

CALL FOR EVIDENCE ON A SMART, FLEXIBLE ENERGY SYSTEM

REstore contribution

First, REstore would like to thank BEIS and Ofgem for this joint initiative that represents an important milestone for the development of the flexibility potential in the UK.

Fast-growing independent DR aggregator active in several European markets (Belgium, France, Germany, UK), REstore has been active in UK already since 2014. For more than 3 years, REstore has experienced the opportunities that the flexibility of major industrial electricity consumers could bring to the system, as well as the obstacles that were and still are slowing more MW to enter the market.

Given its status REstore will focus its answer on the proposals regarding how to clarify the role of aggregators in the market. On the other topics raised in this call for evidence, what is important for REstore is that the market design chosen does not hamper the use and valuation of any asset's flexibility, and that all consumers can react to all market signals regarding the value of their flexibility.

REstore's main points on clarifying the role of aggregators:

- There is strong evidence in UK and across Europe on the added value of independent aggregators as facilitator to value consumer's flexibility (those new actors provide the major part of DR offered to European SOs - very low (or no) volumes from historic players like retailers);

- Independent aggregators need to have a direct access to all market segments: enhance existing access to balancing services and capacity market in particular, and open up access to balancing mechanism and wholesale market. This is an absolute prerequisite to seize the whole value of the consumers' flexibility and maximize benefits for the whole system (increase liquidity, lower costs);

- This access can in no way rely on a prior agreement of the consumer's retailer. No matter how competitive the retail market is, retailers remain competitors and will try to block aggregators (evidence in France, Belgium, Germany witnessed);

- Unbundling energy retail from provision of flexibility services is an absolute necessity having to become retailer is not an acceptable solution. The role of (independent) aggregator as provider of flexibility services must be recognized as such and added to the general market design;

- Impacts of independent aggregators (imbalances, unpaid energy) should be considered, but this should not justify postponing effective access to the market. REstore believes implementing a rapid solution that enable full market access quickly is a must. Fine tuning of the solution (if needed) can be undertaken afterwards, based on real life experience that is gathered. REstore's experience shows that incumbent parties will try to slow down the process beyond reasonable justification if allowed;

- Success of DR relies on a healthy business and consumer protection: REstore fully supports ADE's Code of Conduct approach, to avoid problems encountered in France for example.

Details of REstore's contribution

Well known signs that the energy landscape is changing

Development of new sources of flexibility for the management of the electric system in the years to come is recognized by all: with increasing renewable output, and progressive decline of classic generation units, the global inertia of the system is decreasing. Old world with generation assets operated to fit with predictable and inflexible consumption is changing.

To anticipate this new paradigm arriving, market players have been looking for new means to bring additional flexibility to the system: the last years have seen the arrival of new flexibility means such as demand response assets.

In UK and in several European countries, old market rules have been adapted in reaction to allow those new assets to offer their flexibility to the SO. A first step was undertaken with possibility for those new assets to participate to frequency reserves, balancing reserves, and capacity markets.

As a pioneer in this matter, UK has allowed an early development of DR capacities in the past. Still, this first step remained incomplete, and new steps must be undertaken now in order to reach the ambitious (and very positive) objectives of the Power Responsive initiative and allow more DR flexibility to enter the market.

New entrants developing a new activity: aggregation

A fundamental analysis linked to this is that those MW are mainly (if not exclusively) driven by new market players, also known as independent aggregators. The know-how of those new participants relies on no other activity linked to the energy market (especially not retail). Their core activity and value rely on the development of specific technologies to extract and operate the consumers' flexibility to provide the SO (and in the future other market players) with reliable MWs.

In addition to this independent aspect, it must also be outlined that to make this flexibility standard and reliable, the aggregation part of their know-how and technologies is key. Outside of very few assets that can be valued as such, the added value of the MW offered to the SO comes from the aggregated part, *e.g.* putting together assets that's individually can't or won't bring the service required. Without the portfolio effect built and managed by the aggregator, most of the consumers would therefore not be able to offer their flexibility to the market.

Detailed evidence and figures have been gathered by National Grid on point above and support this view on the role of new market players in the UK.

Independent aggregators need a direct access to the market, with no prior agreement of other market players

For REstore, priority number 1 is that a fair and transparent solution is chosen as fast as possible, with further improvements to be implemented afterwards if needed.

According REstore's experience in other countries that have developed a solution for independent aggregators, a solution that relies on bilateral negotiation does not bring any concrete solution in the short term. Any term of such a contract that is left to negotiation can (and will) be used to slow the process and limit the participation of the aggregator seeking to enter the market. This issue has been well documented and acknowledged in countries like France and Belgium that opened market access to independent aggregators.

To reach the full potential of flexibility and ensure the need of the SOs in the years to come (as detailed in the Power Responsive initiative objectives), it is of most importance that the role of independent aggregator is fully recognized and integrated in the market design. Consumers must be able to take an active role, in the full extent of their capabilities. They should therefore be able to value their flexibility on the whole spectrum of market products available (for capacity products as well and energy products): only then will they be able to receive all market signals and assess the complete value of their flexibility. While giving access to DR to balancing service and capacity market in a first time was a good step, it is now necessary to complete this process while enabling full access to balancing mechanism and wholesale market.

Provision of flexibility services should be recognized as such (especially unbundled from retail)

As stated previously, valuation of consumers' flexibility requires a specific know-how that is almost exclusively developed by new market players. Therefore, a market design where an actor would have to bundle its flexibility activity with a prior retail license would bring additional unnecessary burden costs for no benefit. Therefore, it is of most importance that flexibility providers can access the market as such.

Consequences and risks of their actions should be considered

REstore is convinced that impacts of DR such as imbalances for the BRP and unpaid energy for the retailer must be considered.

Whatever solution is chosen to do so, it must allow for fully independent aggregators to get access to all markets.

Among to proposed paths, one with a solution implemented by a neutral third party is easier according to REstore. Our experience shows that where a solution based on bilateral negotiations to settle on terms & conditions is chosen, every opportunity to slow down the process and block discussions is taken. Therefore, such a solution needs a committed timeline and a defined fallback to be workable.

REstore supports a pragmatic approach rather than a one-size-fits-all solution, given the complexity for example to set a perfect level of price for the compensation of unsold energy. As mentioned before, it is critical to find a solution that meet all party's concerns, as well as allows for concrete results in short term. We therefore suggest an explicit deadline (for example end of 2017) to implement the first version of a full access to the market. As done in other countries, rules can continue to evolve afterwards and integrate concrete feedback.

Consumer protection is key

Finally, REstore supports the fact that consumer protection should be a top priority: it is a matter of credibility for DR business. ADE's approach is a very positive first step, to set out minimum standards shared across the industry. Examples outside of UK show the importance of sharing common set of rules & principles, to avoid development of bad behaviors than can compromise the whole sector.