

EU Parliament, Committee on industry, research and Energy, 10.6.17

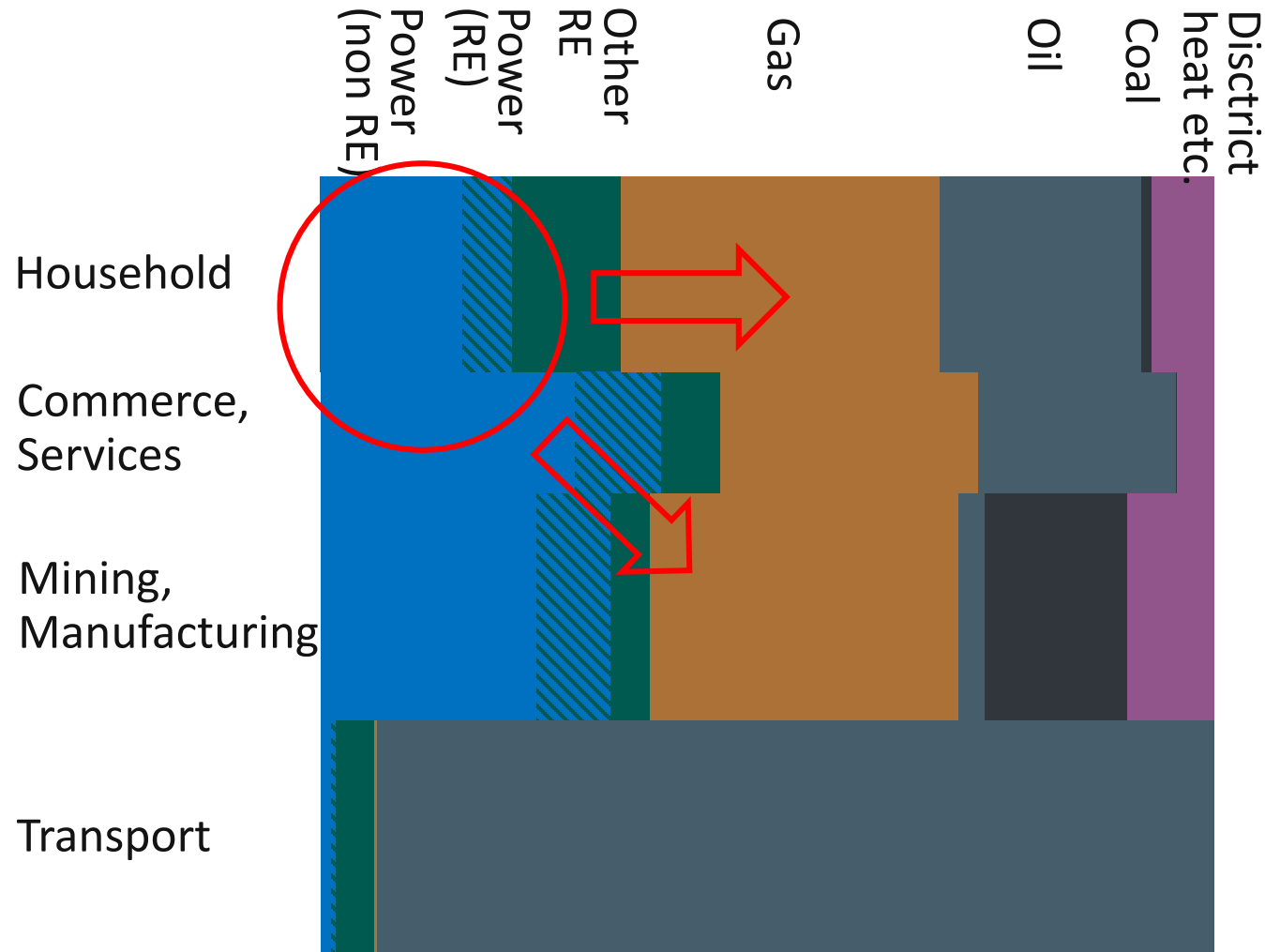
New electricity market design: a fair deal for consumers?

Karsten Neuhoff

German Institute for Economic Research (DIW Berlin)

Technical University Berlin

Energy security and climate targets need energy efficiency and replacement of oil, gas, coal with renewable electricity



Allow consumers to contribute Renewables and Flexibility to system

A shift from consumers to prosumers is important – they are needed as part of the electricity system

„Farmers harvest, eat, store, and sell ...“

How can prosumers meet *own AND system* needs?

- support for RE not limited to self-consumption
- ensure storage responds also to system scarcity/surplus
- local energy communities engage consumers, link to system

Regulation of retail markets needs to respond to observed shortcomings and new policy objectives

- Retailers charge high mark-ups to less-sophisticated customers
-> EMD, Art. 5, should NOT prevent MS from regulating prices
- Retails should be encouraged to offer 1-3 year contracts to customers
 - Consumers have more stable bills, and benefits from switching last
 - Retailers contract longer-term, good for invest in generation, flex.
-> EMD, Art. 12.3, adjusted wholesale prices since initial contract should be INCLUDED in direct economic loss for termination fee
- Policy objective was to create competitors to incumbents utilities
 - Less important with vertical unbundling and cross-border auctions
 - Create flexibility incentives (Art 11 requirement for dynamic pricing)

Creating competitive market for demand side management is warranted – but requires pro-active regulatory approach

- Important to engage consumers on flexibility
 - Can retailers offer tailored solutions (ranked 28 of 31 in services)?
 - Competition among third parties demand side providers important
- EMD creates environment for third parties to access flexibility
 - Third party does not require consent of retailer (Art 13)
 - No compensation payment (Art 17.3d) unless regulated (Art 17.4)
- Wholesale and balancing markets also needs to be fit for flexibility
 - EMD 17.1: only ‘encourages’ participation of demand flexibility
 - EMR 6.3: leaves ‘Market operators free to develop products ... ‘
 - > Require market operators to use auctions with capability based bids

- A shift from consumers to prosumers is important – they are needed as part of the electricity system
- Regulation of retail markets needs to respond to observed shortcomings and new policy objectives
- Creating competitive market for demand side management requires pro-active regulatory approach



**DIW Berlin — Deutsches Institut
für Wirtschaftsforschung e.V.**
Mohrenstraße 58, 10117 Berlin
www.diw.de

Karsten Neuhoﬀ kneuhoff@diw.de