

## ESMIG reply to the CEER consultation

### “Incentive schemes for regulating DSO”

#### **1. Is there any regulatory aim that should prevail over other aims?**

Innovation. Currently, Europe’s networks are robust, but the networks have to be made fit for future challenges. Right now, some market actors are working against others or not using the technology and infrastructure available. There needs to be a holistic approach to the development of the networks. Innovation incentives should be outcome-based, and should emphasize the role of technology providers in improving the performance of DSOs.

#### **2. What regulatory tools are the most effective to achieve regulatory aims?**

An important hindrance to innovation and smart investment in the network is a “cost-plus” regulation that favors capital asset investments. These types of regulatory regimes need to be removed as soon as possible in favor of a “Totex” type of regulation. We see that getting “smartness” into the network is not moving as quickly as possible, or even as necessary. Therefore, incentives to make conventional investments in the network, i.e. copper and steel, need to be removed. Define what the network has to do and then allow a Totex-scheme to reward the investments. Innovation – meaning, finding alternatives to infrastructure-heavy investments -- should become “business as usual.”

#### **3. Do you have examples of additional important tools in regulation?**

In the U.S., Performance-Based Ratemaking has been used as a means of aligning DSO incentives with regulatory goals. Regulators and stakeholders agree on a set of specific outcome-based metrics, and DSOs earn payments based on their ability to achieve them. For example see <http://www.raponline.org/knowledge-center/smart-rate-design-and-performance-based-ratemaking/>

Focusing on performance has the benefit of turning DSOs away from inefficient investments and toward innovative alternatives.

#### **4. Considering the national and the European regulatory frameworks, what are the main challenges for DSO regulation?**

In contrast to other parts of the world, Europe has an unbundled, liberalized energy market. This makes regulation of the networks and the investments that DSOs can make more complex. Investments are needed that not only benefit the DSO, but other market actors as well, e.g. retailers, aggregators and in the end, final consumers. The challenge is to allow the DSO to make investments into the network beyond the conventional reinforcement and that will provide the basis and infrastructure for other market actors to use – and thus allow the network to adapt to a more dynamic environment and bring benefits to the final consumer.



Related to that is the need to have a “forward-looking regulation”. Not just look at what the network needs on investments today, but what will be needed in 5, 10 or 15 years. One tool that could help would be reduced appreciation time lines in order to keep the network smart. There should be a clear incentive for re-investment after 10-12 years as technology changes.

**5. *What are the most relevant new issues for DSO regulation?***

The most relevant new issue is the simply the new environment that the networks have to function in and how the regulatory regimes have to change with it. (see answer to Question 4).

**6. *What should be the main regulatory goals in the near future?***

One of the goals we like to mention is a crucial element of the Energy Union: consumer engagement and participation. With the unbundling of the energy market the responsibility for including the consumer on the journey towards a new energy future is getting blurred. The DSO’s are not allowed to offer services or products to consumers to support their participation. In several member states they are even not in the position (or not the right party) to inform consumers about the reasons behind changes in the system, such as the introduction of Smart Meters. If consumers don’t get information about the opportunities for them with the new technology and don’t get offers for new products and services, the consumer involvement will not happen, and consumer engagement is even further away. We think that a regulatory action is needed in every member state to take care that consumers are informed and that they get access to reasonably priced and interoperable technology (think about In Home Displays, smart phone apps, home energy management systems, etc.) that can be connected to the Smart Meter.

**7. *Do you agree that the regulatory process shall be an interactive process between regulators and stakeholders?***

Absolutely! Other stakeholders must also be brought into the process, e.g. technology providers.

**8. *What can be done to allow a more active participation form the stakeholders?***

The participation of other stakeholders in the process should be by default. Whether that means in hearings, working groups, drafting of Recommendations and GGP. Schedules should be defined and posted clearly and well in advance. Proceedings should include opportunities to provide comments in person and in written format. Workshops should be used to facilitate the exchange of ideas.

**9. *Do you agree that technologically neutral indirect approaches are the most efficient way to promote innovation?***

We disagree on the “indirect approach”. It should be technologically neutral, but the “what” needs to be defined, e.g. an output-based regulation or specific use-cases need to be defined and then let the market provide the technology to accomplish those goals.

***10. Do you agree that innovation should be seen from the customers’ perspective?***

We agree, but shouldn’t innovation be evaluated from all perspectives, not just the customer’s? In other words, whether innovation is visible to the customer, as well as to regulators, stakeholders, and DSOs. Regulation should be looking for widespread agreement that innovation is rewarded.

***11. Could you provide examples of indirect or direct incentives for innovation which you consider to be effective?***

One example is the UK system, where the retailer is responsible for metering. The retailer has a customer acquisition and retention incentive to be innovative that the network operator does not have. In New York, DSOs have been given a requirement to launch demonstration projects, and have been given assurance of fast-track regulatory approval for those projects so that they can be assured of cost recovery. In other cases, DSOs are required to file annual plans reporting on the progress of development the smart grid and detailing customer benefits.

***12. What do you think about the CEER position on the whole system approach?***

We whole-heartedly agree and it is something that the smart metering industry has been advocating for a number of years: whether it be decisions on the deployment of smart metering or trying to define a regulatory regime that is up to the challenges of network operations in the 21<sup>st</sup> century, the whole value chain has to be looked at.

This approach, as described in the consultation paper, must be holistic in both breadth and time. Looking at the whole electricity system and as far in the future as is practical. A whole system approach and a forward-looking perspective are essential.

***13. Could you provide examples of the whole system approach that bring added value?***

DSOs in the U.S. commonly use a measure called the Total Resource Cost test to understand the impact of a spending decision. This test counts all of the costs and benefits including benefits to the transmission system through, for example, avoided capacity investment. The goal of this test is to determine whether societal benefits are indeed positive.

**About ESMIG**

ESMIG is the European voice of the providers of smart energy solutions. Our members provide products, information technology and services for multi-commodity metering, display and management of energy consumption and production at consumer premises.

Our activities are focused around systems for Smart Metering, consumer energy management and safe and secure data transfer.

We work closely with EU policy makers and other EU associations to make Europe’s energy and water systems cleaner, reliable, more efficient and the European consumer informed, empowered and engaged.

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