

To the kind attention of **Executive Vice-President Frans Timmermans**
Commissioner Kadri Simson

Demand-side flexibility: a cost-effective and rapid response for an emergency situation

Brussels, 21 March 2022

Dear Executive Vice-President,
Dear Commissioner,

The rising energy prices and the implications on EU energy security following Russia's attack on Ukraine require a common EU response. This is why smartEn – Smart Energy Europe, the European business organisation gathering 70 companies offering solutions on the market to enable all consumers to become active players by unleashing their demand-side flexibility, welcomes the proposal for a Joint European action for more affordable, secure and sustainable energy. However, we have concerns over the overall ambition and some of the proposed actions.

With the present letter we would like to outline our recommendations in view of the preparation of a REPowerEU plan, as requested by the European Council, which we believe should build on reliable and cost-effective solutions in line with the decentralisation, digitalisation and decarbonisation pathways.

Several positive recommendations were introduced by REPowerEU Communication, including the "Electrify Europe" initiative, the incentive to deploy more renewable electricity via wind and solar, and heat pumps. However, we have strong concerns as it:

- Directs precious resources to assets that are going to be stranded in a few years because not compatible with climate neutrality,
- Keeps stuck in cross-border dimensions and large infrastructures, and neglects the transition towards a decentralised energy system, as set by the Clean Energy for All Europeans package,
- Focuses merely on supply resources, and overlooks the importance of an efficient and flexible demand.

Efforts need to be prioritised in this urgent situation. We urge you to focus on consumers' flexibility, an available resource that does not require major CAPEX investments and can be activated rapidly, while empowering and rewarding households and industries to play an active part in securing and decarbonising the EU energy system.

For this to become a reality, we recommend the following 3 priorities:

1. Set a target that each Member State should reduce at least 5% of their national peak energy demand by 2025, and of at least 10% by 2030, which should be achieved by activating demand-side flexibility. This will give a) political prioritisation to the activation of demand-side flexibility with positive implications in the short-term, already for next winter, b) stimulate the uptake of smart energy business models and energy community initiatives and c) raise awareness among end-users about their potential for a direct contribution. Along with energy efficiency and energy savings measures that Europeans should be encouraged to adopt, a major communication campaign for the smart management of energy demand, involving top decision-makers and the European Climate Pact, would be required in the coming months,
2. Eliminate existing regulatory barriers and technical requirements to enable demand-side resources to participate to all electricity markets to reduce wholesale energy prices and to allow consumers to receive price signals for a smart adaptation of their energy consumption and generation, as set by the EU Electricity Market Design. Already back in 2016 the Commission calculated that improved market conditions to ensure access to all flexibility

options would directly translate into a reduction of wholesale electricity supply costs by around €50 billion in the year 2030¹. With the staggering wholesale prices, we cannot afford to wait any longer for tapping into this saving potential.

After more than 2 years, key articles for demand-side flexibility in the EU Electricity Market Design are still not fully implemented by Member States². This effort would require the rapid regulatory intervention from national policymakers and regulatory authorities as well as System Operators, which can have immediate positive effects. Otherwise, the launch of infringement procedures by the European Commission would be necessary,

3. Steer investments to support the uptake of demand-side resources, including grid-integrated demand management solutions in buildings and industry, behind-the-meter energy storage facilities and EV charging capable of smart and bidirectional functionalities. We need to reallocate public funds to support consumers directly instead of financing third countries for fossil fuel energy imports. This could also take the form of dedicated State aid products like interoperability schemes.

We have strong concerns that forthcoming discussions, also involving Heads of State and Government in the coming days and weeks, are going to be merely focused on (fossil fuel) supply-side solutions to ensure energy prices get reduced/capped and hedging products are introduced to increase stability.

We trust you will be able to make the best use of the Energy Efficiency First principle to focus on demand-side resources and enable consumers to flexibly adapt their consumption and generation, even in case of a limited introduction of regulated tariffs, as outlined in paragraph 5 of Annex I to REPowerEU.

We are at your disposal for any clarification you may need.

Yours sincerely,



Michael Villa
Executive Director
smartEn

¹ European Commission, Impact Assessment accompanying the EU Electricity Market Design, 2016

² NEW smartEn monitoring report on the implementation of 20 key articles for demand-side flexibility in the Electricity Market Design (second edition), 22 March 2022