



ASSOCIAZIONE ITALIANA DI GROSSISTI DI ENERGIA E TRADER

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Response to CEER Public Consultation Paper on The Future Role of DSOs

Q1: 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

We agree with the three principles that CEER has identified as the core principles to characterize DSOs' activity. In particular we would like to underline the importance for the development of a competitive retail market of DSOs acting as neutral market facilitators and thus operating in a non-discriminatory manner towards all market players. Real competition on the final market will be possible only if DSOs contribute to create and maintain a level playing field in terms of (a) access and management of the grid, (b) metering and (c) data provision to suppliers. In this sense, it is paramount to clarify that the business of DSOs is operating the network, whereas the supply of energy and the provision of services implying the contact with customers are suppliers' tasks, consistently with the model that foresees a single point of contact for the customer.

Q2: What challenges would new forms of stakeholders (e.g. community or municipal energy schemes and ESCOs) bring to DSOs and to existing approaches?

We understand that the presence of new stakeholders could introduce further complexity in the management of distribution networks, both in terms of communication and interaction with a higher number of subjects and in terms of conflicting objectives and possible overlapping.

For this reasons, we re-state the importance of a clear definition of roles, tasks and responsibilities of the different players in the energy system.

It should be clear that all what concerns the development and management of the network represents the core of DSOs' activity, whereas energy supply and the provision of post-meter services should be left to non-regulated market players (suppliers, ESCOs, etc).



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Q3: Do you agree with the proposed logical framework? Are there other important questions which should be included in the framework?

We welcome CEER's exercise aimed at clearly defining the roles and responsibilities of DSOs in the various activities, and basically agree with the use of the potential development of competition as main driver to decide if DSOs should or should not be allowed to carry on a certain activity. Nevertheless, we do not understand:

- why the absence of potential competition should lead automatically to the DSO undertaking this activity. In our opinion it should be assessed if another regulated or administrative body may also be in charge;
- which could be the special reasons justifying the participation of DSOs in activities that would imply their competition Vs their network users. In facts, we disagree with the conclusion of allowing DSOs to carry out some activities that are open to competition, even if under conditions or regulatory controls.

DSOs are natural monopolies, and as such they are in such a privileged position that could make their performance of activities other than their core business even counter-productive for the development of competition. Therefore, we think that DSOs should only engage in activities and services:

- whose provision is remunerated via regulated tariffs (and not market prices),
- that do not imply any purchase/sale of energy on the wholesale market,
- that do not imply any provision of commercial services to final customers.

Leaving the development of other services and businesses to the market will avoid any possible distortion arising from the competition between regulated and non-regulated players.

Q4: Do you agree with the proposed assessment of activities and are there any additional grey areas for DSOs other than those considered?

We do agree with the identified "existing and evolving core activities" and "activities where DSOs should not be involved", but we would suggest the following clarifications:

- ***Activities B3 → allow contracting local temporary generation for the sake of continuity of supply,***
- ***B4 → reaching beyond the meter for gas safety issues***

Circumstances under which exceptions allowing DSOs' participation in these activities will apply should be completely transparent for market participants and highly regulated. Transparency will also have to be ensured for any financial consequences on market participants. Furthermore, we



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recommend some changes and specifications to the activities put in the so-called “grey area”, i.e. where DSOs might be involved under conditions or subject to regulatory control. In particular, we do not share the creation of the category III, where participation of DSOs is allowed also for activities that are potentially in competition.

- ***Activity C3 → DSO’s activities to switch a consumer to a new supplier***

Based on our experience this activity is key for the development of competition as well as to foster customers’ engagement in the market. Nevertheless, in systems where numerous DSOs are present, the lack of data flow standardization and the high number of subjects with whom suppliers have to interact risks to undermine the effectiveness of this process. In such systems, we would support the conferral of the tasks related to the handling of commercial data as well as all commercial related flows and operations to a third party working as market facilitator.

A best practice in this field is represented by the Integrated Information System platform (SII) in Italy, run by Acquirente Unico, which will be responsible for tracking most data exchanges between market actors and holding the official data (currently held by DSOs). The SII will host a general database containing the data which is necessary to operate the main market processes for existing delivery points (pre-check, activation and deactivation, switching, activation of default services, interaction with TSOs for settlement procedures based on meter values, data on customer consumption). Furthermore, it will directly manage many procedures, such as connection, disconnection, activation, deactivation and switching, in the respect of security and data privacy and with full validity of the processes from a legal point of view.

- ***Activity D1 → “local dispatching” of local resources***

We acknowledge the possible role of DSOs in ensuring network’s balancing by dispatching local resources. Nevertheless, it should be clear that DSOs should not have and dispatch own resources, but should base their decisions on the outcomes of local dispatching markets.

- ***Activity D2 → DSO in storage***

Storage should be one possible resource to be used by DSOs to solve network constraints and ensure the balancing of the network. Nevertheless, being it a source of flexibility as any other source competing on the market, the realization of storage infrastructures and the provision of storage services are activities to be left to market players.

- ***Activity G2 → Activities reaching beyond-the-meter***

- ***Activity G3 → Providing advanced devices and added-value services for energy efficiency***

We believe that in a “supplier as single customer’s point of contact”, there are no conditions



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justifying DSOs in carrying out activities reaching beyond-the-meter, nor providing devices and services that could be otherwise offered by suppliers. We are aware that DSOs may have information and data on customer's consumptions that are essential to provide such energy efficiency services, but we believe that they should not take advantage of this privileged position. DSOs should limit their activity to the provision of data to market players, who will then elaborate these data with the aim of offering added-value services to their customers

Q5: For activities falling in category II and III (see Figure 1), under which regulatory conditions could DSO intervention be allowed?

DSOs should not have the possibility to run activities where potential competition is present and whose development should thus be left to market dynamics. Examples of these activities are: (a) the realization of storage infrastructures and the provision of storage services, (b) the offer of recharging services to EV and (c) the provision of beyond-the-meter services as well as of added-value services for energy efficiency.

For activities of category II, that are not core to the distribution business, but for which there is no potential competition, it is important that DSOs act under strict regulatory supervision to ensure non-discrimination, transparency and the absence of cross-subsidies. The implementation of the existing unbundling measures is an important condition to ensure that DSOs part of a vertically integrated company do not take advantage of their privileged position.

Q6: Do you agree with the assessment of DSO access to data and data management?

We agree on the importance that commercial data are handled with care by DSOs. Among the three models for commercial data management identified by the EG3 of the EC Smart Grid Task Force we believe that the creation of an Independent Central Data Hub run by a third party market facilitator represents the best solution to ensure non-discrimination. In particular in systems with a high number of DSOs, this model would also contribute to simplify the interaction among suppliers and DSOs, increasing the efficiency of the system as a whole.

Q7: Do you agree that the risk of DSOs participating in some of the 'grey areas' (particularly flexibility and DSR) decreases the more separated a DSO's operational activities are from other competitive activities carried out by other companies within the same vertically integrated group?

We think that the risk arises by allowing DSOs to participate in activities whose development should be left to market players.

Q8: Do you agree with first considerations on the de-minimis threshold?



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We acknowledge that the structure of the energy market can differ quite relevantly among Member States and we recognize that in some States there is the presence of a high number of small size DSOs with whom suppliers have to interact, often with no standardized flows and practices. All consumers (independently from where they are located and thus from the network they are connected to) should benefit from the Third Energy Package and inefficiencies for the system should be minimized.

Q9: Do you consider all the activities and topics described in this Chapter relevant to further defining a regulatory framework for DSO-TSO relationship and responsibilities? Are any activities or topics missing in the DSO-TSO relationship discussion?

Q10: 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?

Q11: 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?

We consider all the activities listed and described by CEER as relevant and we share CEER's view that TSO-DSO interaction is going to increase in the near future, due to the evolution of the market paradigm. We also agree with CEER that further regulation could be necessary to well define DSO-TSO relationship and to ensure that their interaction is based on principles of transparency and efficiency. In our view, it could be provided by the definition of more general Guidelines Principles at European level and then by more detailed regulation to be developed at national level, to reflect the peculiarity of each system.

Q12: What, if any, are the particular or incremental risks attached to innovative and nonconventional investments? Do these warrant special recognition by NRAs? To which extent, if any, is this incremental risk borne by DSOs?

Q13: 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? What alternative approaches help incentivise DSOs to adopt smart grids?

We recognize that innovative investments might require a revision of the regulatory framework setting the principles for DSOs' remuneration. At the present moment, the development of special regimes on a national basis seems more pragmatic and able to best address specificities.

Q14: 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.



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We would positively consider the introduction of an output based model for incentives to distribution operators that should imply an active stakeholders' engagement to define the system's need in terms of outputs. In our opinion, this could lead to a more efficient approach and to the realization of investments that are really necessary for the system.

Q15: 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?

We agree on the possibility to update the assumptions on consumption patterns within price control periods, if this could help to stabilize the system. An update could be foreseen on a yearly basis, for instance, to use the actual data of consumption of the previous year. However, it should be clear that no within-period variations of the tariff structure could be allowed, as they would heavily impact on the visibility for suppliers to build and sell their commercial offers.

Q16: How can Time-of-Use network tariffs be coordinated with system energy prices?

We are concerned that the mandatory introduction of Time-of-Use network tariffs could represent an element of excessive complexity for different actors of the energy system:

- for suppliers, that will need to coordinate in their offers the price signals provided by network tariffs with the ones (possibly contradictory) provided by energy markets,
- for customers, that will have to understand and react to different (and again possibly contradictory) signals.

We believe that, in particular for what concerns domestic customers, the introduction of additional complexity to the energy bill due to Time-of-Use tariffs would not be counterbalanced by relevant savings from energy efficient behaviors. For these customers we rather suggest the adoption of tariffs based on a "flat rate capacity charge" (first option of Table 1, page 33 of the consultation document). Such an approach would allow customers to quickly understand and distinguish the share of the expenses they have to pay for network and system costs from the energy costs, making easier for them to compare among the various suppliers' offers, whose difference is mainly based on the cost of energy and commercial services.

Q17: Are there circumstances under which suppliers should be required to pass through the distribution tariff signal to customers? - If so, should there be regulation to ensure this happens?

We believe that, in particular where a single bill is applied and suppliers are "de-facto" collecting the revenues of all other stakeholders along the chain (TSO, DSO, etc), suppliers should not be imposed any constraint on the design of their offers. Furthermore, as being the main point of contact with the final customers, suppliers are in the best position to know and address the needs



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of their clients through adequate offers that optimise both energy and use of the networks.

Q18: Do you agree with the above assessment (in Table 2) of different cases when DSOs or other parties should have contracts or agreements with consumers and distributed generators?

Q19: Which type of regulatory controls should be adopted by NRAs for DSOs, in cases of contractual arrangements falling under categories II and III?

In the past years, the principle of suppliers being the only contact point with final customers has been declared and agreed as a pillar for the development of a competitive and liberalized retail market. This is particularly important for small customers, who do not have an extensive understanding of the energy market structure and thus benefit from having a clear idea of whom they can contact for any issue related to their energy supply.

We believe that this principle should be confirmed also with regard to the possibility for DSOs to contract DSR resources from final customers. Therefore:

- connection agreements between the DSO and the customers should be limited to technical issues, and no commercial arrangements on the procurement of DSR by the DSO should be there negotiated and enclosed;
- commercial arrangements for the procurement of DSR by DSOs should always see the interaction of DSOs with a third party, being a supplier or an aggregator, and forbid any direct contract between DSOs and final customers;
- direct contracts between DSOs and customers should be limited to emergency issues or to situations where only a small specific number of customers can help solve the DSO's issue. In this case, the supplier and the balance responsible party should be informed and compensated if any cost is incurred due to the DSO's action.

In these cases, contractual arrangements must be justified, transparent, relatively standard, and should not set unnecessary technical barriers.

If you require any further information please feel free to contact us, sincerely,



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