

To **Pentalateral Energy Forum**
From MPP
Date 2 June 2016
Subject MPP conclusions on the work on flexibility

Background

This note gives the MPP findings and conclusions around flexibility after the work of SG3 on flexibility from 2015 until June 2016. In general the experience proved to be productive in making steps to understand the issue and to understand the different circumstances in the different countries.

About flexibility and the market

Flexibility is the ability to respond to changes by energy market participants. This ranges from short term operational situations to more mid term flexibility. In a market flexibility needs and offers translate into products and contracts that are negotiated and traded. If the market is competitive and innovative, products emerge as the need arises. In general, larger markets are more competitive and will thus better provide necessary flexibility products.

A core principle for the market is that in the end everyone connected to the grid is responsible for the forecasted physical position, also known as balancing responsibility. Only then parties can be accountable and system security can be ensured.

Market barriers

During the SG3 work several barriers for parties to act flexibly on the market have been identified. In our view these are:

- Some network tariff structures prevent some market players to valorise their flexibility to the full extent.
- In order to be accountable the actual consumption of electricity has to be accurately measured.
- Some markets are characterised by insufficient levels of competition, resulting in slow product development
- Some TSO balancing products in some countries are too complex, too restrictively defined or defined to suit specific technologies and therefore reduce competition
- Lack of harmonisation of market features (lead times, products, activation philosophies) in the CWE region leads to local/national markets for certain products, and an unlevel playing field in an international context for comparable technologies.
- DSOs and TSOs should generally be able to bring their needs for redispatch to the market rather than being compensated through regulated schemes of obligations.

Recommendations

The Pentilateral Energy Forum focuses on integration of markets. Indeed integration of markets influences several barriers positively:

- Increased competition due to market integration alleviates competition issues in some markets
- Flexibility means are used more efficiently
- Integration and harmonisation, lead to a level playing field

Obviously integration is a difficult process, as it requires harmonisation to a very far extent. First steps in this process should be:

- Early implementation of the balancing code where PLEF leads the way for Europe. This requires early decisions on difficult issues like ISP, balancing and system operation philosophies and security analyses. This process should start now taking best practices for a market based approach into account.
- Assessment of tariff systems that distort the playing field for market parties and technologies.
- A road map for harmonisation of national and cross border lead times towards current best practices.
- Negotiations and effective price formation in a competitive market should be the default for flexibility means to enter the market.
- Aggregating flexibility means on the market is difficult in markets with low levels of competition. Where there are such competition issues in the market, they need to be addressed more generally. Where this leads to the implementation of more regulated interim solutions for BRP compensation in the context of demand side aggregation, such interim solutions should be properly justified and limited in duration and in scope to temporarily overcome the problems in that market. Such solutions should then be faded out as soon as possible when there is a sufficient level of competition.
- Don't forget possible quick wins like implementing implicit ID allocation on the German-Dutch border.