Experience of Business Impacts of Regulation on Company Level

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Summary

• DSOs play an Important Role
• A good Regulation is Crucial
• DSOs have been Improving
• Difficulties and Gaps on Regulation
• Challenges
• Conclusion
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DSOs play an Important Role

- Owning (most of them) developing and managing distribution network
- Connecting generators, consumers and prosumers to the network, on fair terms
- Adapting the network to the access and connection of distributed generation
- Adapting the network to the access and connection of new usages of electricity (electrical vehicle, …)
DSOs play an Important Role (2)

• Transporting electricity on behalf of others, on fair terms

• Guarantying an adequate quality of service – technical and commercial

• Contributing to the Balance between generation and consumption

• Facilitating the retail market (switching,…)

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DSOs play an Important Role (3)

• Contributing to the 20/20/20 target

• Contributing to energy efficiency – in generation, consumption and networks

• Supplying much more information to the users of the network

• Acting neutral, non discriminating between grid users
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A good Regulation is Crucial

1. Providing DSOs with an adequate return on investments
2. Being transparent on decisions and goals
3. Being stable, as far as possible
4. Being predictable
A good Regulation is Crucial (2)

- Providing adequate incentives for long term investment
- Providing incentives for an adequate asset management
- Providing adequate incentives for efficient operation
A good Regulation is Crucial (3)

• Providing incentives to promote an adequate level of quality of service

• Providing incentives to DSOs act as market facilitators easing market functioning (switching process, information to customers and the other grid users, …)

• Providing incentives on DSOs to engage in low carbon initiatives, namely, acting as a low carbon facilitator
A good Regulation is Crucial (4)

- Providing adequate incentives to the connection and access of **distributed generation**
- Providing adequate incentives for **electric cars** utilization
- Providing adequate incentives on DSOs to **innovate** (smart grids, …)
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DSOs have been Improving (1)

- Increasing efficiency

- Increasing quality (technical)
DSOs have been Improving (2)

- Increasing quality (commercial)

- Connecting distributed generation
DSOs have been Improving (3)

- Enabling the functioning of the retail market (switching, information, reinforcing neutrality…)

- Making better and extended use of ICTs (Integrating, Optimizing, Updating,……)
DSOs have been Improving (4)

- Increasing automation in grids

- Installing AMR
DSOs have been Improving (5)

- Improving skills and motivation of human resources
- Changing and improving the organization

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DSOs have been Improving

• Re-engineering and improving processes

• Reinforcing internal and external communication
DSOs have been Improving

- Increasing innovation and creativity
- Reinforcing social responsibility

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Difficulties and Gaps on Regulation (1)

- **Return** (ROIC < WACC)
  - Allowed OPEX < Actual OPEX
  - RAB < Net Assets
- **Stability and Predictability**
- **Transparency**
- “Negotiation”
Difficulties and Gaps on Regulation (2)

- Short term / Long term balance
- Communication to the consumers, explaining the options, the issues,…
- New obligations coming from legislation and resolutions creating additional burdens and costs on DSOs not considered on time by regulation
- Heavy / Light regulation
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Challenges (1)

• DSOs must continue doing their “traditional” job
  (installing sufficient capacity, connecting grid users, keeping/improving quality of service, …)

• Besides that,
  • connection and access of decentralized (intermittent) generation in a larger scale
  • facilitation of the deployment of new technologies on demand side (electrical vehicle, …)
  • supply of more information to the grid users

  call for the developing of smart grids.
Challenges (2)

• This is explicitly recognised by the European Bodies (EP and Commission) in the 3rd package:

  • “Member States should encourage the modernisation of distribution networks, e.g. through the introduction of smart grids, which should be built in a way that encourages decentralised generation and energy efficiency” (recital 21a)

  • “In order to promote energy efficiency, Member States, or when the Member State has so provided, the regulatory authority shall strongly recommend that electricity undertakings optimise the use of electricity, for example by providing energy management services, developing innovative pricing formulas, or introducing intelligent metering systems or smart grids where appropriate” (article 3, 7a).
Challenges (3)

- It is a challenge demanding
  - technology innovation
  - business model innovation
  - policy innovation
  - Clear definition of roles

- DSOs have to find new solutions, innovating…
Challenges (4)

• However, new challenges invite new regulation and politics

• Regulators have to establish an adequate regulatory framework

• On the other hand, difficulties and gaps on regulation should be “removed” (adequate return to cover CAPEX+OPEX,...)
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• DSOs play an important role in the electricity sector. Responsibilities have been increased

• An adequate regulation is crucial for the fulfilment of those responsibilities

• The work done so far by DSOs and Regulators has been enormous

• However, the electricity sector faces new challenges (smart grids, ...)

• DSOs and Regulators have a crucial role to play
Thank you for your attention

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