

E.DSO response to Draft Delegated Regulation on Taxonomy Screening Criteria

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Introduction

The European Distribution System Operators (E.DSO) is a key player in the energy transition. E.DSO is committed to the 2050 climate neutrality goal and fully endorses the EU sustainable finance agenda of which the EU Taxonomy will have a pivotal role.

E.DSO is the key-interface between the leading electricity distribution system operators and the European institutions and stakeholders. It promotes the development and large-scale testing of smart grid technologies in real-life situations, new market designs and regulation. **E.DSO gathers 44 leading electricity distribution system operators (DSOs) in 25 countries, including 3 national associations, cooperating to ensure the reliability of Europe’s electricity supply for consumers and enabling their active participation in our energy system.**

E.DSO has been following very closely the adoption of the Taxonomy Regulation and welcomes the opportunity to provide feedback on the draft Delegated Regulation and its Annexes. E.DSO members fully support the general intention of the EU Taxonomy and are convinced that through intensive dialogue and engagement over the upcoming months, its concerns can be successfully resolved to leverage the intended ambition of the EU’s regulation on sustainable finance.

Whilst significant improvements were made to the Technical Screening Criteria (TSC), substantial shortcomings yet persist. E.DSO identifies several issues related to transmission and distribution of electricity in the draft delegated act and its annexes.

Preliminary Observations

As a general remark, E.DSO would like to stress **that investments in the networks are due to ensure a cost-effective energy transition that encompasses not only greener generation but also the so-called electrification of society.** The electricity supply, where possible, must correlate the building of a new line to the need for connecting a new generation facility.

A second observation concerns emerging technologies and distributed power solutions. Sectoral integration related applications will spread, and hydrogen related growth will find its use and clusters on the scene and on the market. It is hence crucial to guarantee the electric power distribution quality continuity a level playing field in the approach of the ever-evolving notion of the EU taxonomy.

E.DSO would like to clarify that the investments go far beyond the need for connecting new producers. They also exist to ensure the proper operation of the network in a much more complex environment, with further congestions that result from the more frequent and dynamic unbalances at local and regional level between demand and supply. Conclusively, E.DSO would like to stress that a relevant part of the new challenges is due to the above-mentioned electrification of society: the new uses of electricity and the operation of DER inside the premises of consumers, prosumers, or energy communities, which, are mostly out of control of the DSO.

The fact that the EU Taxonomy defines a catalog of sustainable economic activities that is uniform throughout the EU should be applauded. This creates clarity and comparability in the European context. On the negative side, however, **E.DSO considers unfair the establishment of a classification system for investments where the part that facilitates the transition is also responsible for the uses that are not under DSOs control.** More importantly, there are also investments that depend mostly on options from the DSO itself, such as those related to maintaining the assets under a certain established operational regime.

Lack of consistency

First, E.DSO stresses that the consideration of transmission and distribution activities as enabling activities can neither depend on the carbon content of the electricity that circulates in the grid, nor on the GHG emissions level of the power plants connected to the grid.

E.DSO further highlights that the delegated Regulation conflicts with the wording of the Article 10 of the Taxonomy Regulation. The delegated Regulation qualifies transmission and distribution of electricity as “enabling activities”, whereas the **Article 10 expressly recognises** that transmitting and **distributing renewable energy contribute substantially to climate change mitigation** (1.(a)).

E.DSO considers that there is need for consistency regarding the implication for an activity to be categorised as “contributing” or “enabling” in terms of investments. On this matter, E.DSO recalls that the Technical Experts Groups (TEG) recognises both the “contributing” and “enabling” role of transmission and distribution. Consequently, transmission and distribution should be defined as “**contributing activities**”.

Annex I – Mitigation

E.DSO welcomes a classification scheme to address what activities should be classified as “sustainable” to move investments to the green transition.

Regarding the TSC, E.DSO’s concerns relate to the following elements:

Firstly, it is needed to point out that the integration of these activities cannot rely on the energy they transport or the power plant they connect. The technical screening criteria based on the type of energy sources and CO2 emissions threshold conflict with the mission of transmission and distribution operators in Regulation (EU) 2019/943: “*market participants shall have a right to obtain access to the transmission networks and distribution networks on objective, transparent and non-discriminatory terms*” (**article 3 (q)**).

E.DSO believes that the delegated Regulation should define **all investments in the electricity grid infrastructure as sustainable**, including reinforcements under the category of construction of distribution systems. The above is especially relevant in the case of the second and third technical screening criteria, since it should be kept in mind that several assets (emission-free or not) can be connected to one line, which makes it difficult to determine whether this line is ‘sustainable’ (system operators do not have the possibility to choose what types of electricity productions units are connected to their grids).

Further, we recommend that the **fourth criterion, (e)**, specifically mention smart meters and digital infrastructure since they are key enablers for the development and integration of renewable energy sources.

- E.DSO sees a need for clarification regarding the presentation and the format of the technical screening criteria (**points 1 to 6**).
- E.DSO welcomes the integration of the first criteria, that automatically involves in the taxonomy any transmission or distribution line or equipment interconnected in the EU (“*The transmission and distribution infrastructure or equipment in the system is the interconnected European system, e.g., the interconnected electricity system covering the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems*” (**Annex I, p.117**)). As an alternative criterion, these activities do not need to comply with criteria 2 to 4 to be taxonomy compliant. The EC’s proposal reflects well the network activity, as DSOs and TSOs have no influence on energy generation. In that case, the **European Commission should clarify the scope of application of criteria 2 to 4**.

- Nevertheless, E.DSO seeks a clarification on the notion “*its subordinated systems*” in the above criteria.
- About **criteria 4.f)**, the wording and the scope are not evident. If it targets smart meters, it suggests that operators could remotely manage users’ consumption. **A more neutral wording expressly mentioning smart meters should thus be prioritised.**
- The **subsection 6. (a)** mentions what is the base of “*the rolling five-year (average) period used in determining compliance with the thresholds*”. Nevertheless, it does not match with heavy investments that are needed for these infrastructures, which enforces instability and uncertainty for investors. Furthermore, regarding point 6.(e), in case of changes in criteria to be “*taxonomy compliant*”, the new criteria should not apply retroactively as this would endanger previous investment decisions yet compliant with the former criteria.

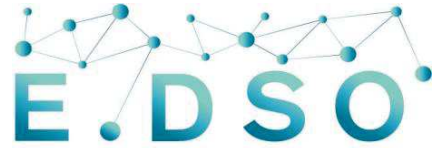
Annex II - Adaptation

E.DSO expresses its disapproval of the use of mitigation TSC to qualify the activity for the adaptation objective (p.115-116) and calls for removal of the elements below, for two main reasons:

- There are **incoherencies at different levels**. Using TSC in the section “*description of the activity*” is totally irrelevant since it is highly restrictive: it could be considered as pre-criteria and their cumulative aspect (whereas they are alternative in the Annex 1) narrows the scope of the activity. Additionally, using two levels of TSC (one in the description of the activity and another one in the appropriate TSC section) leads to conflicts between criteria: criterion 3 mentions a threshold of 100gCO₂e/kWh, whereas the DNSH criteria to comply with the mitigation objective mentions a threshold of 270gCO₂e/kWh.
- Furthermore, **this approach is not reasonable**. TSC used for the mitigation objective are not reused in the “*description of the activity*” for any other activity in the “*Energy*” section of the adaptation objective. It is also the case for activities in other sections (for example 6.9).

The above bring uncertainty and incoherence between the two Annexes that can affect the right assessment of the objectives.

In conclusion, E.DSO members make themselves available to the Commission for further input during the development of the Delegated Regulation.



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