

OPINION

European Consumer Consultative Group

Opinion on smart and flexible electricity services for residential consumers as proposed in the Clean Energy for All Package

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Summary

This opinion provides the consumer perspective on EU policies fostering smart and flexible electricity services which aim at optimizing the energy system and incorporating renewable electricity. The opinion assesses the relevant proposals included in the ‘Clean Energy for All Europeans’ package and provides recommendations on how to strengthen them during the next steps of the decision-making process.

The ECCG calls on EU and national policy makers to ensure that:

- Policy measures take into account the needs of residential consumers
- Policy measures take into account the specific needs of energy consumers in different Member States to reduce the gap between the old and new Member States
- Consumer engagement with such services takes place on a voluntary basis
- Consumers are rewarded through lower costs for their participation
- All consumers, not only those engaging to such services, have access to affordable electricity
- Consumers have access to clear and transparent information. All market actors should have responsibilities that aim at supporting and facilitating consumer engagement. Consumers should not be penalized or face undue risks.
- New types of companies have responsibilities towards consumers
- EU energy policy is coherent and does not send mixed signals to consumers through different policy measures
- Energy policy fosters collaboration between policy makers, authorities and consumer organisations in order to address the challenges arising from energy services as part of the smart home.

1 Introduction

In November 2016 the European Commission put forward the ‘Clean Energy for All Europeans’ package, an extensive revision of EU energy policy aiming at making Europe a leader in renewable energy, delivering the full potential of energy efficiency and encouraging consumers to engage with the energy market.

Despite the long standing efforts to liberalize the electricity markets around Europe and stimulate competition, energy supplier switching, one of the key indicators of competitive markets, has not increased much. Between 2011 and 2016 the average switching rate in European electricity retail markets for household customers only increased from 5.0% to 6.4%.¹

In its proposals, the European Commission envisages much more dynamic wholesale and retail energy markets steered by new market players, the integration of renewable sources and the offer of innovative services. Consumers are expected to play a central role in energy markets of the future not only as electricity users but also as generators of electricity from renewable sources.

The proposals also aim at addressing two growing trends stemming from the fight against climate change: the increasing share of variable renewable sources and the decarbonisation of the transport and heating sectors. Electricity produced from renewable sources might reach its peaks at moments when demand is low. At the same time, the increasing demand for electricity due to the decarbonisation of the transport and heating sector is expected to put electricity systems under strain.

Making electricity demand more flexible – often called by experts ‘demand-side flexibility’- is a solution to address both these trends and reduce the need to build additional generation capacity. Already today, industry customers set up deals with electricity market operators to consume electricity when demand is low and thus benefit from lower energy costs. However, although household consumers are aware of basic forms of demand side flexibility such as the day and night tariffs, advanced flexible offers are rather a novelty for them.

To get the market started for all consumers, the European Commission aspires to see two types of electricity offers broadly available to consumers: dynamic price contracts and contracts with aggregators. According to the proposed Electricity Directive, all consumers should be entitled to a dynamic price electricity contract which reflects the price of electricity in wholesale markets. This type of demand side flexibility is often called ‘implicit’. At the same time, consumers should be able to engage with new types of market players who will enable households to take advantage of lower electricity prices or reduce consumers’ electricity consumption when prices are high. These market players are called aggregators and the type of flexibility is often described as ‘explicit’.

These new offers and services can open opportunities for consumers to get a better understanding of their behavior, adjust it and save. However, they will signify a fundamental change in the way consumers interact with the energy market. This is why policy makers should not only open the market to innovative services but should also put in place the right safeguards in order to build consumers’ trust

¹ [CEER Retail Markets Monitoring Report, 21 November 2017.](#)

from the start. With this opinion, the ECCG aims at providing input on the consumer perspective to EU regulators, and particularly the European Parliament and the Council, before the clean package enters the final stage of negotiations.

2 Get the balance between innovation and consumer safeguards right

2.1. Distinguish between residential and industrial/commercial consumers

When introducing measures to promote demand side flexibility, the legislative proposals do not make a clear and consistent distinction between the flexibility of the residential sector and that of the industrial and commercial sector. This approach fails to take into consideration the differences of these sectors. On the one hand, industrial customers have bigger negotiating power and more resources to optimize costs and operations.

On the other hand, household consumers are not energy professionals. Although energy bills are one of the main financial concerns for many of them, their electricity consumption is intertwined with everyday life, needs and habits. Simply put, a financial incentive could be enough for an energy intensive industry to shift its production but might not be enough or even possible for a household to override its heating or cooling needs. Making this distinction is the first step in designing a policy framework for demand side flexibility. With this distinction as compass, policy makers shall choose the appropriate incentives and safeguards that will enable consumers, and thus the grid, to engage if they wish and benefit from the innovations of future energy markets.

2.2 Electricity must be affordable for all

Even with the necessary technology in place, there will always be consumers who won't be able to be flexible at all during certain periods. An inclusive and competitive energy sector should cater for the needs of all consumers, including those in vulnerable situations. Therefore, those consumers that are not able to be flexible should have access to affordable electricity at a fixed price. Member States and regulators should put in place adequate protections and information safeguards in order to avert consumers from signing up to offers that are not suitable for them and can cause bill shocks.

2.3 Ensure consumer flexibility is rewarded as a resource

Consumers' flexibility should be considered as a resource just as electricity generation itself and should therefore be remunerated. In case consumers are rewarded for their flexibility through energy savings these should be verifiable and communicated to them regularly through their bill. In case consumers sign up to a contract with an aggregator, they should receive frequent information about the value they bring by their flexible consumption and the corresponding savings/financial rewards. These aspects are not sufficiently addressed in the legislative proposals but are essential for consumer engagement in demand side flexibility schemes.

2.4. Provide clear and comparable information and additional support to facilitate engagement

Consumer expectation for clarity and simplicity will remain unchanged regardless of the evolution of the energy system. Consumers with the possibility to be flexible will need user friendly information that will allow them to choose offers that meet their lifestyle. This means that offers should convey a clear picture of expected benefits but also of what is expected from consumers. This is particularly true for vulnerable and energy-poor consumers. Market participants such as aggregators and other service providers should deploy additional efforts to ensure these consumer groups are also aware of the benefits available to them through demand response.

Moreover, current energy markets are already quite complex and consumers have often difficulties to choose the best offer for them. Therefore, a rethinking of the design of comparison tools and the development of methodologies which will allow comparing different offers is necessary to accommodate offers by new service providers. This should be accompanied by a review of the responsibilities of all market players: a balance is needed between the value to the system of a broad engagement by residential consumers on the one hand, and the degree of skill and automation that may be required from consumers for certain offerings, on the other.

2.5. No place for free riders

Until today, suppliers have been the main service providers with which consumers have been engaging in the energy market. The interaction of consumers with suppliers is not only subject to horizontal but also to sector-specific legislation. The evolution of the electricity system will have a transformational effect on the type of companies operating in it. Stimulating innovation in the electricity market should not come at the cost of consumer protection. New types of market entrants should abide to similar rules as those that suppliers should follow. The revised Electricity Directive should avoid causing chronic problems for consumers and distrust to the new services.

2.6. Ensure regulatory coherence

Measures aiming to support the deployment of demand side flexibility are present in several regulatory texts and proposals. For example, the already revised Energy Labelling regulation foresees the possibility to include an indication that the appliances are able to respond automatically to price signals. The revised Energy Performance of Buildings Directive foresees the development of a smartness indicator for buildings which will take into consideration the capability of the building to participate in demand side flexibility schemes. In order to give coherent signals and incentives to consumers it is crucial that by the end of the revision of EU energy policy, all legislative proposals are aligned.

3 The 'internet of energy' requires strong oversight and cross-sectoral collaboration

National Regulatory Authorities have a central role to play in mitigating the risks that could arise for consumers from upcoming changes in the energy sector and in helping consumers benefit from them.

Energy regulators should systematically monitor the impact of new tariffs and services to consumers, facilitate the take up of best practices and introduce protections where needed.

The *Clean Energy for All Europeans* package envisages a digitalized energy sector where consumers are expected to interact through digital applications, smart metering and smart appliances. It is expected that the traditional business model will change from selling kWh to selling services to consumers. The fact that energy will become an integral part of the so called smart-home gives rise to a whole new spectrum of considerations which are not traditionally addressed in energy policy.

Services, such as telecommunications and energy, and products, such as smart devices, could be increasingly sold as a bundle raising questions about which regulator is responsible. The use of home energy management systems will generate great volumes of data some of which will be of personal nature. In addition, in order to respond to price signals or be managed remotely, essential household appliances will be sold with software that could be vulnerable to security threats. New usage patterns could also have an impact on product design and durability. Privacy, security and product design are only examples of policy areas which have not been naturally in the remit of policy making related to energy in the past.

The transformation of the energy sector increasingly requires more cross-sectoral collaboration and the revised energy policy framework should reflect this need. To this extent, the European Consumer Consultative Group welcomes [the Partnership for the Enforcement of European Rights \(PEER\) initiative](#) led by the Council of European Energy Regulators. PEER aims at improving the enforcement of consumers' rights by fostering closer collaboration between different authorities.