ENERGY EFFICIENCY DIRECTIVE

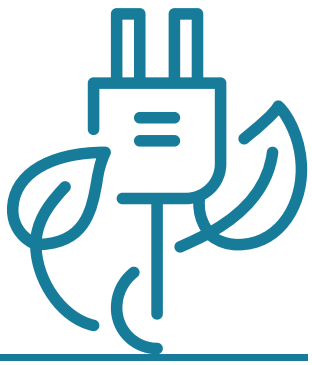
E.DSO | FIT FOR 55 | POSITION PAPER

DECEMBER 2021

As part of the 'Fit for 55' package, the Energy Efficiency Directive is an important element to reduce green gas emissions (GHG) by at least 55% by 2030 and achieve a climate-neutral Europe by 2050. The proposed measures aim at further promoting energy efficiency in all areas of the energy system and in all relevant sectors, such as transport, water, and agriculture.

E.DSO supports the introduction of the 'Energy Efficiency First' principle (EEFP) as a mandatory requirement in legislative, planning decisions and investments. Nevertheless, we insist that the EEFP shall be applied as an overreaching principle in conjunction with other policy objectives and overall EU's climate targets.

E.DSO equally acknowledges that the contribution of the distribution activity is not sufficiently recognized in its content, despite central role of DSOs in the energy transition. The proposal entails important consequences for DSOs as it changes the rules for energy efficiency of distribution grids and provides a basis for the wider deployment of energy efficiency services, which will be principally connected to distribution level.



Reality Check

E.DSO considers that EEFP must be a key enabler of decarbonisation, and the potential for efficiency gains across the entire energy system must be exploited if they contribute to reducing GHG emissions reductions. In our viewpoint, the EED is the occasion to reinforce the level of ambition needed to close the gap in the final National Energy and Climate Plans (NECPs) and to deliver on more ambitious EU climate goals.

We consider that most sustainable energy is the one which is not consumed. Energy efficiency demonstrates multiple benefits far beyond energy aspects and is necessary for a cost-efficient energy transition. To ensure that the EEFP is applied consistently, concrete guidelines are needed to make it a core element at all levels of policymaking (see below).

More importantly, and in line with our position paper on the EU Strategy for Energy System Integration, which aims to link various energy carriers with each other and with the end-use sectors, we believe that it is important to:

- Apply the EEFP across the whole energy system, by giving priority to demand-side flexibility whenever that is more cost effective than investments in the expansion of the grid.
- Accelerate the creation of markets for energy demand flexibility.
- Speed up the digitalisation of the energy system.
- Increase renewable energy deployment in the heating and cooling, transport, and industry sectors.

Our Concerns

We consider that the Commission approach to network operators **does not entail on a holistic vision of energy efficiency** and only emphasises network losses as enshrined in **Article 25 (3)** of the proposal. DSOs are already committed to limit network losses when establishing network development plans and must fulfil eco-design requirements when purchasing equipment.

It is reasonable for EU Member States to ensure that electricity distribution network operators apply the EEFP principle in their activities. Further, Investment in infrastructure should be guided, additionally to EEFP, by a lifecycle approach safeguarding the sustainability objectives: climate protection, security of supply and competitive pricing.

For these reasons, the practical implementation of the EEFP requires the deployment of a correct governance, including an efficient cost-benefit analysis methodology and a framework of independent monitoring and assessment. The approach in **Article 25 (2)** to apply cost-benefit analyses, which account for wider system benefits, is in line with this approach.

Moreover, electrification and the wide development of RES generation imply a reinforcement of electricity networks which will in general increase network losses. This is true even when evaluated relative to the energy transported because of the ability of smart grids to maximize their capacity factor and deliver more kWh on the same existing cables. In principle, an increase is not necessarily a negative development: it really shows that the assets are used with a higher intensity.

We argue that the energy efficiency of DSO networks should be stimulated as part of an overall energy efficient system which goes beyond network losses. This approach would rely on energy system integration at local level and on smart grids as essential for higher energy efficiency.

In this context DSOs can contribute in multiple ways including by facilitating energy efficiency in buildings and empowering customers to use smart meters to control energy consumption. For this reason, the focus should not be exclusively on network losses but on system efficiency achieved through infrastructure investments which contribute to energy efficiency objectives by deploying cost-efficient solutions such as smart grids and services that integrate renewable sources.

Our Recommendations

Smart Meters

We argue that smart meters should be reintegrated in the scope of the Directive and notably in **Articles 12 and 13.** Smart meters greatly contribute to customer empowerment and energy efficiency solutions. They allow energy management for customers and provide reliable data for ex-ante and ex-post energy audits on the effectiveness of renovation.

DSO infrastructure

The second sentence of **Article 25 (2)** should clear up the possibility to maintain infrastructure that is not at the end of its life cycle in so far it supports efficient use of energy, since its replacement could result in inefficient costs for the system. In addition to technical losses due to ageing infrastructure, there is also renewable energy that cannot be accommodated by the networks and is therefore lost. The use of digital technologies in the energy system, including smart grids and smart appliances, can help to optimise the use of this intermittent renewable energy and has great potential for improving energy efficiency and smart energy use.

Network losses

Article 25 (3) should not limit the recovering of network losses through tariffs but should instead introduce tariffs incentives to reduce network losses. Rather than limit DSO resources, **Article 25(3)** should introduce an obligation for Member States to develop investment programmes for the increase of the energy efficiency of DSO' grids in a holistic manner which takes account of where investment will bring the largest benefit.

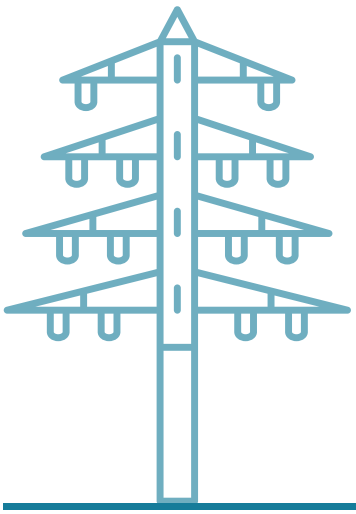
More importantly, the future benchmarks for network losses should not be based exclusively on historic data. Ultimately, we argue that the introduction of the EEFP in the network planning, network development and investment decisions of all energy-related investments shall be carefully considered.

Cost-effectiveness of network tariffs

Articles 25(6) and 25(9) should not undermine the principle of cost-reflectiveness of network tariffs. As neutral market facilitators DSOs call for removing **Article 25(9)**. Providing high efficiency cogeneration stakeholders with lower network charges contradicts the principle of non-discrimination. DSOs serve market actors the same way regardless of their CO2 content or level of energy efficiency. In particular the share of capacity and energy components in network tariffs must cost-reflective as a prerequisite for an efficient use of infrastructure contributing to overall energy efficiency.

Delivery of energy services

We suggest reviewing the requirement in **Article 27 (8)** for MS and DSOs to refrain from any activities that may impede the demand for and delivery of energy services or other energy efficiency improvement measures. This provision is in contradiction with the Electricity Market Regulation which recognises DSOs as neutral market facilitators which aim to facilitate such services.



E.DSO is a European association gathering leading electricity distribution system operators (DSOs) shaping smart grids for your future.

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