

Dynamic Pricing

European Commission proposal	eurelectric ELECTRICITY FOR EUROPE
Article 11.§1 Right for customer to choose a dynamic pricing contract	Electricity Directive 
Article 2.§11 Dynamic pricing defined as a contract reflecting prices at the spot or day-ahead market	Electricity Directive 
Article 11.§1 Obligation for suppliers to offer dynamic pricing	Electricity Directive 

What is dynamic pricing in electricity supply?¹

Dynamic pricing is a form of demand side response; it is an evolving field of innovation in retail markets. Dynamic pricing is made possible by the development of efficient wholesale markets and the availability of smart meter data. **Through dynamic pricing consumers can make use of their flexibility by consuming at different points in time. Dynamic pricing refers to retail electricity prices that pass through at least part of the wholesale price volatility to final consumers.** This can be achieved **not only through spot based/real time pricing** but also with **advanced forms of time-of-use and critical peak pricing**. Consumers can be interested in dynamic pricing if they are well informed and if the schemes are designed in an easy-to-use way to allow them to save on their bill. **To maximise the flexibility potential of consumers, appropriate retail pricing structures are needed to incentivize consumers' investment in electric heating, cooling and transport as well as for their consumption decisions [see our fiche on "Retail pricing"]**.

Smart meters are a key enabler for dynamic pricing

Consumers should be able to ask for a dynamic pricing contract and to have a smart meter. Smart meters are a key enabler for dynamic pricing. Their functionalities should **allow the reliable reading of consumption in specific time intervals that match electricity markets intervals**. If metered individual consumption load curves based on smart meter readings are used, retail and wholesale markets can be better linked, thus allowing consumers to be more active and to value their flexibility. Nevertheless, we find that a **clear link between consumers' rights to smart meters and dynamic pricing should be introduced in the electricity Directive**.

Dynamic pricing should be market based – not an obligation on suppliers

Companies in the liberalised market shall have the freedom to design their offers for consumers. They should also have the freedom to decide whether and how to offer dynamic pricing contracts. Whilst retailers should be allowed to offer dynamic pricing options, they should be able to decide if and how to do so. **No retailer should be obliged to offer dynamic pricing to consumers.** Offering **dynamic pricing contracts is also interesting for retailers to manage their portfolio** as it gives them the **opportunity to reduce their hedging and sourcing costs. Imposing an obligation** on some or all retail offerings contradicts various parts of the proposed directive, and **will be detrimental to competition and innovation**, as it could create **entry barriers for small suppliers**.

¹ See [Dynamic pricing in electricity supply](#), EURELECTRIC 2017

Key proposed amendments

Article 2.11

'dynamic electricity price contract' means an electricity supply contract between a supplier and a final customer that reflects ~~the price at the spot market or at the day ahead market at intervals at least equal to the market settlement frequency~~ wholesale price volatility. Electricity Directive

Justification

Dynamic pricing refers to retail electricity prices that pass through at least part of the wholesale price volatility to final end users. This can be achieved not only through real time pricing but also with advanced forms of time-of-use and critical peak pricing. Therefore, the definition of dynamic pricing should be extended.

Article 11.1

Member States shall ensure that **there are no barriers for suppliers to offer** every final customer ~~is entitled, on request, to~~ a dynamic electricity price contract ~~by his supplier.~~ Electricity Directive

Justification

Member States should remove any barriers that would prevent suppliers dynamic electricity price offers. But imposing an obligation on some or all retail offerings contradicts various parts of the proposed directive, and could be detrimental to competition and innovation, as it could create entry barriers for small suppliers. Coherence with the broader framework that advocates for complete market liberalisation should be ensured and freedom of contract respected.