

4th September 2017

Open Letter: A New Market Design for Competition, Innovation and Consumer Empowerment

Dear Member of the ITRE Committee,

Ahead of the amendment deadline for the Kariņš reports on the Electricity Regulation and Directive, we kindly ask you to carefully consider this unique opportunity to **enable innovative solutions for consumer empowerment and effective competition in the energy transition**.

As the business association for demand-side flexibility, the SEDC represents new market actors and innovative companies, with the **common aim to drive digital and decentralised energy solutions** in Europe **and to empower consumers** to benefit from their flexibility. This flexibility is enabled through demand response¹, distributed generation, storage, microgrids, and electric vehicle charging.

From households and SMEs, to large industrial customers; the functioning of the **energy markets should allow every consumer** the possibility to **earn money** through selling their flexibility, to **save money** on their bills, to **reduce costs** for the entire system, and to play an **active role** in the energy transition.

Unlocking flexibility in the system could collectively **save national governments billions of Euros** each year both in terms of reduced network investments and on the generation side². It will contribute to **security of supply** and reduce dependency on imports from third countries. It will help to **integrate more renewables** into the energy mix, matching consumer demand to their variable generation.

Market Principles for Openness and Innovation

The ITRE Committee's scrutiny of the Electricity Regulation and Directive is the opportunity to align legislation to the emerging flexible, competitive and environmentally-friendly energy system of the future. Within the Market Design package, the SEDC advocates for the general market principles of **equal treatment for all solutions and all players**. This means allowing for all types of flexibility solutions, including at local level, **non-discriminatory market access** for demand response and storage alongside generation, fair **access to data**, and the **equal treatment of new market entrants and service providers**, alongside established, traditional actors³. Price caps must be removed in order to reflect scarcity and surplus within the system, which should deliver genuine and effective signals for flexibility⁴. This will create a **truly flexible market**, designed around the new realities of renewables, digitalisation, and decentralised resources.

Explicit Demand-Side Flexibility

Consumers should be enabled to sell, commit and deliver their flexibility on the electricity markets, themselves or via an **aggregator**. To make this Explicit Demand Response possible, there should be **no undue barriers** to market entry, and product definitions, gate closure times, and minimum bid sizes should recognise and encourage innovative and flexible distributed solutions⁵. Aggregators must be able to

¹ Demand Response is the adjustment of a consumer's energy use to consume when energy supply is plentiful and to reduce when energy is scarce, in order to balance the system.

² According to European Commission estimates; 5.6bn euro/annum benefit ¾ on generation side, ¼ reduced network investments.

³ Articles 1, 3, 5, 6, 7, 8 of Electricity Regulation; Articles 1, 3, 5, 6 of Electricity Directive.

⁴ This should be defended in Article 9 of the Electricity Regulation, both as key market principle and as key pre-condition for demand response.

⁵ This should be clarified within Article 5 and minimum bid sizes of 1MW defended in Article 7 of the Electricity Regulation, and imbalance settlement periods of 15 minutes or less.



access consumers and market their flexibility, **without prior agreement of other market participants**⁶, in order to ensure competitive offers for Explicit Demand Response. Member States should decide on a **standard approach**, or model, in order to avoid bilateral contracts between aggregators and suppliers on a case-by-case basis, which would hamper this growing market. Legislation must also recognise the difference in the contractual relationship between a consumer and aggregator, as opposed to a consumer and supplier; both in terms of initial investment costs for the activation of flexibility⁷.

Implicit Demand-Side Flexibility

In addition to the market framework enabling consumers to monetise their flexibility, **consumers must also be empowered to participate in the system by reacting to price signals** and shifting their consumption, usually through automation and/or smart appliances. This allows them to save on their bills while providing valuable flexibility to the electricity system. Two conditions are necessary to facilitate **Implicit Demand Response**: the option to choose a dynamic pricing contract, and the right to install a smart meter with the minimum functionalities to enable near real-time pricing and reactions⁸.

The SEDC looks forward to continued collaboration with the Members of the ITRE Committee, in order to deliver the ambition in the Clean Energy for All Europeans package. We remain at your disposal if you wish to discuss any issues in further detail.

Thank you for your time and consideration.

Yours sincerely,

Frauke Thies
SEDC Executive Director

⁶ Articles 17.3a and 17.2 of the Electricity Directive, respectively.

⁷ Article 13 of the Electricity Directive should reflect this different relationship and allow for a contractual definition of the termination period in line with market conditions.

⁸ These two provisions should be defended in Articles 11, 19, 20, 21 of the Electricity Directive.