

IFIEC Europe contribution to the consultation to establish the priority list of network codes

IFIEC Europe would like to thank the European Commission for the opportunity to share our views on the proposed priorities regarding electricity network rules for the period 2020-2023. We fully agree that Cybersecurity and Demand Side Flexibility are the right priorities. In addition, we ask the EC to consider including the economic regulation of the cost efficiency of Transmission system operators. As for the scope of new electricity codes, we provide our recommendations below:

- **Cybersecurity**

IFIEC supports a harmonised certification approach across the European digital single market. We recognise the importance of a holistic approach for cybersecurity, as it combines baseline cybersecurity requirements for the electricity subsector with the needs of the electricity subsector stakeholders including also industrial electricity customers.

- **Demand Side Flexibility**

- In general, IFIEC Europe welcomes the Clean Energy Package (CEP) and more particularly all new legislation supporting and promoting demand response as a means to reduce electricity system costs and to facilitate the energy transition. IFIEC Europe recognizes the CEP has the potential, almost 25 years after the approval of the first Electricity Directive, to create a framework within which demand response can finally play this role.
- IFIEC Europe continues to support the drafting of a European network code on demand response if and to the extent that legislation and regulation at European or member state level do not take out essential barriers that block demand side flexibility to contribute to system adequacy or balancing.
- In our view, the following issues require urgent attention and action:
 - National regulatory authorities should ensure that Transmission System Operators (TSO) and Distribution System Operators (DSO) revenue regulation and network tariffs structures take into account the costs and benefits of flexibility for the system (demand response, storage, ...) and that they are non-discriminatory.
 - Concerning the flexibility product design, we support to allow for the market to define the suitable and most efficient products.
 - The Harmonised Electricity Market Role Model should include common terminology for demand side flexibility, and develop roles and responsibilities for all concerned parties.
 - With respect to technical solutions and platforms to fulfil system and grid needs, observability in low voltage grids should be increased and load and generation forecasting at distribution level need to be improved. In addition, it is important to address large scale simultaneous behaviour of demand response technologies.

- In relation to data security, EU safety, security and liability policies and regulations should be updated to address the new risks. In addition, to address the new complexities that flexible electricity services will bring, regulators across sectors should collaborate more.

- ***Economic regulation of the cost efficiency of Transmission System Operators***

In the frame of the European Green Deal it is expected that the power production portfolio in Europe both will change behavior from power plants capable of following load profiles to more intermittent power production, and location from power plants located close to consumption to power plants located where the resources are (ex wind, solar etc). To accommodate such change, huge investments in the transmission system are required, as already illustrated in the 10 year network development plan. More investments are probably needed beyond the 10 year planning horizon under which the TSOs have to operate.

The Commission emphasizes the need of the European Green Deal to supply energy at an affordable cost. IFIEC could not be more in line with the Commission on this important point as most of our members are totally dependent on competitive energy costs to be able to maintain their activities in Europe and they have a key role as suppliers of basic or semi-finished materials for many production chains and economic sectors. To meet EU's ambition on reduction in greenhouse gases, affordable electricity costs are also necessary to promote the unavoidable electrification of industrial processes now running on fossil fuel as an energy source and/or as a raw material. Energy costs in this respect relate to all costs for generation and transport of energy.

Given the increasing importance of grid costs on the overall electricity cost for consumers, IFIEC Europe insists on the following issues:

- The EU has already developed regulation on grid tariffs through Regulation 2019/943 to secure a level playing field for customers of the transmission systems throughout EU. An equally important element for the transmission tariffs is the costs the TSO's are allowed to cover through their tariffs and in particular the *reasonable return* on their investments. It can be observed that huge differences exist in what TSO's are allowed as reasonable return, where the lowest observed is Sweden with 2,16% for the period 2020-2023*. Differences in *reasonable return* lead to significant differences in transmission tariffs within the internal electricity market in the EU. We believe the *reasonable return* should reflect the low risk of investing in transmission assets and as little as possible distort the incentives for TSO's to operate and develop the transmission system efficiently.
- Transmission systems are by definition regulated as natural monopolies. A review of their incentives and efficiency should be conducted on a regular basis to ensure that this segment also provides its customers with sufficient quality at an affordable cost. Under this we consider a review and harmonization of the allowed profit for the TSO's to be important to ensure it is in line with the market for low risk investments.
- The power system is experiencing an unprecedented development of new technologies capable of reducing the need for costly investments in the transmission system. The new technologies include a number of different aspects where some examples are:

- digitalization and capabilities to analyze big data,
- new breakthrough technology capable of utilizing the existing grid more efficiently through improved control of the power flow,
- deployment of smart meters/smart grids and the development of new marketplaces for flexibility.

We see technology companies reporting of huge differences among transmission system operators in how quickly new technology is implemented and often the biggest hurdle is on the regulatory side (lack of incentives). We believe it is important for Europe to stay in front of the technology race also on the transmission side in order to maintain transmission tariffs competitive on a global scale. We also believe that a proactive approach to transmission technology would better foster European industry to take part in this development. Thus, we urge the EC to include a review on the incentives for transmission system operators to efficiently include cost saving technology in the development of the transmission systems.

- Huge investments and other cost increasing measures are announced by the TSOs in many countries, and more is expected. It can be observed that many investments are inflated to address views and opposition from external stakeholders – stakeholders that most of the time do not have to pay for the increased costs. We see such increases in transmission costs as a threat to competitiveness of European industry and welcome a discussion on whether such inflated costs should only be borne by the transmission connected grid users.
- Opposite to power price fluctuations, there are no hedging instruments to protect transmission customers from fluctuations in the transmission tariff.