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EPEX SPOT response
to consultation on
priority list for the
development of network
codes and guidelines
on electricity for the
period 2020-2023 and
on gas for 2020 (and
beyond) by the
European Commission

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Introduction

EPEX SPOT welcomes the opportunity to participate in the consultation on the priority list for the development of network codes and guidelines on electricity for the period 2020-2023 and on gas for 2020 (and beyond) by the European Commission.

The European Power Exchange EPEX SPOT SE and its affiliates operate physical short-term electricity markets in Central Western Europe, the United Kingdom and Nordic countries. On our markets, we bring together different market participants and allow them to react in short notice for example to updated forecasts for renewables and to adapt their consumption and production pattern to a reliable price signal. We further contribute to the integration of renewables through our involvement on market-based flexibility options. Flexibility markets are a marketplace for congestion management that efficiently centralizes the offer and demand for local flexibility. This enables network operators to resolve physical congestion reliably and economically. The flexibility providers, on the other hand, receive an additional marketing opportunity for the flexibility they can provide. As a neutral third party, EPEX SPOT as a market operator creates trust both in the market and the emerging price signal. The value of flexibility markets is also recognized in the European Commission's "Assessment and roadmap for the digital transformation of the energy sector towards an innovative internal energy market" (2020)¹ as it outlines that flexibility markets may facilitate the integration of renewable generation sources while mitigating the costs for congestion management, grid and capacity reinforcement.

In 2019, the enera market went live, the first exchange-based flexibility market in Europe operated by EPEX SPOT. In total, 360 MW of flexibility have been certified and could be offered by flexibility providers for relieving grid congestions. This includes wind farms, biomass plants, batteries, power-to-gas plants and industrial loads. The project has shown that a flexibility market is not only technically possible, but also offers real added value by eliminating physical congestions. The curtailment of renewables could be avoided and new flexibility potentials were opened up. Besides this successful pilot project in Northern Germany, EPEX SPOT is further involved in flexibility initiatives across Europe, such as the Netherlands and the United Kingdom.

Do we need a network code on demand-side flexibility?

The European Union has committed to ambitious goals with regard to decarbonisation, both through the Clean Energy Package and the European Green Deal. As outlined by the European Commission, decarbonisation and decentralisation increase the system's need for flexibility. This is especially true for demand-side flexibility, which is urgently needed to make the energy transition possible and cost efficient. Demand-side flexibility is a key enabler to integrate the decentralised energy production assets, but also the more and more flexible assets on the demand side, just as electric vehicles and heat pumps. While grid extension is still needed, demand-side flexibility can support the process of decarbonisation and deliver fast and efficient solutions. This has already been acknowledged in the Clean Energy Package, that sets out crucial principles for a harmonised European electricity market.

In this sense, EPEX SPOT welcomes that the implementation of existing regulation remains a priority for the European Commission, as the Clean Energy Package already contains valuable targets for demand-side flexibility. Among others, the principles of market-based congestion management, local energy communities and non-wire alternatives to grid extension set ambitious targets for the inclusion of new actors to the markets. The study by the European Commission mentioned beforehand includes a roadmap towards an innovative internal energy market until 2030, that summarizes the existing regulations to be implemented with regard to

¹ https://ec.europa.eu/energy/studies/assessment-and-roadmap-digital-transformation-energy-sector-towards-innovative-internal_en

TSO-DSO coordination, specifications of the products for flexibility services, the more active role of DSOs in the procurement of the latter and the role of aggregators in procuring flexibility services. Key steps in our view include:

- Full implementation of the regulation on the internal electricity market (EU) 2019/943 regarding
 - the promotion of the obligation for TSOs and DSOs to adopt market-based mechanisms for redispatching
 - the promotion of the implementation of incentive- and output-based regulatory frameworks for electricity distribution networks
 - the monitoring of implementation of the network codes and guidelines; the network planning and operation.
- Consultation processes and creation of expert panels at the EU level to develop guidelines for the promotion of the provision of flexibility services at the distribution level by means of coordination between TSOs and DSOs and flexibility platforms.

A Network Code for Flexibility should only be established with the goal to further streamline an effective implementation of the Clean Energy Package and other relevant regulations as mentioned above.

EPEX SPOT would also like to raise the point of regulatory competition. Throughout Europe, many different mechanisms for flexibility procurement are currently discussed, implemented, and tested.

Such mechanisms address not only the generation side of the market, but in particular the load side by providing the right incentives to increase or decrease load in affected regions, to adapt to volatile and weather-dependent generation patterns, and thus balance the grid locally. EPEX SPOT itself is operating a local market for procurement of flexibility in North-Western Germany in the context of the enera project. It is crucial that the different EU member states have the occasion to first make some concrete experiences with demand side flexibility as to gain some return on experience and knowledge before deciding on the most efficient solution to create a harmonized European framework. While the open exchange about these different approaches and the classification in a common taxonomy is needed, a too narrow regulation through network codes for demand-side flexibility might restrict this regulatory competition and might result in an inefficient solution.

What is the adequate scope of a network code on demand side flexibility?

The scope of a potential Network Code for flexibility should be limited and carefully defined. As outlined above, a certain degree of harmonisation and procedures is helpful. However, the Code should not set pre-defined solutions that prevent the still ongoing competition between approaches for the best solution in this innovative field.

If a network code for demand-side flexibility is deemed as needed to further streamline an effective implementation of existing regulations, the following points should be considered:

- **A network code for demand-side flexibility should incentive market-based flexibility procurement, as detailed in the Clean Energy Package.**

The main reason for this is that regulated, cost-based mechanisms fail to include demand-side flexibility. Cost-based approaches puts demand-side flexibility service providers at a clear disadvantage. This is because the cost structures of demand-side flexibility are very different from those of traditional technologies. The definition of the cost of load is based on the value of electricity to the consumer. These opportunity costs vary between individual consumers as well as with time and location. Since it is not possible to define costs for these load-side flexibilities, they can only unfold their potential through a market with free bids and not through a regulated, cost-based mechanism. Applying a traditional cost-based approach has the effect of excluding most demand-side flexibilities. Solutions to include end consumers in markets for flexibility exist already today, as outlined in a common white paper of EPEX

SPOT and Siemens.² Together, we are actively working on initiatives to make these solutions concrete in several EU Member States. Existing technology and IT solutions used for the intraday markets can largely be reused in a cost-efficient way to allow flexibility to be activated by System Operators based on free bids.

The Clean Energy Package prioritises a market-based approach, but provides several exemptions to the rule. Germany is one of the countries that uses the exemption to remain with cost-based redispatch. The exemptions in the Clean Energy Package could compromise the enforcement of the market-based principle if not sufficiently clarified. Cost-based approaches are not contributing to the decarbonisation challenge and should be a clear exemption to the target design of market-based flexibility options. More fundamentally, they do not provide a transparent price signal revealing the actual value of flexibility as is the case with market-based redispatch.

- **A network code for demand-side flexibility should include the creation of transparent and non-discriminatory flexibility markets.**

Flexibility markets are an essential part of unlocking the potential of demand-side flexibility and will become key for the successful integration of renewables into the electricity system. We support that the European Commission includes the creation of transparent and non-discriminatory flexibility markets as one of the aims of a possible Network Code. Competitive and liquid short-term markets offer already today many ways to value flexibility, in particular with smaller product granularity and shortened lead times, but they do not solve grid congestions which are likely to increase in some EU countries in the coming years. New innovative markets and products will further increase flexibility trading and will allow the market to solve the congestions in a cost-efficient way. They will also create the right conditions in the short term to use the embedded flexibility but also going forward to develop new flexibility sources.

- **A network code for demand-side flexibility should acknowledge the benefits of market operations by neutral third parties.**

Initiatives that effectively deliver have one element in common: the roles of the involved stakeholders are clearly defined and fall naturally within their core function and competencies. The Parties need to have confidence in the market and in emerging price signals. Thus, an efficient approach would be to have it established and operated by a neutral third party. Regarding processes and data, this would ensure confidentiality and non-discrimination as well as the required transparency.

- **A network code for demand-side flexibility should not define product standardizations for flexibility services.**

Developments in the area of flexibility markets are still very strong. Different regulatory sandboxes are in place, such as the SINTEG projects in Germany³ or the European Horizon 2020 projects⁴. A too narrow network code on demand-side flexibility aiming to address any conceivable feature would run the risk to hamper further development of innovative solutions. This holds especially true for product standardisations. Flexibility markets are a response to specific physical challenges in the grid. The best design and products always need to take into account local specificities. A one-fits-all approach might not be the appropriate solution.

In any case, the definition of the Network Code should include all relevant flexibility providers, users and market platforms alongside Distribution and Transmission System Operators. Demand-side flexibility plays a role for both the electricity market and for system services, which outlines the need for a strong stakeholder participation from the beginning. Relevant expert groups should be established to accompany the drafting of the Code.

² http://static.epexspot.com/document/41050/2019-09-25_EPEX%20SPOT-Siemens%20common%20paper.pdf

³ <https://www.sinteg.de/en/>

⁴ <https://ec.europa.eu/programmes/horizon2020/en>

It is about nothing less than the energy transition. This transition must enable a reliable and affordable energy system for the end consumer, who is also an active participant in the field of digitisation, decentralisation and decarbonisation. It will not be possible to meet this challenge without market-based flexibility models.

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About EPEX SPOT

The European Power Exchange EPEX SPOT SE and its affiliates operate physical short-term electricity markets in Central Western Europe, the United Kingdom and Nordic countries. As part of EEX Group, a group of companies serving international commodity markets, EPEX SPOT is committed to the creation of a pan-European power market. In 2019, its 302 members traded 593 TWh – a third of the domestic consumption in the countries covered. 49% of its equity is held by HGRT, a holding of transmission system operators.

Contact

Henrike Sommer
Public & Regulatory Affairs Officer
h.sommer@epexspot.com

Dr. Wolfram Vogel
Director Public & Regulatory Affairs
w.vogel@epexspot.com

EPEX SPOT SE, 5 boulevard Montmartre, 75002 Paris (France), info@epexspot.com, www.epexspot.com

Public & Regulatory Affairs: publicaffairs@epexspot.com

Offices: Transformatorweg 90, 1014 AK Amsterdam (The Netherlands); Marktgasse 20, 3011 Bern (Switzerland); Treesquare, Square de Meeûs 5-6, 1000 Brussels (Belgium); Augustusplatz 9, 04109 Leipzig (Germany); 11 Westferry Circus, Canary Wharf, London E14 4HE (United Kingdom); Mayerhofgasse 1/19, 1040 Vienna (Austria)