

Eurogas Response to the CEER Public Consultation on Incentives Schemes for regulating DSOs, including for Innovation.

(A) Current principles and regulatory approaches

1. Is there any regulatory aim that should prevail over other aims?

Gas is a key vector contributing towards the EU's energy decarbonization objective, hence it is very interesting to support innovation in the following aspects:

- Development of new gas-based condensing boilers and other equipment.
- Development of bio-methane production, and other alternatives such as power to gas, which can then be injected into the distribution networks, thus maximizing the use of existing infrastructure and promoting the growth of renewable energy.
- Development of gas as fuel for maritime transport and road transport, for both heavy and light vehicles. Support in the creation of the necessary refuelling infrastructures as well as a regulatory framework that favours the use of gas especially with regards to its low emission of polluting particles. This may be an important issue related to air quality in cities.

Other important regulatory aims when tackling DSO activities are to ensure **safe grid operation**, maintain an **innovative** and **flexible** distribution system and facilitate a **market** where all actors are treated **fairly** and **equally**.

Generally speaking, **innovation** needs to be handled carefully by DSO regulation, in order to ensure that it is coherent with the wider aims and responsibilities of the DSO and regulator, e.g. reliability and high standards of service. Nevertheless, innovation in the gas sector has seen a steep increase in the past years¹.

DSOs are neutral and comprehensively regulated market facilitators. They play an important role in ensuring a non-discriminatory and transparent level-playing field for all market actors. The above apply for both gas and electricity DSOs. Equally so, DSOs are expected to ensure continuous flow of energy and high quality of service at distribution level. Considering the above, regulators and law makers need to make sure that the **required financial conditions** are **present** so that DSOs can fulfil their tasks.

Gas enables the Energy Transition in a **cost effective** and **flexible** manner. Regulators at national and EU level need to consider **gas'** flexibility and innovative character as a **cost-effective accelerator**.

¹ Through the development of new appliance technologies for heating or CHP in addition to advances in the P2G technology DSOs have to find new and efficient ways to incorporate various gases from bio-methane to hydrogen, and to put the storage ability of the gas grid to the best use of the Energy Transition.

Finally, it is noted that the consultation paper looks at the electricity and gas sector separately and uses the holistic approach only within the sector e.g. electricity DSO, TSO, suppliers etc. Eurogas supports the view that, where appropriate, **closer coordination between the two sectors** should be considered to improve efficiency in terms of cost and energy savings.

While each sector is faced with different challenges, **an optimal collaboration between gas and electricity should be the goal** e.g. in the case of P2G and G2P. This will deliver optimal answers for both sectors in terms of cost, resource, time efficiency as well as decarbonisation of electricity production. Nevertheless, this does not mean that sector specific measures should not be considered. It is important to bear in mind that the gas sector has its own specificities that must be treated appropriately.

2. What regulatory tools are the most effective to achieve regulatory aims?

Gas distribution systems and their maturity vary across the EU. Therefore any tool needs to consider the national idiosyncrasies and conditions. Eurogas does not believe that a one-size-fits-all approach would work for gas (and electricity). Better coordination and exchange of national best practices would, however, be a benefit to all concerned and lead to optimal outcomes.

Universally accepted conditions for regulation of stability, transparency and allowing (DSOs) a fair rate of return certainly apply in DSO regulation too. Moreover, as highlighted in the answer to Q1, regulators will need to consider that DSOs will need adequate resources to contribute to the Energy Transition.

3. Do you have examples of additional important tools in regulation?

We would point to the October 2016 Eurogas publication, 'Recommendations for incentivizing innovation in the gas DSO sector' available here: [http://www.eurogas.org/uploads/media/16NO154 -
_Incentivising_innovation_for_gas_DSOs.pdf](http://www.eurogas.org/uploads/media/16NO154_-_Incentivising_innovation_for_gas_DSOs.pdf)

(B) Changing needs

4. Considering the national and the European regulatory frameworks, what are the main challenges for DSO regulation?

- a. To develop regulation in order to promote complementarity and close coordination, where appropriate, among gas and electricity with system efficiency as the main objective.
- b. To define and integrate flexible solutions between grid operators in gas and electricity and at TSO and DSO levels.
- c. At EU level, to help share in a structured way (e.g. via a 'Forum' approach) national best practices among the EU-28 to ensure that DSOs nationally may fulfil their emerging new responsibilities in an efficient and effective manner.

(C) Changing aims and approaches of good practice

5. What are the most relevant new issues for DSO regulation?

From a gas DSO perspective they are:

- a. The integration of an increasing share of RES-Gas;
- b. The gradual introduction of new technologies such as P2G.
- c. The expansion of the grid in countries with low maturity. DSOs should be allowed to market their grid connections.
- d. The use of gas in transport i.e. CNG;
- e. Connection of rural biogas plants to increase the injection of bio-methane into the grid and the greening process of the latter.
- f. For the introduction of hydrogen into the grid more research has to be done and more data has to be collected on appliances and materials. DSOs should be allowed to take part and spend a certain amount on these tasks as their expertise is needed.
- g. Intelligent concepts to connect local gas-electricity-heat networks.

6. What should be the main regulatory goals in the near future?

The development of effective regulatory models to facilitate decarbonisation in a cost, energy and time efficient way. Synergies and a close interaction between gas and electricity at distribution (but not only) level need to be nurtured. Especially, the definition of a 'systems approach' involving gas, electricity and heat and the relating benefits from the DSO to the TSO level is a priority.

Existing goals of maintaining a continuous flow of energy and high quality service need to be preserved. It goes without saying that regulators should ensure that DSOs, as neutral market facilitators, would need to be adequately compensated for the above.

7. Do you agree that the regulatory process shall be an interactive process between regulators and stakeholders?

Yes and probably it will need to intensify in the future; taking into account *a priori* the possibility of an adverse impact of a decision on one sector over the other.

8. What can be done to allow a more active participation from the stakeholders?

Regular consultation at national level following a transparent process. In addition, it would be useful for the regulators to hold information sessions on developments in the Energy Transition process.

9. Do you agree that technologically neutral indirect approaches are the most efficient way to promote innovation?

Innovation requires a careful analysis of costs and benefits, to then define mid-to-long term pathways and milestones.

DSOs can be innovative in accordance with their national context and needs. Regulation should not set 'strict' requirements. Innovation is about developing and testing new technologies and new ways of doing things and it is important to ensure that DSO have the resources to engage in innovative activities.

10. Do you agree that innovation should be seen from the customers perspective?

Innovation needs to deliver better outcomes in terms of affordability, economic and environmental sustainability, safety and quality of service for all consumers. Closer collaboration between the gas and electricity sectors may also deliver good results *at least cost* for all consumers.

Considering that there are limited direct contacts with consumers at DSO level, innovation here is understood as activities that will deliver better 'system' outcomes for them by improvements at the above levels. This might not be identifiable in the short-term, it will, however, result in better outcomes for consumers at the mid-to-long-term.

11. Could you provide examples of indirect or direct incentives for innovation which you consider to be effective?

We would point to the October 2016 Eurogas publication, '*Recommendations for incentivizing innovation in the gas DSO sector*' available here: [http://www.eurogas.org/uploads/media/16NO154 -
Incentivising innovation for gas DSOs.pdf](http://www.eurogas.org/uploads/media/16NO154-_Incentivising_innovation_for_gas_DSOs.pdf)

12. What do you think about the CEER position on the whole system approach?

Eurogas understands the whole system approach as one that applies to the electricity sector but is of the opinion that the gas sector should be taken into account, where appropriate. Regulators should keep a whole energy system approach to ensure that

- minimum cost criteria are fulfilled,
- to clarify the TSO's and DSO's roles,
- avoid inefficiencies, especially in network planning and investment, integration of demand side response and distributed generation,
- that the energy sector is always customer focused.

Although this is particularly important in electricity sector, it may also be considered in the gas sector considering the surge and development of new agents (e.g. bio-methane producers).

13. Could you provide examples of the whole system approach that bring added value?

Examples would be *inter alia* the existence of P2G pilot programmes in a number of Member States and bio-methane production which is also becoming a very interesting prospect in several EU countries. Both can accelerate the Energy Transition and help Member States meet their

renewables targets, ensure optimal usage of distribution networks over a longer-term horizon and greater system flexibility (also via seasonal storage for the surplus electricity produced).