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Open letter to European Commissioner Arias Cañete for Climate Action & Energy

Five Recommendations

Dear Commissioner,

The four European associations representing electricity distribution system operators (DSOs) in Brussels congratulate you on your appointment. The European power system is in the midst of transformative change. We are committed to making that change a success and to supporting you in a constructive manner throughout your mandate.

The ambitious short-term 2020 and medium-term 2030 agenda can only be achieved if the needed actions are taken to empower Europe's DSOs in their role as neutral market facilitator. This means acknowledging their evolving tool box, their responsibilities in metering and data management, and their facilitation of smart markets. It also requires supporting smart grids innovation and demonstration, improving the investment climate, indicating common principles on distribution, and fully implementing the Third Package.

Distribution networks are the new backbone of the European power system and an impressive European asset, covering 97% of all electricity lines in Europe and a length of once to the moon and back. They connect households, businesses, industry and decentralised generation. Europe's 2,400 electricity distribution companies employ 240,000 people, providing a very high level of reliability and quality of supply to around 260 million customers. The electricity distribution business across Europe is very diverse. It varies in the number and size of operational areas, the number and type of connected customers, network characteristics, renewables penetration, and tasks allocated as well as ownership structure. Today, and even more so tomorrow, the power sector value chain relies strongly on 'the new downstream', with the DSO at its very heart.

Traditionally, distribution networks were designed to transport electricity in one direction: from the generation connected to the transmission system to customers at the end point of the network. This type of system did not require extensive grid management and monitoring tools.

But with solar panels on rooftops and windmills integrated into industrial sites, grids are becoming even more complex to manage, and customers are increasingly generating electricity themselves. By becoming prosumers they are moving from the end point to the centre of the new value chain. Smart meters and smarter grids empower them to better manage their energy consumption and trigger a 'digital leap' for the DSO who will process more data and be able to use advanced data analytics to optimise network management and deliver better services to all customers.

EU policies have encouraged the development of decentralised electricity generation, electric vehicles, energy storage, flexible demand and the energy transition, but did not **foresee developing the system accordingly**.

DSOs are today rethinking traditional system operations and reflecting on how to best develop and operate distribution networks, in order to maintain Europe's power quality while delivering a successful and cost-efficient transition.

We invite you to participate in this reflection and ask for your support in taking the energy transition from promise to practice, based on the principles of security of supply, sustainability and cost-efficiency.

As European associations representing DSOs we have delivered, in 2014, a **DSO Declaration** outlining the general concerns and recommendations of Europe's distribution network operators. We attach this publication to our letter.

The DSO Declaration underlined that the 2030 goals for CO_2 emission reduction, renewable energy and energy efficiency translate into specific DSO tasks:

1) Integrating more distributed renewables in the networks at medium and low voltage level;
2) Facilitating interactions and data exchanges between grid users;
3) Bringing more intelligence to the grid thanks to IT tools and suitable data communication infrastructures.

These tasks can only be fulfilled if specific actions are taken to empower DSOs in the European Union, by adapting national regulatory conditions for networks to incentivise investments that bring more intelligence to the grids. We count on the European Commission to support us in tackling this issue with national regulators.

Based on our Declaration, and taking stock of the forthcoming policy initiatives on 2030, the Communication on the Energy Union and the Retail Market Communication, the Juncker Growth and Investment Package, the CEER consultation on the role of the DSO, as well as the wider economic and political context, the DSOs in the European Union would like to share with you five recommendations that we ask you to support during your mandate:

1. **Reach the 2030 targets through smarter grids**

   The 2030 targets are interdependent and require strong complementary measures. We encourage you to develop a master plan on DSOs in 2030. We stand ready to cooperate with your services in order to outline such a plan for the achievement of the 2030 targets, in the perspective of the EU's 2050 objectives. This will include smarter grids and smart meters (where cost-efficient), data handling, the reinforcement of the interface between DSOs and TSOs, new energy services, the integration of storage, e-mobility and smart charging infrastructure. We also encourage you to support smarter distribution grid demonstration projects (also on local and regional level if they can serve as good examples for EU-wide deployment) within the Juncker Investment Plan, and to seek, together with your Commissioner colleagues, potential synergies with other network related industries.

2. **Acknowledge the role of the DSO and support an expanded tool box**

   TSOs have been exposed to a major transformation in the last decade.

   Now DSOs – confronted with the developing energy transition on the ground – have taken their first steps in adapting their systems. According to the European Commission's Joint Research Centre, 60% of funds invested in smart grids research and demonstration projects come from DSOs. Now the regulatory framework should allow and incentivise DSOs to deploy new technologies and operating tools on a larger scale.

3. **Take advantage of the Third Package provisions and go for implementation with no delay**

   We urge you to implement the Third Package to its full extent, thus providing clarity on the DSOs' future roles and responsibilities. We call in particular for the implementation of those articles giving DSOs the possibility to invest in smart solutions and manage their grid in the most efficient way.

4. **The Internal Energy Market requires common principles for DSOs while respecting subsidiarity**

   With the energy transition the DSO moves centre stage, also within the IEM. Physical links are indeed the basis of the IEM, but they will progressively be complemented by new market mechanisms and a

new set of rules for the retail market. DSOs are neutral market facilitators who can contribute to empowering customers by managing their data in an efficient way, making it available to innovative service providers on the market in a non-discriminatory way, but also by certifying and validating the delivery of flexibility services.

5. **Reach the 2020 and 2030 targets through a sound investment framework.**
   The projected renewables deployment and more variability in the offer and demand of electricity necessarily go hand in hand with the development of the transmission and distribution system, as well as innovation in services and smarter grids. We urge the Commission and EU institutions to contribute to an investment framework for distribution which can unleash a successful energy transition. We recommend in particular a cost-efficient approach to investments, based on openness for rival solutions, through sound and future-proof incentive regulation.

We, the Brussels based European associations representing electricity DSOs, look forward to discussing these matters with you in greater detail and stand ready to cooperate with the Commission in taking the energy transition from promise to practice.

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2014 DSO Declaration