

CEER Public Consultation on Guidelines of Good Practice for Flexibility Use at Distribution Level



EFET response – 25 May 2017

Need to access flexibility and definition of flexibility

1. *What are in your opinion the main drivers for flexibility use by DSOs going to be in the coming years?*

No additional remarks beyond the considerations mentioned in the consultation document.

2. *Please provide any alternative definitions for flexibility that you think capture the focus of this paper*

As EFET explained in an intervention during the Florence Forum discussion on flexibility in November 2015, “flexibility”, in the context of the electricity sector and the functioning of the electricity market, can be a fuzzy concept. For EFET, **flexibility must be tightly defined as *the ability to use/ exploit capacity with minimal or no limitations*** – thus flexibility is a characteristic of capacity: capacity (in the form of generation, demand, or storage assets) is “flexible” only to the extent that constraints upon use of that capacity at any level, at any time and for any duration, according to need or a bid, are limited. It thus follows:

- Flexibility is **not a standard product as such**.
- There is no such animal as a “flexibility market”: the **energy only market (i.e. the market in power as a commodity)** is the place where “flexible capacity”

can create value – accordingly it cannot be the role of TSOs/ DSOs to provide “flexibility”.

On the other hand we see that the current operation of wholesale power markets in Europe does afford opportunities for market participants with access to flexible capacity:

- **Energy products**, which signal certain flexible characteristics of capacity, are **already traded on the wholesale market** (base vs. peak forwards and futures, options, profiles...). Excessive interventions may reduce the ability of existing standard base and peak load profiles to adequately attribute value to flexibility.
- **New products with smaller granularity** will help provide price signals for more flexible capacity **when the market signals this need** (e.g. shorter-term products, but also shorter-duration/delivery forwards/futures).
- Policy makers should continue to focus on **improving the efficiency of the markets** (incl. enlargement of markets, flexible access to interconnections in intraday, open balancing markets), so that market participants are exposed to the correct price signals and can make correct decisions¹.
- A **level playing field** is of utmost importance (i.e. no subsidies, allowing all providers of flexibility to participate in the market).

DSO uses for flexibility

3. Should DSOs be encouraged to use flexibility to manage the distribution network where this is more efficient than reinforcing the network? Please provide an explanation.

DSOs should carry out a transparent and non-discriminatory evaluation of operational improvements and/or service procurement alternatives to a possible need to spend capital on reinforcement of transmission lines. In this they should be guided by what is most efficient and cost-effective. Indeed proper regulation of DSOs should display to them the correct incentives when choosing either to invest in grid assets or to procure services.

But, if service procurement is under consideration it should not go beyond a level essential to support core DSO activities, namely management of local congestion, voltage and frequency control and maintenance of reactive power capability.

¹ For more details on the subject, we refer to our paper on the Free formation of prices in the wholesale electricity market, dated June 2016, available at:
http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/GG_H299HP5MPZQ5T5/EFET_Free-formation-of-prices-power-market.pdf.

² For more details on the subject, we refer to our paper on the roles and responsibilities of DSOs in relation to the

In no way should DSOs be allowed to act as market participants. We would like to stress that DSOs cannot be not market participants, but only market facilitators (contrary to the sentiment expressed in paragraph 1 on page 9 of the consultation document).

Thus preference for renewable sources, creating advantages for CHP, promotion of DSR, encouragement of local energy communities etc., while all legitimate policy goals, should not fall to DSOs as matters of discretion. To allow otherwise begins to jeopardise their strict unbundling from related or affiliated supply and service businesses.

If a DSO needs to procure services in a specific location of the grid and if there is no flexibility in that location, then this should not lead to a conclusion that the DSO should then be allowed to own and operate storage. Instead the procurement should then be organised over longer periods, so that market participants have a basis to invest in such assets².

4. Should all sources of flexibility be treated equally in the market and by system operators?

Yes. Procurement of flexibility services should be technology neutral. Furthermore the principle of equal treatment of DSR, storage and generation as potential sources, must prevail. It is essential that there is no positive or negative discrimination against any source of flexibility. Owners and operators of all types of flexible capacity should compete on a level-playing field. The efficiency of the entire electricity system should be taken into consideration when deciding on flexibility options. Furthermore, the advantages across different timeframes (e.g. long-term operational costs vs. one-off up-front capital cost) must be considered.

5. Are there any uses for flexibility that you think we have missed and should be considered? If yes, please provide an explanation.

No additional remarks beyond the considerations mentioned in the consultation document.

² For more details on the subject, we refer to our paper on the roles and responsibilities of DSOs in relation to the access to electricity storage, dated October 2016, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/2882VG6WHLGKYUGL/EFET-paper_DSOs-and-storage_21102016.pdf.

6. Do you think it is important for Member States to establish standardised EU definitions of the various flexibility products, to facilitate market participation in flexibility use at distribution level?

Standards can be positive as they increase tradability and thus improve market liquidity. However, standards should be designed in such a way that they do not hamper the development of new flexibility products. Furthermore, we believe that it is important to choose definitions which are technology-neutral.

DSOs Accessing Flexibility

7. Should regulators seek a regulatory framework that can accommodate a range of models that would enable DSOs to access and use flexibility, while ensuring that competition and markets are not unduly distorted?

EFET believes that a market-based approach *per se* should constitute the fundamental underlying framework of EU electricity market regulation. The regulatory framework for DSOs accessing flexible capacity should thus be one that encourages the implementation of a market-based approach. Only in situations where the market-based approach does not deliver results, may other models of accessing flexibility be considered.

It is important to avoid a fragmentation of the regulatory framework. Therefore, EFET strongly opposes a piecemeal approach to different regulatory models, as this hampers the valuation of flexible capacity on the markets and makes it difficult for market participants to expand their geographical area of activity. The regulatory framework should ideally be harmonised at a European/regional level, but at least within the control area of the respective TSO.

EFET would like to underline the importance of avoiding lock-ins by DSOs. Flexibility providers should be able to value their flexible capacity across a number of options, not only DSOs, but also other market participants, as mentioned on page 27 of the consultation document.

8. What do you consider to be the key benefits and key risks of particular models (rules-based, network-based, connection agreements, and market-based)?

Rules-based approach: A rules-based approach can lead to inefficiencies. If the requirements of the rules are too high, market participants will either face higher costs or they will exit the market, because they cannot comply with the high standards (resulting e.g. in inadequacies between the level of flexibility required in the system and that offered on the market).

Tariffs: If the tariff system is harmonised (i.e. the tariff scheme, not the actual tariff) – possibly at regional level, maybe even at EU level – such a system can be an option.

Connection agreements: EFET believes that in particular in market situations where DSOs are not fully unbundled, there is a risk that connection agreements can be used in a discriminatory manner versus market-based solutions. DSOs might include flexibility into their connection agreements and consequently use it on the market. In such a situation, transparency and monitoring is impossible, as the DSO activities within the connection agreement remain in a black box. EFET strongly urges CEER to exercise caution when considering allowing DSOs to access flexibility via connection agreements.

Market-based approach: EFET supports the implementation of a market-based approach, where DSOs as neutral market facilitators can access a range of flexibility options on the markets. The regulatory framework should remain technology neutral, thus allowing for a level-playing field of the various flexibility options. Furthermore, there should be no lock-in by DSOs, i.e. the providers of flexibility should be able to value their product also to other market participants.

9. What are the relative merits of a contracting strategy (competitive or otherwise) versus a real-time market approach to procurement of flexibility?

Any contracting strategy by definition should be competitive. The procurement of flexibility should encompass all timeframes (year, months, week, day, real time). In general, a real time approach should be practicable.

10. Are there any models that would enable DSOs to improve system flexibility that you think we have missed and should be considered?

No additional remarks beyond the considerations mentioned in the consultation document.

11. Are there case study examples of approaches to improve flexibility of the system that you think should be considered in this work? If so, please provide a summary of the key information and findings.

EFET believes that the functioning and the success of the market-based approach become visible in the current practices of procuring balancing power by TSOs (primary control, minute reserve and balancing electricity). From these examples it can be learned that the same prequalification criteria are necessary in order to prevent a fragmentation of the markets.

DSOs Enabling Flexibility

12. Beyond impartial provision of data to market participants, do you consider that there are any other tasks that DSOs should carry out to enable the competitive provision of and access to flexibility by others?

EFET is of the opinion that the transfer of data to all market participants has to be done in a transparent and non-discriminatory manner. This is particularly important, if the DSO is not fully unbundled. Furthermore, the regulatory framework should ensure a certain degree of harmonisation in terms of data transmission so that there is no fragmentation across the markets, if every DSO handles the transfer of data differently.

DSOs Providing Flexibility

13. Do you think there are situations where DSOs should be allowed to provide flexibility beyond the distribution network component, where economically efficient to do so? Please provide an answer for your reasoning.

No. DSOs should at all times remain neutral market facilitators. They must not be allowed to engage in market activities as this could distort the market. DSO should remain fully unbundled from supply, generation and energy service businesses, preferably by means of change of ownership.

14. Are there other examples where the DSO could provide flexibility to help to reduce the overall costs of the system?

The DSO should only procure and contract flexible capacity on the market for their tasks as a network operator. **See our answer 3 above.**

Regulatory Framework

15. In principle, can the regulatory tools listed be used by regulators to remove barriers and facilitate the use of flexibility at distribution level?

No comment.

16. Are there particular tools that you think would be the most effective in achieving flexibility use at distribution level? Please provide reasoning for your answer.

No comment.

17. Are there any other regulatory tools that have not been included and should be considered?

No comment.

18. Should the regulatory framework allow different solutions and combinations of tools to address the specific needs of the network?

No comment.

Regulatory Principles

19. Is a principles-based approach (rather than a one-size-fits-all) the correct one for national regulators developing a framework for facilitating flexibility use by DSOs at distribution level?

EFET welcomes the regulatory principles listed in chapter 3.3 of the consultation document. We believe that a principles-based approach is useful, if it strikes a balance between creating a strong level-playing field for flexibility in the EU internal electricity market while at the same time allowing for enough leeway to address potential specificities in Member States. The underlying fundamental principles addressed in the consultation (transparency, non-discrimination, technology-neutrality, market-based approaches, and unbundling) should in any case be the guiding principles for establishing a regulatory framework for flexibility in Europe.

20. Are the principles outlined appropriate? Are there any fundamental principles that you think are missing in order to deliver maximum benefit to customers?

EFET agrees with the principles outlined in the consultation document except to the extent that we have quibbled with emphasis.