

To:

Ms. Ditte Juul-Jørgensen, Director-General, DG ENER

Mr. Christian Zinglensen, Director, ACER

Cc:

Laurent Schmitt, General Secretary, ENTSO-E

Roberto Zangrandi, Secretary General, E.DSO

Carmen Gimeno, Secretary General, GEODE

Gert de Block, Secretary General, CEDEC

Kristian Ruby, Secretary General, Eurelectric

Open letter: A Network Code for Distributed Flexibility

Brussels, 17 March 2020

Dear Ms. Juul-Jørgensen and Mr. Zinglensen,

The European Union finds itself in a double bind: we have clear decarbonisation targets and are committed to complying with the Paris Agreement, yet we lack clarity on the framework needed to reach those goals. This is especially pertinent for Demand Side Flexibility.

The EU has committed itself to an ambitious agenda both through the Clean Energy Package and the EU Green Deal. With ambitious CO2 reduction targets, the importance of variable Renewable Energy (RES) continues to grow, combined with the far-reaching electrification of transport, buildings and industry. Before this background, a rethinking of how the grid interacts with all its participants will be unavoidable. smartEn sees market-based Demand-Side Flexibility (DSF) as one of the key enablers to facilitate achieving these ambitious goals in a timely and affordable fashion, and as an essential element in a secure, efficient and economically viable electricity system. Nevertheless, to take full advantage of all the benefits that market-based DSF can provide today, a legally binding technical framework is urgently necessary, e.g. through the envisaged Network Code for Demand-Side Flexibility, is urgently needed. This view has already been shared by many stakeholders and is supported by the Clean Energy Package.

One of the main barriers to scaling up DSF is that despite the Commission's best efforts towards a true Energy Union, the market for DSF is still fragmented. The European Clean Energy Package sets out crucial principles, which a Network Code should reinforce to ensure an effective and streamlined implementation that allows the full market participation of DSF in all Member States.

A DSF network code will only be effective in achieving the EU's energy goals if it is completed and implemented in a timely fashion. A network code that comes too late or that shifts ambition to that of the lowest common denominator will be ineffective and could do more harm than good. smartEn therefore encourages the adoption of a new code based on swift action and an ambitious approach from the European Commission and the delegated parties.

What is needed from the Network Code?

In order to effectively reduce the barriers to scale up DSF, the Network Code should provide the following:

- Clear definition of roles and responsibilities, ensuring that all market participants to be able to participate on an equal footing.
- Increased transparency in the needs of the grid, and interactions between market participants.

- A market-based approach to all flexibility purchasing.
- Allowing and fostering independent aggregation, creating a truly neutral playing field and increasing market efficiency in all member states.
- A cost-efficient solution in the integration of renewable energy source and an increase in electrification, as an alternative to grid reinforcement and the risks it entails (e.g. future stranded assets)

To effectively meet these requirements, the new Code should be developed with a dedicated stakeholder involvement throughout the entire development process. As DSF plays a role both for the electricity market and for system services, the definition of the Code should include the relevant flexibility providers, users and market platforms, alongside Distribution and Transmission System Operators.

Why do we need it now?

In order to comply with the Paris agreement, the time to facilitate a smooth energy transition is quickly dwindling. Developing and implementing a network code is a lengthy process that involves many different stakeholders, yet DSF providers are urgently in need of such a framework in order to contribute to the goals of the energy transition. The EU cannot wait and improvise how to tackle the challenges that the electricity landscape will face in the years to come.

Delaying the creation of a clear framework for market-based DSF could mean:

- Not achieving the EU goals for decarbonisation and electrification of the economy, in an efficient way and at the lowest cost.
- An over-investment in costly traditional solutions like grid reinforcement, which eventually will lead to a higher energy bill paid by the end customer.
- Harming the development of DSF businesses in the EU due to the lack of medium and long term certainty on which to base their business plan.
- A fragmented legislation landscape based on the Electricity Market Directive interpretations of member states. A late adoption of an EU-wide framework might risk more difficulties to overcome the status-quo, conditioned by new investments made in member states.
- Settling into incentive structures for System Operators that do not reward the use of flexibility sources.

For these reasons smartEn encourages the European Commission to expedite the creation of an appropriate legal framework for market-based Distributed Flexibility, based on the necessary stakeholder involvement. smartEn will provide a detailed response to the EC's "*Consultation to establish the priority list of network codes*", including suggestions on content and scope for the network code. We remain at your disposal on this subject and look forward to participating in the upcoming stakeholder involvement process.

Yours sincerely,



Frauke Thies,
Executive Director, smartEn