CEER Citizens' Q&A

Recommendations on Dynamic Price Implementation

3 March 2020

1 What are Dynamic Price Contracts and which are the implementation provisions of European legislation discussed in the report?

Article 2 (15) of the recast Electricity Directive of 2019 defines a dynamic electricity price contract as:

"An electricity supply contract between a supplier and a final customer that reflects the price variation at the spot markets including day ahead and intraday markets, at intervals at least equal to the market settlement frequency."

Furthermore, Article 11 on 'Entitlement to a dynamic electricity price contract' specifies four common implementation provisions as follows:

"1. Member States shall ensure that the national regulatory framework enables suppliers to offer dynamic electricity price contracts. Member States shall ensure that final customers who have a smart meter installed can request to conclude a dynamic electricity price contract with at least one supplier and with every supplier that has more than 200 000 final customers.

2. Member States shall ensure that final customers are fully informed by the suppliers of the opportunities, costs and risks of such dynamic electricity price contracts, and shall ensure that suppliers are required to provide information to the final customer accordingly, including with regard to the need to have an adequate electricity meter installed. Regulatory authorities shall monitor the market developments and assess the risks that the new products and services may entail and deal with abusive practices".

3. Suppliers shall obtain each final customer's consent before that customer is switched to a dynamic electricity price contract.

4. For at least a ten-year period after dynamic electricity price contracts become available, Member States or their regulatory authorities shall monitor, and shall publish an annual report on the main developments of such contracts, including market offers and the impact on consumers' bills, and specifically the level of price volatility."

2 What Does the CEER Report Propose for Dynamic Price Contracts?

The report includes the following key recommendations:

- Regarding their **general design**, **CEER recommends that dynamic price contracts refer to day-ahead market prices.**
  As provided in Article 2 of Directive (EU) 2019/944, contracts can also make use of wholesale prices on the intraday market, however, these tariffs will be more complex to implement. While the Directive is not explicit on whether a dynamic

price contract could include any ceiling or floor to the reference price variation, CEER cautions against the use of such restrictions.

- **Dynamic price contracts should be based on actual meter data**, as a profiled customer will not have the same level of incentive for demand response activities if they are not charged specifically for the times at which they consume. Therefore, in order to access a dynamic price contract, the customer must have a smart meter that records consumption data at the same granularity as the relevant reference price.
- **Consumers must be fully informed by suppliers of the opportunities, costs and risks of dynamic price contracts**, and suppliers must obtain each final customer's consent before that customer is switched to such a contract. For this purpose, CEER recommends a set of key information items in chapter 2 that could be provided to consumers.
- In order to provide clarity to customers, **information on consumption levels and reference prices could be provided at an aggregated time interval on the main billing document**, such as using daily or weekly averages. If the customer requires further information, the supplier must provide them free access to a data repository and adequate reporting tools, in order that they can analyse their actual consumption and the prices charged at time intervals at least equal to the market settlement frequency.
- In order to assess the risks and the benefits that the new products and services entail, and the impact on consumer's bills, **Member States or their regulatory authorities must establish relevant indicators to allow for effective monitoring of their uptake and use**. For this purpose, CEER recommends three different types of monitoring indicators (i.e. comparison between the cost of a dynamic price offer with one or several other contract types, including the most common offers available on the market, or a similar reference; year on year variation of the cost of dynamic price offers; volatility of price).

3 What is the Impact on Energy Customers?

Directive (EU) 2019/944 of 5 June 2019, on common rules for the internal market for electricity and amending Directive 2012/27/EU, introduces new provisions that entitles all final customers who have a smart meter installed to conclude a dynamic electricity price contract with at least one supplier in their market and with every supplier that has more than 200,000 final customers.

Dynamic price contracts could be beneficial for the consumer as they enable those who can manage and adjust their consumption, in response to price signals, to save money on their electricity bill. Besides shifting their load to avoid consuming during peak price hours, customers could also benefit from the lower margins applied to contracts based on these spot related prices. Finally, dynamic contracts may enable customers to participate in demand response, either individually or through aggregation. Dynamic price contracts will give market participants a price-signal that reflects the scarcity on the market used for reference. Generation, consumption and network data needs to be given a clear market value to incentivise prosumers and their intermediaries to profit from using the data to optimise their behaviour.