Bundesverband
Neuer Energieanbieter e.V.
Hackescher Markt 4
D-10178 Berlin

Fon: +49 30 400548-0
Fax: +49 30 400548-10
mail@bne-online.de
www.bne-online.de

bne

Future Role of DSOs

Public Consultation of the Council of European Energy Regulators (CEER), 27.02.2015

Berlin, 27. February 2015. We greatly appreciate CEER's initiative to consult on the future role of Distributions System Operators (DSOs). Below are our responses to the consultation. In particular, we envision a market based solution for organizing access to flexibility on the local distribution network. bne members are committed to a modern and flexible electricity market design allowing for truly competitive solutions.

Link to CEER consultation paper:
http://www.ceer.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/CROSSSECTORAL/PC_The_Future_Role_of_DSOs/CD/C14-DSO-09-03_Future%20Role%20of%20the%20DSO%20-%2016%20December%202014.pdf

Consultation questions and bne responses

1. Do you agree with these three core principles?

   Principle 1: The DSO must run its business in a way which reflects the reasonable expectations of network users and other stakeholders
   Principle 2: The DSO must act as a neutral market facilitator in undertaking its core functions
   Principle 3: The DSO must act in the public interest, taking account of costs and benefits

Answer: YES

2. What challenges would new forms of stakeholders (e.g. community or municipal energy schemes and ESCOs) bring to DSOs and to existing approaches?

Comments: In bne's view, DSOs need to concentrate on their core activities with no exemption and exception to this rule. Any evolving activities beyond their core business and especially in relation to smart grids need to be strictly controlled and monitored by the national regulatory authority. DSOs can only be allowed to engage in evolving activities as a neutral

market facilitator enabling services provided by others, including community or municipal energy schemes and ESCOs. The role and responsibilities of the DSO need to be defined precisely and clearly, especially with respect to system service activities such as voltage regulation (reactive and active power control) and curtailment for example. Whenever activities are open to competition, DSOs need to be fully ownership unbundled in order to participate in any such activity.

3. Do you agree with the proposed logical framework? Are there other important questions which should be included in the framework?

Answer: AGREE

Comments: In principal, bne agrees with the proposed logical framework. However, we stress the fact that the framework should not only be applied to "new activities", but also to existing ones. Especially in Germany, with about 90% of electricity DSOs operating under the "de minimus rule" (meaning those local networks are largely still integrated on the basis of an exemption from the statutory provisions on legal and operational separation of network and retail businesses), there is a lot of potential for anti-competitive behaviour. As for DSO categories of activities, we propose to combine category IV and V (as "not allowed" and "forbidden" essentially means the same) and strongly suggest a consistent application of the related rules. We fear that with a distinct category "not allowed", there is the potential for weakening clear rules on which activities DSOs are allowed to undertake and which activities DSOs are prohibited from undertaking.

4. Do you agree with the proposed assessment of activities and are there any additional grey areas for DSOs other than those considered?

Answer: AGREE

Comments: In principal, bne agrees with the proposed assessment of activities. However, we suggest including the traffic light concept (as explained in EURELECTRIC 2013: Active Distribution System Management, page 21 and 22) as additional criteria in considerations focusing on DSO activities related to renewables penetration and new flexibility needs. As proposed by CEER, distribution network operators should be allowed and enabled to use flexibility options in order to address local voltage and capacity constraints while avoiding or deferring network reinforcement. In line with CEER's assessment, we strongly suggest a market-based approach for unlocking flexibility options in the so-called "yellow phase" as introduced by bne's Decentralized-Flexibility-Market concept:
www.neue-energieanbieter.de/en/node/24169

5. For activities falling in category II and III (see figure 1), under which regulatory conditions could DSO intervention be allowed?

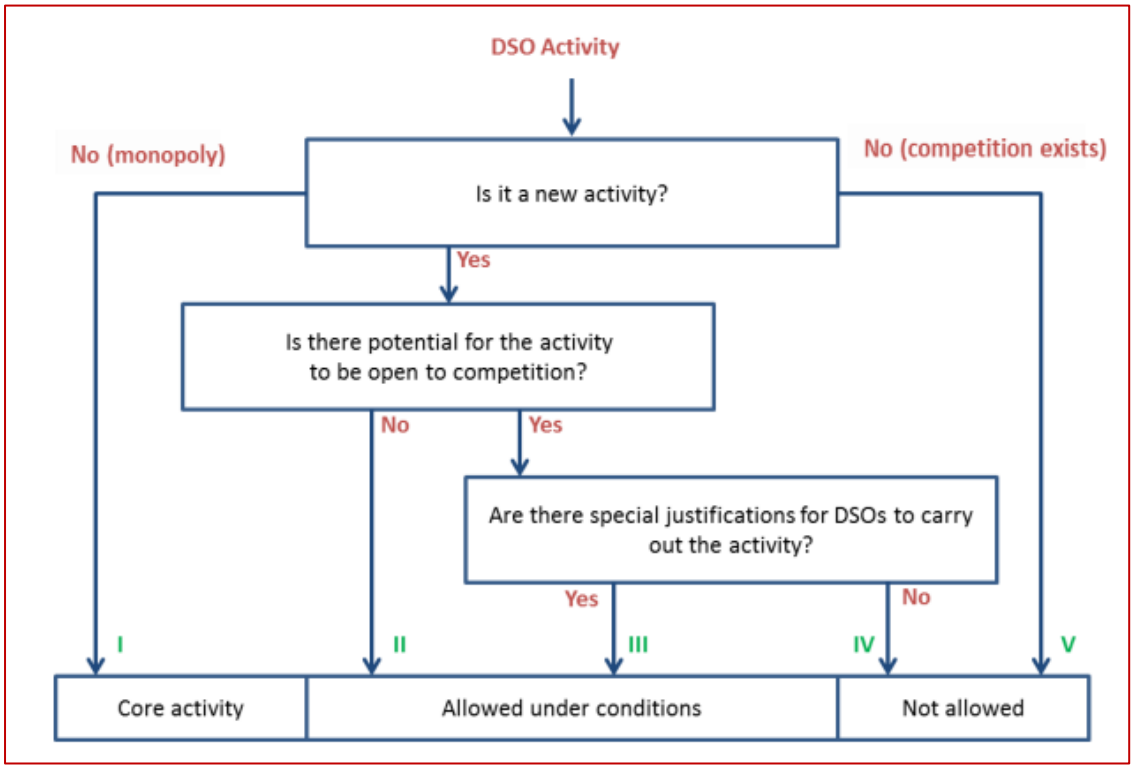

Figure 1: Logical Framework for DSO Activities (source: CEER)

Comments: As a precondition for allowing DSOs to undertake any activities in category II and III, ownership unbundling must be required. Vertically integrated companies consequently need to be prohibited from undertaking any such activities.

6. Do you agree with the assessment of DSO access to data and data management?

Answer: AGREE

Comments: Generally, bne agrees with the assessment of DSO access to data and data management as proposed by CEER. A key point mentioned by CEER is that if a DSO acts as a data hub, it must be independent from interests of its vertically integrated undertaking. It will be a challenge to ensure standardization and mass market application in data management procedures (in order to keep transaction costs low) while keeping the system flexible for new requirements coming up for example with the evolvement of new business models. Also, with high transaction costs, innovation is hardly going to take place.

7. Risks of DSOs participating in "grey areas":

Answer: AGREE

Comments: We strongly believe that DSOs using and managing flexibility options to address local voltage and capacity constraints, need to be fully unbundled, including ownership unbundling. The DSO has to act as a neutral market facilitator in a non-discriminatory manner. Small DSOs typically lack the capabilities and resources to handle the complex tasks related to market facilitation. Hence, operational requirements for DSOs administrating such a facilitation role need to be high, e.g., in addition to complete independency from other company interests, certain size thresholds need to be in place.

8. Do you agree with first considerations on the de-minimis threshold?

Answer: AGREE

Comments: bne strongly agrees with the re-consideration of the de-minimus rule – especially in light of the insufficient implementation of unbundling rules of small DSOs with less than 100.000 connected customers. Particularly in Germany, just the number of about 900 DSOs creates many problems. If each DSO is starting to have its own local flexibility market, there will be a serious liquidity problem. Furthermore, transactions costs for independent supply companies and ESCos will always be high, if each DSO is requiring separate data formats and data management procedures with respect to evolving activities.

9. a) Do you consider all the activities and topics described in this Chapter 2 as relevant to further defining a regulatory framework for DSO-TSO relationship and responsibilities?

Answer: YES

b) Are any activities or topics missing in the DSO-TSO relationship discussion?

Answer: YES

Comments: The consideration of a market-based approach for unlocking flexibility options in the so-called “yellow phase” (as introduced by bne’s Decentralized-Flexibility-Market concept: www.neue-energieanbieter.de/en/node/24169) need to be included in the assessment of the DSO-TSO relationship. What consequences have arrangements at the TSO-DSO interface on local flexibility markets? How would local flexibility markets be affected or shaped by certain TSO-DSO interface arrangements?

10. Do you agree with the description of the activities and topics in this Chapter? If not, what is your view on your specific activity or topic that is relevant for the DSO-TSO relationship?

Answer: AGREE

Comments: Linking different markets such as power exchanges (including futures markets, day-ahead and intra-day markets), over-the-counter markets, balancing and ancillary services markets and local flexibility markets needs to be organized in a reasonable and meaningful manner. If market interventions are necessary due to security of supply and other technical needs caused by grid constraints, those interventions and their influence on market offers need to be kept as minimal as possible.

11. Do you agree with the statement that further regulatory guidelines may be required (in addition to current Network Codes) and if so, which regulatory guidelines do you consider necessary?

Answer: AGREE

12. a) What, if any, are the particular or incremental risks attached to innovative and non-conventional investments? Do these warrant special recognition by NRAs?

Comments: An additional point for consideration regarding price control related incentives is the potential, comprehensive shift of risks and costs related to new smart grid technologies from equipment manufacturers to DSOs at the expense of the consumers. Specifically in the German context, attention needs to be drawn to the fact that there are about 900 DSOs of different sizes and structures. This situation is also reflected in different unbundling rules and other regulations which apply to small and large DSOs respectively. The majority of DSO companies actually operate below the de-minimis clause. In practice this means that all companies with less than 100.000 customers connected (directly or indirectly) to their grid are exempt from a number of unbundling regulations. Furthermore, they are regulated by special state regulatory authorities (Landesregulierungsbehörden), not the federal regulatory office. Those state authorities typically have less staff resources available for exercising control compared to the federal regulatory office. As a consequence of this regulatory set-up, the amount of regulatory control exercised in certain issues and the rules actually used to regulate these issues can differ substantially between smaller and larger DSOs, but also between single German states and of course between the federal regulatory agency and state regulators. In order to be carried out consistently, the regulatory system has to be simple and easy to administer. Otherwise, authorities will fail to implement and control required standards.

b) To which extent, if any, is this incremental risk borne by DSOs?

Comments: ---

13. a) Does the conventional focus on rate of return regulation on capital expenditure, and in some cases limited pass through of OPEX, have the effect of discouraging certain smart grid investments?

Comments: At bne, our knowledge and expertise largely focuses on the German situation. We strongly suggest taking the evaluation report on the German incentive regulation scheme, recently published by BNetzA, into account: http://www.bundesnetzagentur.de/DE/Sachgebiete/ElektrizitaetundGas/Unternehmen_Institutionen/Netzentgelte/Evaluierung_Anreizregulierung/EvaluierungAnreizregulierung-node.html
The report addresses issues pertaining to smart grid adoption by DSOs in more detail and includes a number of important proposals for further developing the existing incentive regulation scheme which we support for the most part.

b) What alternative approaches help incentivise DSOs to adopt smart grids?

Comments: Again, at bne, our knowledge and expertise largely focuses on the German situation. We strongly suggest taking the evaluation report on the German incentive regulation scheme, recently published by BNetzA, into account: http://www.bundesnetzagentur.de/DE/Sachgebiete/ElektrizitaetundGas/Unternehmen_Institutionen/Netzentgelte/Evaluierung_Anreizregulierung/EvaluierungAnreizregulierung-node.html
The report addresses issues pertaining to smart grid adoption by DSOs in more detail and includes a number of important proposals for further developing the existing incentive regulation scheme which we support for the most part.

14. CEER would welcome views from stakeholders on the pros and cons of output based incentives. Please also define for which regulatory incentives they might be appropriate.

Comments: Again, at bne, our knowledge and expertise largely focuses on the German situation. We strongly suggest taking the evaluation report on the German incentive regulation scheme, recently published by BNetzA, into account: http://www.bundesnetzagentur.de/DE/Sachgebiete/ElektrizitaetundGas/Unternehmen_Institutionen/Netzentgelte/Evaluierung_Anreizregulierung/EvaluierungAnreizregulierung-node.html
The report addresses issues pertaining to smart grid adoption by DSOs in more detail and includes a number of important proposals for further developing the existing incentive regulation scheme which we support for the most part.

15. Do you agree that to allow timely recover of DSO revenues, assumptions on consumption patterns in tariff models could be updated within price control periods?

Answer: AGREE

Comments: However, for supply companies in order to be able to calculate and define adequate product offers for their customers, it is essential that tariff calculations provided by DSOs are stable and reliable.

16. How can Time-of-Use network tariffs be coordinated with system energy prices?

Comments: Regarding this issue, we suggest working on the implementation of the Decentralized Flexibility Market concept: www.neue-energieanbieter.de/en/node/24169

17. a) Are there circumstances under which suppliers should be required to pass through the distribution tariff signal to customers?

Answer: NO

Comments: Suppliers should be able to determine whether passing through distribution tariff signals to customers is appropriate or not.

b) If you answered yes to 17a, should there be regulation to ensure that suppliers are required to pass through the distribution price signal to customers?

Comments: ---

18. Do you agree with the assessment of different cases (see Table 1) when DSOs or other parties should have contracts or agreements with consumers and distributed generators?

Answer: DISAGREE

Comments: As for DSR, individual contractual arrangements between DSOs and other parties will always lead to a shrinking market and decreasing liquidity. Favouring a market-based approach, we suggest DSOs sending a signal indicating the needed capacity and using a market mechanism to procure the requested flexibility. Though, we recognize that the case of connection agreements is different and clear contractual arrangements between DSOs and customers are needed. However, the supply company has to be informed in due time about any contractual arrangements allowing the DSO to curtail generation or switch off a customer's load based on grid constraint situations. There has to be a clear definition of roles and responsibilities for DSOs and supply companies/ balancing responsible parties (BRPs), including a fair risk allocation. A situation where a DSO is curtailing generation or switching off load with the supplier/BRP not being informed about this incident has to be prevented at all costs. Furthermore, contractual arrangements between DSOs and customers allowing curtailment and shutdown can have negative consequences for the supply company/BRP not knowing about such pre-arrangements while trying to calculate an offer for such a customer.

Table 1: Regulatory views on possible contractual arrangements (source: CEER)

	1.Connection Agreement DSO-Customer			2. Additional and commercial DSR contract DSO-Customer			3. Additional and commercial DSR contract with customer via aggregator	4. Additional and commercial DSR contract with customer via supplier
	Domestic Customer	Commercial and Industrial Customer	Distributed Generation Customer	Domestic Customer	Commer-cial and Industrial Customer	Distributed Generation Customer		
a. Static Time of Use	I	I or II	I	III* or IV	III	III	III	III
b. Dynamic pricing	III	I or II	III	III* or IV	III	III	III	III
c. Fixed load capping	III or IV	I or II	III	III* or IV	III* or IV	III	III	III
d. Dynamic load capping	III or IV	I or II	III	III* or IV	III* or IV	III	III	III
e. Direct load control	III or IV	I or II	III	III* or IV	III* or IV	III	III	III

** Only in Member States where DSOs do not carry out data management activities.*

19. Which type of regulatory controls should be adopted by NRAs for DSOs, in cases of contractual arrangements falling under categories II and III?

Comments: ---

Who we are: Bundesverband Neue Energiewirtschaft e.V. (bne) / Association of Energy Market Innovators – a strong voice for independent energy companies

bne represents the interests of grid-independent energy suppliers and energy service companies in Germany. Unlike suppliers with a connected grid, bne-members are free of monopoly interests: They are committed to fair competition and a diverse energy market.

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