

Summary of public consultation feedback on the Demand Response through Aggregation - a Harmonized Approach in the Baltic Region document

Elering AS
AS “Augstsprieguma tīkls”
Litgrid AB

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Key findings

Baltic transmission system operators Elering AS, AS „Augstsprieguma tīkls” and LITGRID AB (hereinafter - TSOs) have held a common public consultation from November 10th to December 10th 2017 on the opinion paper “Demand Response through Aggregation – A Harmonized Approach in the Baltic Region”. The objective of the consultation was to gather feedback from the stakeholders about the proposed market models for integrating explicit demand response and new market players – aggregators. The feedback collected shall be used as an important input for the further work on the harmonised approach.

During the public consultation, the stakeholders were asked about the following aspects regarding the proposed approach. The topics included – harmonization of market rules among the Baltic States, advantages and disadvantages regarding two proposed alternative market frameworks, Baltic DR pilots and baseline methodology.

During the public consultation TSOs have received eight responses from entities interested or involved in Baltic regional balancing market - suppliers, DSOs, aggregators and regulatory institutions.

After careful review of the feedback received from the stakeholders, the following conclusions can be made:

1. **Stakeholders** recognize the **need for DR integration** in all Baltic countries. Furthermore, **stakeholders see benefits for having a common demand response framework** in the Baltic electricity markets. Main benefits for harmonized approach include:
 - a. Aligned framework for all the Baltic states reduces costs of entering Baltics DR market in each of the countries.
 - b. Aligned framework for all the Baltic states reduces operational costs both for new market players as well as the established ones.
 - c. Aligned framework for all the Baltic states allows Baltic market to operate as an integrated market thus providing more business opportunities for DR service providers and end-users alike.
 - d. Common framework for all Baltic states should be also in line with Nordic framework and allow easy integration with Nordic markets.

TSOs agree with the benefits identified and support stakeholders’ position that the market framework should be as aligned as possible.

2. **Stakeholders** have identified the **following questions and concerns regarding DR framework** in general:
 - a. Can the differences in metering data processing among the Baltic states hinder harmonization of DR market framework?
 - b. What kind of investments are expected from the market participants?
 - c. Aren’t the differences in existing market and legal frameworks in the Baltic States too significant to find a market model where all the benefits are not reduced by the need of compromise?
 - d. Some stakeholders are concerned about the complexity that independent aggregation model brings to the market and prefer to have only integrated aggregation model.

How TSOs will take the concerns identified into account while developing the market framework further. Short remarks for the questions risen:

- a. TSOs recognize the differences in metering data processing, but as of now TSOs cannot identify aspects which could hinder introduction of harmonized DR market framework.

- b. Changes in market processes always require some level of investment. The market frameworks proposed by TSOs require investments mostly from TSOs. Changes needed in Suppliers' information systems are expected to be minimal or none at all.
 - c. TSOs carefully examine the benefits of harmonized models in the context of compromises each country has to make to obtain harmonized model. Based on the analysis TSOs have performed until now, the expected benefits of the application of a harmonized model outweigh the expected shortcomings from the compromises made.
 - d. TSOs have agreed that both aggregation models - independent aggregation as well as integrated aggregation, are encouraged in the Baltic balancing market. This is also in line with the European Commission view represented in "Clean Energy Package" which supports the independent aggregation concept to be introduced in markets in addition to integrated models.
3. **Stakeholders** identified the following **important aspects the future market framework** should have:
- a. Market framework should be non-discriminatory towards all market participants.
 - b. Market framework should be clear and transparent.
 - c. Market framework should not require significant investments from existing market participants.
 - d. BRPs/ suppliers see the need of a market framework where compensation is foreseen for them for the energy that is used by aggregators.
 - e. Aggregators see the need of a market framework where no compensation from aggregators to BRPs/ suppliers is foreseen as they are creating socio-economic benefit with their actions and the compensation mechanism might eliminate an economic motivation for them to participate in the market.

TSOs agree that all the aspects mentioned above are important considerations when choosing an optimal DR market framework. TSOs emphasize that both alternatives proposed in the report aim at fairness, simplicity, low investments from market participants (both existing and new). More analysis is needed to assess the impact of different compensation mechanisms on new and existing market parties. Moreover – TSOs emphasise that the market framework shall comply with the relevant regulations set out by European Commission.

4. **Stakeholders** express strong overall **support and willingness to participate in the DR market pilot studies**.

TSOs are grateful and happy about the positive attitude and the high level of interest stakeholders have shown in regards to the participation in piloting. TSOs consider that piloting is pivotal step towards introduction of a new market framework. As seen from the experience across EU, a model suitable in one region might not perform as well in a different one. Pilot studies provide safe environment for testing the suitability. Accordingly, TSOs are inviting all interested market participants to approach their respective TSO and further discuss the potential cooperation in a pilot study.

5. **Stakeholders** have made the following **suggestions regarding DR pilot studies organized by TSOs**:
- a. TSOs should avoid possibility that market participants develop false expectations that market model piloted shall be introduced regardless of the piloting results.
 - b. TSOs should consider how to make pilot studies more financially adequate for the pilot participants.
 - c. TSOs should pay extra attention to ensure good communication and easy enough technical requirements.

- d. TSOs should ensure that the pilots do not create unfair advantage or disadvantage to any of the market participants.

TSOs are thankful for the suggestions received and will take the suggestions into account as much as possible. To further improve the piloting experience, TSOs are actively cooperating with colleagues from the Nordics and sharing knowledge with each other regarding the piloting experience.

6. **Stakeholders** identify that more information and more clear **explanations are needed in regards to the baseline** methodology in general as well as about the model proposed.
 - a. The stakeholders agree that accuracy is an important property of the baseline model.
 - b. The stakeholders suggest reviewing option to implement different baseline methodology for different types of end-users.

TSOs agree that further analysis regarding baseline methodology is needed. TSOs emphasize that the objective is to implement baseline methodology that is transparent, non-discriminatory and easy to understand to all stakeholders. Furthermore, TSOs plan to test the baseline methodologies during the pilots.

Next steps

Implementation of changes in national energy markets are closely linked with the legal framework for internal electricity markets set out in Clean Energy Package which as of 03.2018 is not yet in force.

Meanwhile, based on the feedback the TSOs have agreed on the following next steps:

- Baltics and Finnish TSOs will continue the pilots until the first quarter of 2019. The timeline might be prolonged if there are challenges regarding initiating the pilots due to low activity of DR resource holders. Key findings from the pilots as well as the resulting decision on whether the piloted market framework can be implemented further shall be made public to all stakeholders.
- TSOs will conduct further analysis on baseline methodology. Results will be published and reviewed together with stakeholders.
- In the following years TSOs will cooperate further with the regional DSOs and enhance their analysis on flexibility markets focusing their efforts on development of a regional single flexibility market platform. As a first step to achieve this goal TSOs are planning to submit an application for the funding in the framework of the EU Horizon 2020 call which is focusing on large-scale demonstrations of innovative grid services through demand response, storage and RES generation. In this project Baltics and Finnish participating TSOs and DSOs are proposing to carry out a demo on local regional flexibility platform with an ultimate goal to demonstrate the value and usability of the platform in managing grid congestions and supporting existing balancing market in Baltic-Finnish region.
- TSOs will conduct a study to identify the potential for aFRR product in the Baltic states originating from the known generator set up and demand side response in the near future. This study will be the first step for introducing the other ancillary services products in the Baltic markets.

TSOs are open for discussions to further improve the market understanding of the necessity of DR and how the different set-ups would influence the market and different actors present in the market.