

10 Recommendations for an Efficient European Power Market Design

In relation to the upcoming legislative proposals on Market Design:

1. **EU rules providing for access for demand-side flexibility to all energy markets** (wholesale, balancing, ancillary services and capacity) on an equal footing with generation exist in principle (Energy Efficiency Directive, Article 15.8), but need to be enforced and further specified to capture the structural advantages that demand-side resources deliver, to the benefit of consumers. Customers should be able to participate in all markets directly or through an aggregator.
2. **Third party aggregators must be able to access all markets without prior agreement of the respective customer's energy retailer/Balance Responsible Party.** A clear regulatory framework should be put in place, defining the roles and responsibilities and putting in place standardised processes for information flows on a need to know basis, as well as volume and financial settlements between the different market parties, with a view to avoiding any significant distortive impacts on the retailers/BRPs.
3. **Product definitions of all markets should allow for all applicable of technologies to participate, including demand-side resources, distributed generation and storage.** They should reflect the real needs of the electricity system, instead of being designed around the capabilities of traditional generation technologies.
4. **Market prices should reflect the real value of electricity at any moment.** Scarcity prices must be possible, and the full value of balancing costs should be reflected in electricity prices. Where competition conditions allow it, regulated end-user prices should be removed.
5. **Any customer should have the right to a smart meter and to choose hourly, and where applicable quarter-hourly, market pricing; the retailer/BRP should be settled accordingly.** Also, consumers should be enabled to self-generate their own electricity.
6. **Distribution System Operators should be encouraged to make use of smart demand-side flexibility solutions offered by market parties for system operations purposes.** Incentive structures should be revised to this end, replacing the undifferentiated focus on capacity investments. At the same time, network tariffs should support, rather than hamper the use of demand-side flexibility, and perverse incentives must be removed.

In relation to the upcoming legislative proposals on Security of Electricity Supply and Capacity Mechanisms:

7. Traditional Generation Adequacy Assessments should be replaced by **System Adequacy Assessments, taking into consideration the full potential of demand-side flexibility.**
8. **In case a capacity mechanism is introduced, it should recognise the value of both capacity and flexibility in the system.** Any mechanism should reflect the structural advantages provided by demand-side resources. It is important that any capacity mechanism does not undermine the functioning of the Internal Energy Market, including price signals on the wholesale electricity markets.

In relation to the upcoming proposals on Governance and Indicators:

9. The European **governance framework should include a high-level indicator with a clear objective on demand-side flexibility.** This could be broken down into an indicator on the amount of Demand Response capacity participating in different energy markets (e.g. 10% of total peak capacity by 2030), as well as an indicator on the number of customers using a dynamic market-pricing option.

In relation to the Scenarios and Impact Assessments underlying the upcoming legislative proposals:

10. The potential of **demand-side flexibility should be adequately included in all European scenario calculations and planning for infrastructure developments.**