

Press Release

Local Flexibility markets improve grid efficiency, but are exposed to regulatory challenges

Report by dena offers measures to facilitate the implementation of Local Flexibility markets

Berlin/Leipzig/Paris, 09 September 2019. The German Energy Agency (dena) has published the conclusion of its *Netzflex* initiative along with a catalogue of regulatory measures needed to drive forward flexibility initiatives. The publication builds on dena's 10 guiding principles, endorsed by EPEX SPOT earlier this year. As a central actor in several flexibility projects, EPEX SPOT has contributed to this catalogue and supports dena in their advocacy for a regulatory framework that facilitates the implementation and operation of flexibility projects. A flexible electricity system is indispensable to tackle the challenges of the energy transition.

As central results, dena recommends both the implementation of Local Flexibility Markets for flexible loads and long-term capacity contracting of demand-side microflexibility. "Being the market operator for Germany's first Local Flexibility market, we are pleased to see that the partners of the *Netzflex* initiative acknowledge the potential of this market model" says Philippe Vassilopoulos, Director of Product Development of EPEX SPOT. The report underlines that in order to give a price to demand-side flexibilities with their individual and complicated cost structures and to further foster their development, efficient market mechanisms are indispensable.

However, according to the dena report, the broad implementation of these market models faces regulatory challenges: Incentive regulation, market design and the current regulation of grid fees must be reformed to allow for an efficient deployment of the Local Flexibility market model across different grid levels. Dena also expects the model to bear risks for the markets, as it might be prone to strategic bidding behavior or so-called gaming. Such behaviour does not reflect actual market situations, but it can distort markets to the individual benefit of the bidder. "Every market operated by an exchange

relies on a solid set of Market Rules. These can aim at sanctioning gaming and adverse behaviour” explains Wolfram Vogel, Director Public & Regulatory Affairs. “In addition, several mitigation measures, such as the diversification of flexibility models, verification methods, securing competition and regulatory oversight are effective means to suppress gaming and to allow Local Flexibility markets to unfold their full potential” he adds.

Dena’s *Netzflex* initiative aims at promoting flexibility in the electricity grid for the political and regulatory agenda. EPEX SPOT is one of 18 project partners, contributing expertise notably as the operator of Germany’s first Local Flexibility market.

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The European Power Exchange EPEX SPOT SE and its affiliates operate physical short-term electricity markets in Central Western Europe and the United Kingdom. As part of EEX Group, a group of companies serving international commodity markets, EPEX SPOT is committed to the creation of a pan-European power market. In the first half of 2019, 300 TWh were traded on EPEX SPOT markets. In 2018, its 289 members traded 567 TWh – a third of the domestic consumption in the eight countries covered. 49% of its equity is held by HGRT, a holding of transmission system operators. For more information, please visit www.epexspot.com.

CONTACT

Maria Schubotz • External Communications Officer

EPEX SPOT SE • 5 boulevard Montmartre • 75002 Paris (France)

Email m.schubotz@epexspot.com • Tel +33 (0) 1 73 03 61 33