

Subject: FEBEG feedback on the Elia presentations of the Task Force 'Implementation Strategic Reserves of 28.02.2014'
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Introduction

On the 28th of February, 2014 Elia organized a second meeting of the Elia Task Force 'Implementation Strategic Reserves'. During this meeting Elia presented its first proposals with regard to market design, product design and tendering of the strategic reserves.

As Elia has invited all stakeholders to send in written reactions, FEBEG integrated all comments on the Elia presentations of the 28th February, 2014 in this position paper.

Market design

Slide 7 – Goals and principles

- FEBEG fully agrees with the goal to 'limit the negative impact of SR on the energy market'. This is valid for the whole design and set-up of the SR and the 'energy market' should in this respect include the balancing.
- FEBEG wonders if the set-up of the SDR meets these overall goals and principles, as - for example - the SDR are not 'out of market' and thus impact the energy market functioning.

Slide 8 – High level view

- According to the FEBEG interpretation, all phases – from 1 to 4 – always need to be completed and the agreed timings respected in order to activate SR. It is, for example, not possible to activate SR without notification according to the upfront agreed delay in case of intraday unforeseen outages in order to safely prepare and/or start up the SR. Could Elia confirm that all phases will always have to be completed?
- FEBEG also recommends to introduce an additional phase, i.e. 'pre-notification', as this could decrease the costs of the SR that could be reduced by a 'pre-notification' that allows sufficient time, e.g. one week, to the operator to dispatch personnel, to bring the power plant in standby modus, to perform some availability checks, ...

Slide 9 – Step 1: Detection

- As all market operators want to be able to assess the probability that the SR will be called upon, the methodology and the criteria of the technical trigger should be fully transparent to the market and clearly described in the regulatory documents.

Slide 10 – Step 2: Notification

- To avoid any discrimination, the methodology and the criteria of the techno-economic evaluation for the SR selection should be fully transparent to the market and clearly described in the regulatory documents.
- The statement 'Warming up does not directly imply injection' is not completely correct. FEBEG recommends to distinguish two phases (see further):
 - o phase 1: warming up without injection;
 - o phase 2: warming up with limited injection.
- FEBEG still has some questions on the modalities of the notification. How long will the notification be valid? Will the notification indicate how long the SR needs to be standby or will standard (contractual) timings be requested with formal confirmations to prolong the phase with standard periods? One could consider to make a distinction between notification for phase 1 of warming up (less implications because no injection) and phase 2 of warming up (need for Elia to counter-balance because of injection). How much time will there be between a notification and a verification? Will the operator always be informed about the result of the verification?

Slide 11 – Step 3: Verification

- Depending on how 'warming up' is defined, 'keeping warm' doesn't necessarily implies there's no injection (see above).

Slide 12 – Step 4: Injection and balancing

- While the consequences of injection as a result of the economic trigger are rather clear, the technical trigger still raises some questions and concerns. At what time exactly will Elia stop counter-balancing (warming up, ramp-up, ...) and start using the SR? Will it be used to free up contracted reserves and to what extent? How will this be communicated to the market? How will the imbalance price be administratively set? Will it be set in function of the volume of activated SR? As these rules are important and impacting market functioning, they should be fully transparent to the market and clearly described in the regulatory documents.

Product design

Slide 14 - Principles

- As power plants that are mothballed or have announced their (temporary) closure are forced to participate, the most important principle should be that all costs are fully remunerated, including a reasonable margin.
- Whether the contract period is 5 months or a full year is somewhat a symbolic discussion as power plants operators will need to recover all costs that could occur during that year, within the 5 month period offer. Nevertheless FEBEG wonders whether:
 - o a contract period of 5 months is in line with the law, e.g. article 7 quater '... strategic reserve for a period of one to three years';
 - o Elia shouldn't opt for yearly contracts as it is considering – as stated in the meeting of the TF 'Implementation Strategic Reserves' of the 28th of February – to add an opening/clauses in the agreement in case of risk of shortage in the remaining 7 months;

- the power plant operator could freely dispose of its assets outside the contract period of 5 months.
- Anyhow, since the draft law foresees that SR can also be contracted for more than one year, the contractual frameworks should not complicate this possibility and should create the necessary stability for the participant to maintain his plant in the conditions to comply with the requirements for SR under the contracted price structure during the foreseen contracted period.

Slide 15 – Two different products: SGR and SDR

- FEBEG acknowledges that differentiating between SGR and SDR based on product specifications – as recommended by Elia - could be justified, but is of the opinion that the underlying principles should be aligned in order to ensure a level playing field between the two products. The importance of a level playing field between generation and load is also confirmed by the regulators ('Report of 4 regulators with regard to the modification of the regulatory framework for demand side management', FORBEG, 3 February 2014, page 33).
- As SGR is 'out of market' and in order to ensure a level playing field, SDR should – by principle – be 'out of market' as well. This 'out of market'-principle is important to avoid market distortion: putting the SGR and SDR 'out of market' prevents those units of influencing normal market functioning, i.e. impacting the 'balancing merit order' which incentivizes other market operators to contribute to the balance of the system. Elia tries to apply this 'out of market'-principle by making sure that only non-price responsive consumers are selected in the prequalification process. According to the FEBEG this objective could also be reached by prohibiting consumers to decrease consumption as soon as they receive a 'notification'. FEBEG still has concerns and questions on how SDR will work in practice. Some examples to illustrate:
 - Suppose a consumer has a supply contract based on Belpex DAM. As soon as Belpex reaches 500 EUR/MWh the consumers stops consuming. When this consumer would participate in the SDR, he would already have stopped manufacturing at the moment the SDR is called upon. As a consequence, this consumer would receive a compensation for normal economic behavior and without helping the system. Would this consumer in the SDR be put 'out of market', he would be obliged to continue to manufacture at high prices incentivizing other consumers to decrease consumption.
 - Suppose an aggregator participates in the SDR with 100 MW. What will this aggregator contribute if – at the moment of the activation of SDR – most of its clients already stopped consuming due to high prices? How will this work? How will availability be checked? What service exactly will Elia pay for?

Slide 17 – SGR principles – Capacity reservation

- 100 % availability with only a tolerance for forced outages is not acceptable, especially as 'older' power plants are within the scope of the SGR. According to FEBEG, Elia should aim for a 'high reliability of the SGR' and thus allow short – preventive - maintenances increasing this reliability, e.g. preventive replacement of a 'vibrating' pump to avoid it breaks down and causes a forced outage of the power plant. Therefore Elia should instead of demanding a 100 % availability, set up a 'reliability procedure' encompassing an interactive scheme of possible maintenances and repairs including a risk assessment (forecasting the potential need for SR during certain periods allowing room for urgent interventions).
- The following interventions on power plants could be necessary during winter period reducing their availability, but increasing their reliability and ensuring their technical or environmental compliance:

- inspections by certification bodies (e.g. boiler water quality, boiler security, internal electricity grid, ...);
- own inspections and classical maintenances (grease on valve, maintenance on pump, engine, ...) on boiler, balance of plant, gas turbine, internal electricity grid ...;
- urgent repairs (depending on the established damage and availability of spare parts);
- minor and major overhauls (normally not foreseen during winter period).

Most of these interventions require a full or partial stand still of the installation although some of them could require the operation of the installation and can or should be combined with the testing of the installation. It is self-evident that Elia will have full transparency on these interventions.

- As already stated before: 'older' power plants that are mothballed or have announced their (temporary) closure, are forced to participate and therefore their costs should be fully remunerated (including a fair margin). FEBEG recalls the specific difficulties of mothballed single-units having higher costs, related to their specific situation.
- As FEBEG has some concerns in this respect – as the risk exist that the remuneration is determined by Royal Decree - too severe penalties for unavailability are unacceptable. FEBEG recommends Elia to carefully design appropriate incentives: could Elia not consider a 'reliability bonus' (based on certain KPI's) for a successful activation as Elia is only remunerating costs while electricity price is high at the moment of activation?

Slide 19 – SGR design principles – Capacity reservation

- As already mentioned before (see comments to slide 10), FEBEG suggests to make a distinction in the 'warming up period' between 'warming up without injection' and 'warming up with limited injection'.
- On top of that, FEBEG is of the opinion that it is difficult to come up with a standardized approach for all power plants as their characteristics depend on age, technology, fuel-type, ... FEBEG recommends to define the technical parameters for each power plant in the bilateral contract for the strategic reserve.

Slide 20 – SGR design principles - Activation

- FEBEG would like to repeat its comment on the penalties (see comments to slide 17).
- As the number of tests and the exact timing (as one test will take place before the contractual period and thus – potentially – during the process of un-mothballing) have an impact on the costs – and thus the bidding for the strategic reserves – the number of tests and the testing schedule should be known upfront, i.e. before the tendering or the strategic reserves.
- A test cycle should at minimum include a warming up and ramping up phase, completed with a period of steady state functioning at full load.

Slide 23 – SDR – Capacity reservation

- According to FEBEG it is not acceptable that there's no fixed capacity obligation for SDR. This is not in line with the arrangements for SGR: SGR receives a precise setpoint and is remunerated/penalized in function of reaching that particular setpoint. If the capacity obligation is not fixed, the remuneration cannot be fixed either: one should be remunerated in function of what one really contributes to the adequacy.

- Only load that doesn't receive any price signal (e.g. DAM, CIM or balancing prices) should be allowed to participate: Elia would otherwise be subsidizing consumers that already react to price signals. This should be carefully checked by Elia.

Slide 24 – SDR - Activation

- Although Elia considers SGR and SDR as two different products, the objective is to create a level playing field between both. In that respect, FEBEG is of the opinion that the penalty regime should be aligned.

Tender design

Slides 30-32 – Eligibility criteria

- FEBEG is of the opinion that the eligibility criteria should be further clarified and detailed: it is not entirely clear what is meant with 'the obligation to participate is not applicable to production units that (by their nature) are unable to meet the technical requirements'. Intermittent production units? What about power plants that are no longer compliant with legislation (environmental permit, emission limits, technical safety, ...), that are causing technical or security risks or that are out of service due to a technical failure which cannot be repaired in due time or at acceptable costs. Moreover CHP's should be excluded from participation in the strategic reserve as their process is linked with an industrial or tertiary heat demand and as the owner of the power plant could have contractual constraints as a result of a partnership. What about smaller products units? Would a threshold for participation, e.g. 50 MW, not simplify processes for Elia?
- FEBEG wants to repeat its comment (see comment to slide 23) that only load that doesn't react to price signals (e.g. DAM, CIM or balancing prices) should be allowed to participate.

Slide 33 – Call for tender

- How will the warming up period (phase 1 and 2) be taken into account?
- FEBEG is of the opinion that a fixed activation price is not possible because it doesn't allow to take in to account the future gas price, gas transport capacity, CO₂-price, ... FEBEG recommends using a price formula (similar to R3).

Slide 34 – Terms of reference and technical specifications

- FEBEG wants to remind its comments to the tests and sanctions (see comments to slides 17 and 20).
- How will Elia take into account that the Minister fixes the volume for the strategic reserve for a period of more than one year in its call for tender? FEBEG is of the opinion that the contractual period should be accordingly to guarantee the availability of the selected SR during that period.

Slide 35 – Selection and award criteria

- FEBEG wants to express its concerns with regard to the advice of the CREG and the potential risk of having the remuneration determined by Royal Decree. According to the law the CREG is designated to assess whether the offers are 'manifest unreasonable' or not. If so, the

Government can set the volume of the strategic reserve as well as the price. Imposing volumes and prices in combination with the obligation to offer could be considered as a quasi-expropriation since it holds the risk that operators are obliged to make capacity available to the TSO at a price which would not cover their costs. As experienced for several years with the imposed delivery of ancillary services at a non-cost recovering price, imposing volumes and prices to the market will further undermine the investment climate.

Slide 36 – Selection and award criteria

- Although Elia considers SGR and SDR as two different products, the objective is to create a level playing field between both. In that respect, FEBEG is of the opinion that the activation fee should be determining whether SGR or SDR is activated.
- Elia states that lock-out of demand because of 'indivisible SGR' should be avoided, but what about the other way around?
- According to our understanding Elia will look for a volume of 400 MW SDR? Is Elia convinced this volume will be found, taking into account the criteria, e.g. flexibility which is not yet exploited by the markets? Is it an option to fill in the potentially missing 400 MW SDR with SGR?

Slide 37 – Selection and award criteria

- According to FEBEG the formula to determine the total cost need to be further detailed and clarified:
 - o Contracts for the strategic reserve can have a different duration, which will impact the price. How will this factor be taken into account when comparing offers?
 - o How can the reservation cost be used as a criterion without taking into account the underlying differences in availability for SGR and SDR?
 - o Since the SR is not expected to be activated frequently, the activation price will be a less important criterion. That's why FEBEG is wondering what exactly will be the main techno-economic driver for Elia in the selection and award process.
