
CEER: Regulatory and Market Aspects of Demand Side Flexibility

ENTSO-E response

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ENTSO-E response to public consultation

ENTSO-E welcomes the opportunity to respond to the Council of European Energy Regulators consultation: **Regulatory and Market Aspects of Demand Side Flexibility**. This consultation document is a timely contribution to the integration of demand side flexibility in the context of the broader energy policy goals. The consultation covers two important aspects of enabling an increase in demand side participation: the implementation of appropriate market and regulatory arrangements.

Increased demand side flexibility will be a positive development for European markets and grid operations. If the technical and market challenges are adequately addressed, such integration will support the management of renewable generation and thus contribute to system stability and operational security. Demand side integration will also facilitate greater market liquidity and competition, with a downward pressure on wholesale energy prices. These are positive long term benefits for the electricity consumer and society at large.

However in order to fully release Demand Side Response (DSR) potential there needs to be a considered focus by all stakeholders to remove unnecessary administrative barriers to the large scale deployment of flexible DSM. These occur in Grid and Distribution codes, market rules and general industry thinking. ENTSO-E and its members support addressing these issues. Further analysis is necessary to explore the potential of using DSR directly by TSOs and to quantify its benefits in terms of keeping the power system in balance.

In addition ENTSO-E considers that:

- Measurability of DSR is a prerequisite for market integration;
- Controllability of DSR is an important feature, which will bring a direct benefit for power system operation.

The definition of technical standards and regulation to ensure measurability and allow controllability of DSR should be considered as a priority. Moreover, we acknowledge to achieve the full benefit of DSR and the services that it may provide that there needs to be a significant roll out of key enabling technologies (especially time of use metering). In this regard the issue of ownership and contestability of these meters should be carefully considered by national regulatory authorities. Data ownership and access should have a clear regulatory framework, to enable opportunities for market participants while protecting the confidentiality of personal and commercial information. This has implications for both system design and IT architecture and will facilitate competition not only in energy supply, but also ancillary service provision into the future.

With respect to the integration of DSR into existing energy markets, demand response should be incorporated and treated fairly in every aspect of market design, be it energy markets, balancing markets, reserves, ancillary services, or capacity mechanisms. Any demand side regulatory framework should take account of these four principles:

- Fair Competition: access to a consumption site should not necessarily be restricted to its supplier, and other players should be able to value DSM (demand side management) through explicit participation in markets;

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- Feasibility and transaction costs: the market design should be adapted to include small consumers (e.g. allow aggregators);
 - Data management and confidentiality: commercial and personal data should be protected
 - Effective framework for TSO-DSO interaction.

As stated above, TSO-DSO interaction and cooperation is an important organisational element that can assist demand side flexibility. To ensure overall system security and efficiency, an enhanced governance structure is required for the relationship between TSOs and DSOs.

ENTSO-E is concerned that the debate thus far has centred on the impact of DSM on the distribution system. ENTSO-E believes a more holistic consideration of the impact to the combined transmission and distribution systems is essential to maximise potential benefits. This is particularly pertinent in light of Europe's 2020 renewable targets and the associated challenges for network operation and security for both TSOs and DSOs. Key to this is a deep understanding of the power system with large scale deployment of variable renewable generation – ENTSO-E can provide this expertise and will provide further insight via future position papers on these issues.

In addition, new regulatory and market arrangements concerning DSR and the role of TSOs are being developed via network codes. While the Electricity Balancing Network Code primarily deals with a question to what extent DSR could help TSOs in balancing transmission grids, the Network Code on Demand Connection focuses on bringing the right capabilities to ensure competitive ancillary services market and ultimately allow both TSOs and DSOs greater possibilities for managing their control areas. Any future regulation needs to account these Network Codes and their implications.

Lastly, the deployment of DSM, which allows TSOs greater possibilities of managing their control area, should go hand in hand with the deployment of units which demand such greater control possibilities, notably RES. Otherwise the current high standard of operational security of the interconnected European power system may deteriorate.