOs, it should do more to equip them with the necessary instruments to facilitate the transition to a decentralized, integrated, and efficient energy system.

In view of this, the European Association of Distribution System Operators (E.DSO), Eurelectric and GEODE offer their joint position on three of the legislative proposals which are most relevant to electricity distribution networks:

- The **Energy Efficiency Directive** (EED) introduces a new approach to the energy efficiency of distribution networks and sets a structure for the deployment of energy efficient solutions at both grid and customer level.
- The **Renewable Energy Directive** (RED) improves the framework for the integration of renewable energy sources and flexibility services at distribution level towards an integrated and decentralized energy system.
- The **Regulation for the Deployment of Alternative Fuels Infrastructure** (AFIR) sets mandatory infrastructure targets for the electric vehicle (EV) fleet which will be primarily connected at distribution level.

This joint position spells out in detail how the three files can be improved to allow DSOs to better contribute to the energy transition by empowering customers and facilitating the uptake of renewable sources, flexibility services, e-mobility, and efficiency solutions.

Energy Efficiency Directive

Article 3: Energy efficiency first principle

It is reasonable for EU Member States to ensure that electricity distribution network operators apply the 'Energy Efficiency First' principle (EEFP) in their activities. **Investment in infrastructure should be guided, additionally to EEFP, by a lifecycle approach safeguarding the sustainability objectives: climate protection, security of supply and competitive pricing.**

For these reasons, the practical implementation of the EEFP requires the deployment of a correct governance, including **an efficient methodology for cost-benefit analysis** and a framework for

independent monitoring and assessment. The approach in Article 25 (2) to apply cost-benefit analyses, which account for wider system benefits, is in line with this approach.

Article 9: Energy efficiency obligation schemes

Member States must be guaranteed a flexible approach to implementation, both in terms of measures and in terms of obligated parties. In some countries, identifying DSOs as the obligated parties to provide energy savings specifically to low-income households to address situations of poverty has not always been successful but a source of distortion in the retail market.

In addition, **it is important to avoid that DSOs become the main obligated parties due to the monopoly in a geographical area.** The obligation from the DSO perspective should mainly be to inform consumers about energy saving needs.

Articles 12 and 13: Smart Meters

Smart meters for electricity are of cornerstone importance to deliver on the commitments and provisions of the EED proposal. For this reason, we call for their fast deployment in line with the Electricity Directive.

Article 25: Electricity Infrastructure and Network Losses

Article 25 (2) should clarify the possibility to maintain infrastructure that is not at the end of its life cycle in so far it supports efficient use of energy. Additional clarification is required about the notion of “stranded assets”. It should be adapted to **favour the notion of “future-proof assets”, in order to allow system operators to guarantee a secure network operation at all times.**

Article 25 (3) and Recital 14: The Commission’s proposal for a reduction of DSO network losses is misplaced because it neglects the physical realities (greater use of electricity inevitably leads to higher network losses due to increased power flows) and because DSOs, by reason of their business model, strive to reduce network losses. Instead, **the focus of regulation should be to reinforce infrastructure investments which contribute to energy efficiency objectives in a holistic manner which relies on local system integration and cost-efficient solutions such as smart grids.**

Article 25 (7) states that “*National regulatory authorities shall ensure the removal of those incentives in transmission and distribution tariffs that are detrimental to the overall efficiency (including energy efficiency) of the generation, transmission, distribution and supply of electricity and gas*”: **The focus on energy efficiency as the sole criterion for the design of network infrastructure does not duly reflect the complexity and diversity of the regulatory goals** of a future-oriented, smart and multi-sectoral energy system. These goals also include affordability, cost neutrality, sustainability, and security of supply. Electricity **DSOs should be stimulated to act as System Integration Facilitators** in order to contribute in multiple ways to an overall energy efficient system, including by facilitating energy efficiency in buildings and empowering customers to use smart meters to control energy consumption.

Article 27: Energy services

Article 27 (8): We suggest reviewing the requirement in Article 27 (8) for MS and DSOs to refrain from any activities that may impede the demand for and delivery of energy services or other energy

efficiency improvement measures. **This provision is in contradiction with the Electricity Market Regulation which recognises DSOs as neutral market facilitators** which aim to facilitate such services.

Articles 25(6) and 25(9): Cost-reflectiveness of network tariffs

Articles 25 (6) and 25 (9) should not undermine the principle of cost-reflectiveness of network tariffs. As neutral market facilitators **DSOs call for removing Article 25 (9) which goes against Article 18 of Regulation 2019/943**. Providing high efficiency cogeneration stakeholders with lower network charges contradicts the principle of non-discrimination regulated in the Article 18. DSOs serve market actors the same way regardless of their CO₂ content or level of energy efficiency. The share of capacity and energy components in tariffs must be cost-reflective as a prerequisite for an efficient use of infrastructure contributing to overall energy efficiency.

Renewable Energy Directive

The proposal does not account sufficiently for the need to reinforce the distribution grids to achieve the regulation's objectives, which include the integration of decentralised renewable sources and flexibility services. We thus underline the need for a fit-for-purpose regulation which sets the right incentives for DSOs, including promoting alternative technology, smart reinvestments and a forward-looking regulatory strategy.

Article 1 (10) (1) (inserts Article 20a): Facilitating system integration of renewable electricity

Clarifications should be made in **Article 20a** on the process, the content of data sharing between DSOs and TSOs and the tools to make this data available, as well as on the rationale behind this provision. It is not evident what is the added value of such global information about the energy mix. **Disclosing the RES-E and GHG content of the electricity supply is a complex exercise and should be recognised as such, through an optional rather than mandatory provision.**

Article 1 (10) (3) (inserts Article 20a): Smart charging

The provision introduces requirements for non-publicly accessible power recharging points to support smart charging functionalities and, where judged appropriate by the NRA, bidirectional charging. This provision is **crucial in terms of information for national and local planning processes**. It must be known as early and as exactly as possible where charging installations will be located. The **charging infrastructure must be technically ready for smart charging**, but whether smart charging is really done is the result of market processes as this is flexibility. In this framework, **the obligation on smart charging and bidirectional charging functionalities goes hand in hand with the installation of smart meters**, which will also contribute to optimising grid management and promoting flexibility services.

Article 1 (10) (4): Principle of non-discrimination

Article 1 (10) (4) regarding non-discrimination contributes to unlocking flexibility and opens a real possibility to apply V2G. However, **the obligation goes hand in hand with the installation of smart meters**, which will also contribute to optimising grid management and promoting flexibility services.

Regulation on Alternative Fuels Infrastructure

The AFIR proposal rightly acknowledges the role of DSOs in the electrification of mobility and increases their responsibilities in this regard. However, **it does not account sufficiently for the need to reinforce the distribution grid** to achieve the regulation's objectives which include the deployment of infrastructure for a vast EV fleet for light- and heavy-duty vehicles. We thus underline the need for a fit-for-purpose regulation which sets the right incentives for DSOs', including promoting alternative technology, smart reinvestments and a forward-looking regulatory strategy.

Article 2: Smart Meters and Smart Charging

Since most of the EV chargers are connected to the distribution grid and will withdraw from and/or inject electricity to the grid, DSOs will be at the centre of such operations. Smart meters, when already deployed by Member States, are relevant tools for this activity as they give secure and reliable data and facilitate smart charging as well as the participation of EV owners in the provision of flexibility services. **Smart meters' contribution should be concretely acknowledged as an integral part of smart charging** operation and included in its definition in **Article 2**.

Article 14 (3): Reporting and Evaluation of Flexibility Needs

Electric mobility and the uptake of EV charging will greatly contribute to system integration by providing demand side flexibility to the energy system (as mentioned in the Energy System Integration Strategy). DSOs fully agree with this statement and will substantially contribute to the redaction of a future Network Code on Demand side flexibility through the newly established EU DSO Entity.

Nevertheless, **Article 14 (3)** confers large powers to NRAs in assessing the contribution of EVs to the flexibility of the energy system. DSOs are the more relevant stakeholders to assess the flexibility needs as stated in Article 32 of the Electricity Directive (EU) 2019/944. **The evaluation of EV contribution should be done coherently with the Clean Energy Package** which already set a requirement for DSOs to conduct a periodical evaluation of flexibility needs in their own network development plans while consulting all interested parties.

Conclusion

The recommendations above are tailored towards a forward-looking and fit-for-purpose regulation. The EU's climate neutrality goal would benefit from a DSO sector equipped with the right tools to facilitate the integration of renewable sources and flexibility services, the uptake of Electric Vehicles and the deployment of energy efficiency solutions while ensuring constant supplies of electricity of appropriate quality to customers.

E.DSO, Eurelectric and Geode remain at the disposal of the co-legislators to further assist in clarifying these recommendations for the success of the Fit for 55 package.