

## **EFET Response on the ERGEG Public Consultation Paper “Position Paper on Smart Grids” (Ref: E09-EQS-30-04)**

EFET is not strongly involved in the ongoing discussion on smart grids, which primarily relates to the activities of network companies and retail suppliers. Rather than providing a detailed response to the questions raised by ERGEG in its Consultation Paper, EFET would like to bring up some general issues and concerns.

### **Definition of ‘smart grids’**

The notion of “smart grids” is very broadly defined. It seems to cover several areas, ranging from the use of modern ICT to improve the operation of networks and their interaction with network users (generators and consumers), to the application of new transmission technologies, such as new High Voltage technologies (HVDC) and FACTS. In addition to its broad scope, we do not consider it possible to define a specific regulatory approach towards “smart grids”, because the issue covers both network-related and market-related activities.

*Conclusion:* EFET would, therefore, like to suggest not to define a generic regulatory approach for smart grids. Instead, regulators should focus on more specific issues that are likely to arise.

### **Network and market activities**

Issues falling under the scope of “smart grids” are at the boundary between the network and normal market activities. There is, therefore, a risk of regulated activities crowding out normal competitive behaviour. For example, energy suppliers and energy services companies are already using “smart solutions” to better integrate consumers, producers and distributed generation in the market.

Generally speaking, EFET believes that **regulatory frameworks should encourage network operators to play a market facilitating role, rather than to encroach on services that fall under the contestable domain.** This would stimulate innovative solutions, which would be more efficient. For example, the involvement of the demand side in providing reserve capacity should follow the existing “supplier hub” industry model, in which the consumer contracts with the supplier and the supplier contracts with the networks.

The consultation document does not always reflect this. According to Figure 2 in the report, for example, the activity “Supplier Transactions” falls under the scope of Smart Grids. In section 3.2., it is written that: “TSOs and DSOs are the prime movers for the deployment of smart grids. Their task is to implement the network infrastructure that will

allow the flow of both energy and information between customers, producers, suppliers and all the other grid users in the new smart grid framework.”

**Considering the role of TSOs, we would like to restate our wish for an accelerated implementation of a central implicit intra-day platform, which would allow for continuous power wholesale trading across Europe.** This would enable markets to make the best use of the most effective demand side response to the intermittency of wind power, not only nationally but also Europe-wide. The most sensible demand side response could be also balanced against any other supply side reaction in a market-based way, using the optimal potential of smart grids to the benefit of renewables and an integrated market.

*Conclusion:* **EFET is concerned that the new smart grids framework could lead to (partial) regulation of primarily market-related activities and therefore, to distortions in competition.** Roles and responsibilities of network companies, on one hand, and suppliers / market parties, on the other hand, need to be clearly distinguished in order to decide on proper regulatory measures. An implicit intra-day platform needs to be installed urgently to facilitate the market integration of renewables and to make the best use of the smart grids’ potential.

### **Incentive regulation and quality standards**

EFET does support ERGEG in its conclusion that incentive regulation is essential for stimulating network companies to invest in those innovations and smart solutions that can improve efficiency and reliability. This should be underlined, as there seems to be an opposite tendency in reducing incentives placed on network companies - for example, the new congestion management approach implemented in the Netherlands.<sup>1</sup>

Financial resources may need to be made available to network companies to develop smart solutions. That could be e.g. special funds like in the UK, special return on equity as in Italy, or accelerated depreciation periods of smart grid investments. For the mid-term, the investment conditions given in each EU country have to be sufficient to encourage network operators to invest in smart grids on a large-scale. However, network operators should avoid second guessing the outcome of competitive processes or favouring particular types of activity (e.g. distributed generation).

The definition and updating of minimum standards (both on the quality levels of services provided by network companies and on the requirements to be met by network users like small-scale or renewable generators) is a simple and powerful way to cope with many of the new challenges that network companies face without introducing new regulatory structures.

### **New challenges**

Finally, it is also clear that the development of sustainable electricity generation will entail major technological challenges for networks. Connection of large offshore wind

---

<sup>1</sup> This new approach basically means that redispatching costs will not be recovered through transmission tariffs (under some sort of incentive regime), but will be passed directly through to generators.

plants, for example, will require the use of new HVDC technologies. However, to a large extent, new technologies like HVDC, FACTS and substation automation are already being applied. EFET is not able to judge whether these developments also require significant innovation and whether a major shift in the approach of network services is apparent.