

## **Eurogas Views on aspects of Electricity Legislation in relation to the Mirroring Exercise**

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Eurogas is pleased to have the opportunity to give its views on aspects of the Clean Energy Package (CEP) that should be mirrored in future gas market legislation. The overarching concern of Eurogas is that any legislation on gas, at whatever time it is brought forward, should recognise the essential role gas must play in the decarbonisation strategy, forging more closely the links between energy and climate change policy. Policies should be increasingly framed by an understanding of the need for more holistic approaches to energy solutions, sector-coupling between gas and electricity, an objective in which both suppliers and DSOs have important roles.

In addressing the detailed aspects of the proposed recast Directive and Regulation for the internal market in electricity two different perspectives are brought together, on the one hand from gas suppliers (or their representatives) who are in most cases also suppliers of electricity, on the other from gas DSOs. These cover diverging motivations, relevant to the differing functions in the gas chain.

- Suppliers of gas are also suppliers of electricity, and those provisions on electricity, that are equally relevant to gas, should be mirrored. If not, companies will be subject to different sets of rules for similar activities such as billing/billing information. Furthermore commercial marketing opportunities not envisaged in 2009 foreseen in the CEP may be relevant for gas and this should be reflected accordingly.
- DSOs are concerned that the distinct contribution gas DSOs can make to the decarbonisation strategy is overlooked, especially the flexibility gas offers to the energy system as a whole.

The views from the different parts of the chain are coherent and complementary on the proposed recast Directive. A main point advanced by the DSOs is the need for a separate gas DSO body. More detailed explanations on the shared points on the Directive and the DSOs' case for a proposed gas DSO entity mirroring the Regulation are provided in the Annexes.

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### **Supply perspective**

From the supply perspective, points are mostly straightforward. The proposals in the CEP affecting the retail market that are considered relevant for gas are viewed positively and should be mirrored. They should enable gas customers to manage better their energy consumption and be active in the market to the extent they want. Appropriate levels of customer protection are proposed, in line with current legislation, with more explicit but pragmatic approaches for vulnerable customers and fuel poor.

The wording, however, of some gas relevant provisions will need to be adapted appropriately, and on a few points, Eurogas identifies the need for more substantial improvements before they can be considered for mirroring, notably data formats.

Other issues in the proposed recast Electricity Directive are not viewed as needing to be mirrored in future gas legislation. Active customers, aggregation, local energy communities and demand response are concepts that will underpin radical changes in electricity market structure and require an EU-level approach, coherent with the wholesale electricity market design changes. Some of these areas can be associated with gas, but in a particular and limited form. Notably demand response is a long-standing tool of gas supply security, and independent biogas grids could develop. It should be possible to continue with such opportunities at national level, benefiting from the particular flexibility that gas offers the energy systems when circumstances are right, but this does not require EU-level legislation.

In summary,

The views of the suppliers are

Relevant straightforward mirroring – Articles 5, 9, 10, 12, 14, 22, 23, 26, 28, 29

Not relevant – Articles 11, 13, 15, 16, 17, 19, 20, 21, 27, 36

Relevant but improvements needed to the proposal 18, 24

Article 33 should also be reflected in some way, taking into account gas market structures.

The suppliers take note of the DSOs' arguments for a special gas DSO body. Any such body should be consistent with the role of gas DSOs as neutral market facilitators.

### **Perspective of DSOs**

The DSOs approach a number of the articles from the operational viewpoint, and are especially concerned about the possible implications of provisions on metering and data management, that would be inappropriate for gas and involve cost burdens and inefficiencies. They share the views of suppliers given in the analysis.

The special gas DSO entity is argued to be necessary because of its relevance to a number of DSO related activities, including integration of renewable gases, cooperation between gas DSO and TSO, and DSO tariff design.

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One important caveat applies to the positions taken in this paper, especially points on which mirroring is supported. We are at this stage commenting on proposals that could change, and therefore Eurogas reserves the right to revise our views on the suitability for mirroring if the proposals are amended in a way that causes concern.

Finally as the proposed Recast EED contains gas-relevant provisions, including on billing and metering, eventually to be replaced by provisions in the Electricity/future gas legislation, Eurogas will comment on these separately.

## Annex 1: Electricity Directive

Article	Issue	Degree of relevance	Remark
5	Market based supply prices	Relevant	Eurogas supports phasing out of regulated prices, and it is important that this should happen for electricity and gas in the same timescale, with the nature and duration of any transition regulation limited.
9	Public Service Obligations	Relevant	
10	Basic contractual rights	Relevant	
11	Entitlement to a dynamic price contract	Not relevant	Unlike for electricity, within-day gas prices are not much used and therefore no EU level action is required for a practice that can already be accommodated nationally under the current framework. It should <u>not</u> be an obligation for gas suppliers.
12	Right to switch suppliers and rules on switching-related fees	Relevant	Eurogas welcomes the sensible refinement on switching fees.
13	Contract with an aggregator	Not relevant	Copying these provisions at EU level is not seen as necessary. An aggregation service could be envisaged for industry savings, but this is already possible within the existing framework.
14	Comparison tools	Relevant	Eurogas supports high-quality comparison tools.

15	Active customers	Not relevant	Gas customers as well as electricity customers should be empowered to be engaged in the market, in choosing suppliers, selecting high quality products, and switching, but the concept presented here for electricity is not considered relevant.
16	Local energy communities	Not relevant	It is not clear how this concept will be put into practice for electricity, but the differences with gas do not support the need for EU level Legislation. Autonomous grids for renewable gas (e.g. biogas) systems can occur already. If these are connected to the gas grid for back-up, they need to pay a fair share of grid and other system costs. A level playing field should be maintained in order to avoid market distortions that would penalise other gas consumers or market actors.
17	Demand response	Not relevant	Demand response to gas supplies can occur at industry level, e.g. to contribute to security of supply arrangements notably through various forms of interruptible contracts. However, the sort of DSR envisaged here, ultimately needing to be linked to a raft of smart appliances to succeed, is not considered relevant for gas. Gas consumption loads cannot be shifted in the same way as electricity for small consumers.
18 and Annex II	Billing and billing information	Relevant	<p>Eurogas, however, would prefer an improved drafting, introducing a better distinction between billing/billing information and facilitating clear but also diverse, creative communications with customers. It should also be recognised that greater frequency of billing is linked to electronic availability.</p> <p>The provisions in the EED on billing/billing information for electricity customers have been transferred to the Electricity Directive. Eventually the</p>

			billing/billing provisions for gas should also be transferred to ensure consistency and coherence.
19	Smart metering, amended ... publication of minimum functionalities, interoperability, connectivity etc.	Extras not relevant	The current provisions on smart metering can be maintained.
20	Smart metering functionalities	Not relevant	Similarly, this is not relevant in view of the different considerations attaching to gas smart metering.
21	Entitlement to a smart meter	Not relevant	This would be wholly impractical when there has been no roll-out of gas smart meters. Especially from a DSO perspective, it would not be cost-efficient, as neither the IT system nor data communication would be in place.
22	Conventional metering	Relevant	Conventional gas meters measure operational volumes, and customers should be able to check this information against their bills and correct as necessary in a self-reading, using electronic or other means. So far relevant. The provision, however, requires clarification on what is “indirectly”, what are online/appropriate interfaces? If it means more than this current arrangement the wording would not be appropriate for gas.
23	Data management	Relevant	
24	Data format	Relevant to mention this for gas but wording of current	At national level, harmonised data formats and procedures benefit the market. Eurogas can accept that as cross-border markets eventually develop for gas, especially in regional markets, convergence of data management practices will bring added-value. Common European data formats, however, should not be imposed top-down as implied by the

		provision is not acceptable	current wording, as this could involve expensive adaptations with unclear benefits. The market should drive any such development, and cost-benefits justify it.
26	Reference to ADR Directive	Relevant	Gas market legislation should also be aligned with the ADR Directive.
27	Universal service	Not relevant	Gas in all its uses can be replaced and the concept of universal service does not apply.
28	Vulnerable customers	Relevant	Eurogas welcomes that the approach remains essentially unchanged and that the responsibility for defining vulnerable customers remains with Member States.
29	Energy poverty responsibility on Member States to define measuring criteria, monitoring and reporting on actions	Relevant	Eurogas supports this approach.
33	Integration of electro-mobility into the electricity network	Relevant to ensure potential of gas for transport is also considered	Further thought necessary on the appropriate regulatory framework, but in principle this should adhere to market rules.
36	Ownership of storage facilities	Not relevant	The regulatory framework for gas storage as a flexibility tool for users as well as TSOs and DSOs to balance respectively their networks and supply portfolios is covered in current legislation. DSOs highlight that particular care should be taken not to impact on network ("linepack") storage, which among other roles is intrinsic to running a gas network.

## Annex 2: Electricity Regulation

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### Creation of a DSO Entity (Art. 49, 50, 51)

The role of the gas DSO has evolved strongly since the 3<sup>rd</sup> package. We see a need for gas DSOs to engage as a joint gas DSO body in the further development of the energy sector. This is relevant in several ways:

- **Integration of renewable gases:** the large majority of bio methane plants today is connected to the DSO grid. It is foreseeable that this will continue. With the development of Power-to-gas and the injection of SNG or hydrogen, the integration of renewables will increase even more. As the integration of renewable energy is a core competence of the EU it is to be expected that a certain amount of European rules will be developed.
- **Cooperation between gas DSOs and TSOs:** the development of the existing network codes has shown that many binding operational rules have been created for DSOs e.g. in the balancing code or the interoperability code. This had not been foreseen in the Third package where network codes were designed to facilitate cross border issues. It is to be expected that with the further development of the market and especially with higher injected renewables volumes more European rules will be designed. In the future all DSO-relevant rules should be developed by DSOs or jointly together with the TSOs. Similar to the work of the TSOs, the DSOs should develop best practice papers to help the implementation of network codes at the DSO level.

In addition coordinated planning between DSOs and TSOs will enhance system efficiency and resilience especially with regard to

  - more renewable gases being injected into the DSO grid
  - capacity planning by the TSO
  - SOS rules
- It is very important that **sectorial coupling** between the gas, electricity and heating infrastructures and the transport sector is developed in a holistic way. Until now the sectors developed separately, concentrating on their network codes and technical challenges. We believe that the ambitious goals of the Clean Energy Package can only be met in a time and cost-efficient way, if the cooperation between the sectors is put on new ground. The imminent need for weekly and seasonal large storage for the intermittently produced electricity can only be solved if the infrastructures work in close cooperation to develop joint concepts. This will help achieve the goals of the winter package e.g. local heat and electricity production with renewable gases offers flexibility to customers and the electricity DSO at low heat losses.
- **Hydrogen** can play an important role for the future of gas grids for the use in heating and transport. The DSO Entity could be a place to collect experiences and practices from the various countries and facilitate them.
- **The electricity EU-DSO Entity, as foreseen in the Clean Energy Package, will work on the following topics:**

- a) coordinated operation and planning of transmission and distribution networks;
- b) integration of renewable energy resources, distributed generation and other resources embedded in the distribution network such as energy storage;
- c) development of demand response;
- d) digitalisation of distribution networks including deployment of smart grids and intelligent metering systems;
- e) data management, cyber security and data protection;
- f) participation in the elaboration of network codes pursuant to Article 56.

Eurogas considers Topics a) and e) as cross sectorial as rule-setting in electricity will directly affect the national rule-setting for gas DSOs. Data management and cyber security for example are areas which concern and may impact both the electricity and gas sectors. Already, in many Member States these topics are developed jointly between gas and electricity. If the planned electricity DSO Entity were to develop rules on data management, it would automatically influence the common rules for gas and electricity in the Member States.

#### ▪ Governance

Even if the DSO Entity for electricity would have to consult with concerned stakeholders, the planned setup leads to a decision distortion on regulated assets between gas and electricity. **Any act and recommendation regarding gas infrastructure may only be developed by gas grid operators or their representatives.**

Therefore we are of the opinion that gas DSOs should have their own presence as an Entity to ensure equal footing in the rule setting. A mere consultation with the foreseen Entity in electricity and other stakeholders is not sufficient.

**All gas DSOs shall have the possibility** to voice their opinion in the gas Entity to avoid exclusion, but nobody shall be forced to join. To keep the gas DSO Entity operational a solution has to be found between membership and governance, and DSOs should have the possibility to be represented through national associations.

In any case the Art. 52 of the proposed electricity regulation has to be amended in a way so that the EU DSO for electricity Entity has to include European gas DSOs on the same footing in **all cross-sectorial topics**. This work has to be institutionalized through regular meetings between the two sectors and the setting up of a **permanent standing committee**. In this committee, gas and electricity DSOs will need to have equal rights on all cross-sectorial topics.

#### **Network Codes DSO Tariffs and connection costs (Art. 16 and 55)**

Gas is a competitive fuel which has led to different developments in the Member States. The level of gas grid development in the countries where it already is present depends on external influences like prices of alternative fuels or the availability of gas TSO capacity transporting gas between Member States.

The Mercados study demonstrated that tariff structures differ widely in all countries. Tariff design reflects the organisation of gas infrastructure and the customer structure like the ratio between residential and industrial/commercial consumption. It also reflects the age, level of maturity and geography, topology and/or climate conditions of a Member State. Consequently, tariff design lies within the responsibilities of the Member States and should stay that way.

We do not agree to the proposal of a network code on distribution tariffs nor a harmonization of distribution and transmission tariffs. Eurogas agrees to the principles laid out in Art. 16 but proposes to develop the overlying principles jointly between ACER and the DSO Entity, to include the essential national knowledge. Considering the complexity of the task, 3 months is too short; at least 9 months are necessary.

The mechanisms in TSO tariff design are very different to the distribution grids and mainly based on capacity requirements. Due to the customer structure, it would, for example, not be possible to auction new capacities to end customers as it is the rule on the TSO level. Furthermore tariff design and cost calculation and allocation are embedded deeply in the legal structure of the Member States e.g. accounting, amortisation, metering, taxes, technical rules, safety interventions and even property limits between operators and customers. Considering that the above areas are far from being aligned among EU Member States, a harmonization of distribution tariffs is impossible.