

Vattenfall's views on the proposal for a revised internal electricity market directive

Vattenfall welcomes the Commission's intentions and proposals for a recast of the Directive on common rules for the internal market in electricity. The proposals around measures to empower customers and to increase flexibility, are important for the clean energy transition and will help to integrate higher shares of RES. DSOs are recognized as key enablers to reach the European energy goals, and we notice that the Directive evolves DSOs' tasks and responsibilities in meeting the clean energy transition. A more defined DSO role is welcomed, but a too strict regulation can also impose unnecessary barriers.

Customer empowerment is key - We welcome and support an increased focus on customer empowerment, most notably in the form of:

- Phasing out regulated prices. Retail price regulation is a serious obstacle to competition among electricity supply companies, and Vattenfall supports the Commission's proposal to end regulated prices in general and also for vulnerable consumers. Vattenfall proposes that a clear roadmap should be made for the phase out of regulated pricing. (Article 5, Article 28)
- Metering values are important for a well-functioning market and hence a roll out of smart meters is a prerequisite for market development. Vattenfall supports the intentions of having minimum functional and technical requirements for the meters, but some of the outlined functionalities (defined in art. 20 and Annex III) are not cost effective. A near-real time visualization requires a high-performing and highly available telecommunication connection of the smart meter, if the intention is validated values. The resulting costs overcompensate any energy saving effects. Vattenfall proposes that customers, who wish to participate in a flexibility market, may receive unvalidated near-real time data taken from an open interface on the meter upon request. How to get access to the interface should be regulated and decided by each MS, and costs could either be handled in the DSO revenue regulation or as an additional paid service. Any hardware for visualization, such as home displays and their connection to the meter, should not be obligatory but left to the market. (Article 19-21)

Give all players the same conditions

- Vattenfall fully supports the objective that generation, storage and demand response should compete on a level-playing field, including non-discriminatory participation of independent third party aggregators in the market. Any system driven demand response must be based on actual meter readings and deregulated energy pricing. Aggregation of demand will be a relevant contribution in the electricity market that is now emerging and is welcomed as such, but it must be done entirely within the framework of full balance responsibility in order to generate the maximum customer benefit. Separating the liability for imbalances from aggregation (so called independent aggregation) will otherwise increase risks, a cost that ultimately will end up on customers' bills. Thus, so-called independent aggregation must be avoided as it may be expected to increase both the costs of the system and the end customer. This includes both activities on the energy market and in the distribution grid operation. (Article 17)

- According to the Commission's proposal, Local Energy Communities (LEC) can own and operate distribution grids, buy, sell, generate, aggregate and store electricity – and they should be allowed to operate on the market on a level-playing field without distorting competition. Today, the entire electricity system is built on the strict separation between regulated (DSOs) and unregulated (supply) business, but LEC seem to be allowed to do both. All new market actors should also participate in the market in a fair way, being responsible for the costs they contribute to induce. As grid owners, LECs should face the same stringent obligations than other DSOs. Single customers within a LEC who want to leave a LEC and to choose a supplier on the free market should be allowed to do so, and by that also be connected to the DSO. The prerequisites of this process need to be defined, to ensure fair conditions for all involved parties. Vattenfall asks for clearer definition of LEC, incl. structure, roles and responsibilities. Furthermore, we are asking for clarifying reasons why LEC are defined as only for non-profit organization. (Article 16)

Storage and flexibility

- Vattenfall is a strong supporter of the energy market and favours technology-neutral regulation to provide the framework within which this market can develop. In this respect, we support a regulatory framework that continues the focus on the application of storage (and other technologies), rather than the technology itself. However, we realise that storage, unlike wind, is a technology with a broad spectrum of applications and – depending on the definition of storage – can take many forms. For this reason, clarification of the market rules and roles applied to storage could contribute to transparency and avoid market distortion.
- The energy transition is creating a rapidly changing environment in energy, which – positively – pushes for innovation and development of all existing and new players in this market. These market changes take place during policy development and implementation, and often faster than (and sometimes in unexpected and surprising directions) policy can be adapted. For this reason, the European framework within the clean energy package should ensure it incentivises desirable behaviour (efficiency, transparency, non-discrimination, market-based, decreasing emissions) and allows for, rather than limit, this fast development.
- Vattenfall supports the proposal of the European Commission on the role of DSO's regarding storage (article 36 Electricity Directive), with respect to the way it confirms the framework already in place for the separation of commercial and regulatory roles of flexibility in the electricity markets. The proposed article confirms that the use of storage for commercial purposes remains part of the market, which Vattenfall strongly supports. In addition, concerning the use of storage for the regulated tasks of the DSO, the article is set up to reflect the developing phase this technology is currently undergoing. We envisage that for the coming years, the market – in certain places – is not yet developed (enough) to provide efficient market based solutions for the DSO to use. In these cases, and also in situations where this market does not develop at all (for example for geographic reasons), DSOs must and must be able to choose the most efficient technology over time to meet their regulatory obligations. Where a market has developed, or will be developed in 1-2 years, a mechanism should exist to ensure the most efficient solution over time is used. Transparent tenders will offer, even in not or not fully developed markets, the demand side of this market, allowing a supply side to emerge.

Recognize the growth of responsibilities for DSOs

- We support the key principle of a clearly defined role of DSOs, and we can see that the Clean Energy Package recognizes the DSO responsibilities as highly important for the energy transition. The regulatory framework must be predictable and stable and it should also include incentives for OPEX and leave the freedom of choice about the most efficient investment. Vattenfall strongly believes that specific design of innovation incentives should be done by the national regulatory authorities. (Article 32)
- A strict market regulation on low voltage levels could lead to more administrative restrictions outweighing the potential benefits. There are also complex interrelationships between DSO obligations, market contract solutions and network user dynamics over time that cannot easily be managed through network development plans. Vattenfall advises that network development plans should be limited to high-voltage networks only, where grid planning timeframes match development plans and their costs might be appropriate in relation to the benefits. (Article 32)
- Vattenfall is very positive about the Commission’s view on incentivizing DSOs to procure services in order to improve efficiencies in the operation and development of the distribution system.

Main points that should be improved during the negotiation process

- **Local Energy Communities (Article 16):** should not be allowed to distort the market but cover an adequate share of the costs of the distribution grid they are connected to. Vattenfall is asking for a clearer definition of LEC.
- **Independent Aggregators (Article 17):** Aggregations should be done entirely within the framework of full balance responsibility and independent aggregators should take their costs like all other market participants.
- **Real time values (Article 20):** A near-real time visualization of values is possible if non-validated data are used through a direct interface on the meter. Access to the interface should be regulated and decided by each MS, and costs could either be handled in the DSO revenue regulation or as an additional paid service. Any hardware for visualization, such as home displays and their connection to the meter, should not be obligatory but left to the market.
- **Definition of storage (article 36):** There is a need to clarify and define a separate asset category for electricity storage systems in the existing regulatory framework, given the dual nature – generation and demand – of energy storage systems (so-called ‘grey area’).
- The definition of storage in the Directive should clarify the correct scope; certain specific widely used technologies, like capacitors, are clearly outside of scope for this policy and should be confirmed as such. At the same time, it should ensure national system specificities can be taken into account by Member States when transposing the Directive into national legislation.
- **Tasks of DSOs in the use of flexibility (Article 32):** Network development plans should be limited to high-voltage networks only and the specific design of innovation incentives should be done by the national regulatory authorities.