

Joint statement on Demand-Side Response

A reaction to the European Commission statements at the last Florence Forum

28 July 2016

The European energy landscape has changed significantly since the early days of the power market liberalisation. With a fast penetration of intermittent renewable generation sources throughout the continent, flexibility, reliability, responsiveness of demand and access to storage are expected to constitute some of the major solutions to the challenges of the coming years.

The signatory organisations believe that the electricity market offers the only viable framework to meet these challenges. The market forms the corner stone that allows supply and demand to match in the context of an increasing reliance of Member States on each other's resources and a growing interdependence of networks and TSO cross-border activities. The electricity market consists of different timeframes ranging from forward markets, through day-ahead and intraday to balancing markets. Where there is a need for flexible capacity, it will be rewarded in a well-functioning electricity market. All potential sources of flexibility should therefore compete in all market timeframes. Flexibility is not a separate product traded independently from the electricity market.

Consumers will be part of the solution to the flexibility challenge. We believe that Demand-Side Response (DSR) has a significant potential and is well-suited to deliver flexible capacity. We therefore welcome the initiative of the European Commission to use the opportunity of the upcoming Market Design Package to make proposals in view of further facilitating the development of DSR. **Consumers should have full access to the market** either directly, through suppliers, or through a combination of suppliers and third-party aggregators.

As stated in the conclusions of the Florence Forum of 13-14 June 2016, we would like to highlight again the importance of a free formation of prices in the electricity market. Indeed, ***“efficient prices will address many of the obstacles that exist to a flexible market, including the incentivisation of demand response”***. Meaningful price signals will indeed help end-consumers to make informed decisions about their contribution to the flexibility of the system.

Some consumers already contribute either by participating directly in the wholesale market (mainly industrial consumers) – or by reacting to retail prices (business and domestic consumers), through what is often referred to as “implicit” demand response. The participation of all consumers can be improved by removing technical and regulatory hurdles for the demand side to participate in all segments of the market such as allowing all suppliers to offer dynamic prices to customers.

The market is also opening up to third-party aggregation of demand response. This is already the case in some Member States. Third party aggregators should participate on a level-playing field with other market participants. Against this background, the signatory organisations would like to stress the following principles:

- **Balance responsible parties (BRPs) must retain their pivotal role in the European electricity market design** and continue to enjoy corresponding rights as well as responsibilities. As a consequence, third party aggregators should have the same balancing responsibilities with the same rights and obligations as all other market participants. They could do so either by becoming BRPs or by outsourcing this function to another market participant (which is possible for any market participant). If a third party aggregator does not take balance responsibility, then the TSO should take measures to immunise a supplier, which acts as BRP on behalf of a consumer served by the aggregator, from the normal consequences of any imbalance resulting from that consumer's demand reduction.
- **When a third party aggregator diverts energy through a demand response activation to make it available to the wholesale market (i.e. the TSO or another market participant), this energy is still sourced and injected onto the grid by the supplier of the activated customers and will be used somewhere else in the system.** As a consequence, there needs to be **clear information channels** and **appropriate measurement tools** to clearly quantify the volume of energy shifted by the consumer and re-routed by the third party aggregator. As with any other transaction in the market, the supplier should therefore—in this specific case – be remunerated by the third party aggregator for the sourced energy in a market-based way. The same holds true for capacity that is made available by third party aggregators to network operators as a new tool to ensure a secure operation of their grids.

It needs to be stressed, however, that third-party aggregators should not be viewed solely as providers of ancillary services, but rather as a new type of market entity that facilitates the participation of demand and (intermittent) generation in the entire wholesale market.

We, the signatory organisations, firmly believe that a well-functioning energy market, with strong price signals, constitutes the central response to unlock the flexibility potential of demand. Creating an environment for a truly free formation of prices and improving competition among all market participants ought to be the primary tools of European legislation to further empower European energy consumers and to master the transition to a low carbon economy. Market participants are ready to help policy makers to tackle these challenges. We remain at the disposal of the European Commission to help, alongside third party aggregators, consumer associations, TSOs and DSOs, reform the current market design and to develop demand response to its full potential.