

Formal public consultation on the CRM design notes (Part I)

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Centrica Business Solutions (REstore) comments

October 11th, 2019

Summary of remarks

Intermediate price cap

- Calibration of the intermediate price cap should consider costs of availability tests faced by CMUs
- Calibration of the intermediate price cap should consider the case of extreme peak demand response, only active on day-ahead or intraday markets, and without balancing revenues.

Availability obligations and penalties

- CBS supports the proposal of Elia regarding design proposal #6 and the targeted amount of AMT hours, but points out that a concrete proposal for T+ value is still needed
- CBS supports the design proposals of Elia regarding the declared market price mechanism
- CBS asks Elia to confirm that activations following availability tests in a balancing service will be considered while applying a smart testing logic for the CRM, to avoid unnecessarily stacking costs of unpaid tests
- CBS believes there should be enough time between the announcement of availability tests and the day-ahead GCT, to allow CMU participants to adjust their nominations and avoid creating imbalances during the activation
- CBS in principle supports overall the penalty scheme proposed by Elia, but challenges (i) the need for an Unavailability Period UP concept and (ii) the absence of incentives to declare unavailability of a CMU in winter

Intermediate price cap

Calibration of the intermediate price cap should consider costs of availability tests faced by CMUs

CBS understands that while calculating the intermediate cap, Elia will consider the technology in the market with the highest missing money (either existing technology, or new technology with CAPEX sufficiently low to be eligible to 1-year contracts only). Such calculation will be done looking at costs on one side vs. the revenues from wholesale and balancing markets on the other side.

While we support this approach, we do point out that the costs of the availability tests that will be performed by Elia will need to be included in the capacity bid by the CMU holder, since they are not paid. Therefore, the intermediary price cap needs to reflect these costs to ensure the bidder is not limited and can properly include the expected testing costs in its pricing.

One way to achieve this could be to increase the costs of each technology used to calibrate the missing money by an amount equal to the cost of the test for that technology taking into account among others the average variable activation costs linked to the duration of the test and the ramping down and up and any average fixed activation costs in case applicable. We acknowledge this approach is not perfect and will not match perfectly with the exact costs of each CMU but will at least ensure the issue is partially considered and does lead to a CMU being forced to lower its bid price. The expert study that is foreseen to yearly assess the highest missing money of the technologies in the market should at least incorporate data regarding the foreseen range of costs of the tests, and assess how to best include this cost in the calibration of the intermediate price cap.

-> We therefore ask Elia to consider explicitly adding a component in the calibration of the intermediate price cap to ensure that the costs of availability tests can be properly reflected.

Calibration of the intermediate price cap should consider the case of extreme peak demand response, only active on day-ahead or intraday markets, and without balancing revenues (especially reservation fees)

When considering the missing money per technology, we argue that demand response can't be considered as a homogeneous technology. While we understand not all specificities can be considered, we strongly advocate to distinguish two categories of demand response: (i) DSR offering balancing services; (ii) DSR not participating to balancing services (e.g. "slow" MWs). This distinction will allow to reflect the fact that some DR CMUs will take part to the CRM without being active on any balancing product, due to their slow activation time (typically >15min). Such MWs can however perfectly be valued in the CRM and offer their capacity in the day-ahead or intraday market.

While looking at the worst performer on the market to assess the highest missing money, and therefore calibrate the intermediate price cap, we believe these "slow" MWs should be assessed independently from DSR offering balancing services. They will have lower expected revenues from the market (no availability revenues from the market unlike reserved balancing MWs) and are likely to have a higher missing money than DR MWs engaged in balancing products.

For example, a DR capacity that will require a certain amount of revenues expectation¹ to raise the interest of the company and with a declared market price >500€/MWh to cover costs of an activation is likely most of the years to earn very little if no revenues from the market. Its missing money will therefore be close to the expected revenues + the costs of unpaid tests, value that should be computed in the calibration of the intermediate price cap.

-> CBS therefore asks Elia to consider at least 2 categories of demand response MWs when assessing the worst performer on the market in the process of calibrating the intermediate price cap.

Availability obligations and penalties

CBS supports the proposal of Elia regarding design proposal #6 and the targeted amount of AMT hours but points out that a concrete proposal for T+ value is still needed.

We support the proposed value of 100 hours for the T value, as a balanced figure that will allow the participation of all assets to the CRM. We also support the proposal to implement a cap at T+ value but could not identify a proposal value for this T+ cap in the design note (unlike the proposed 20 hours for the T- value ceiling).

-> CBS would therefore welcome additional elements on the proposed T+ value, that we believe should not exceed 150 to 200 hours.

CBS supports the design proposals of Elia regarding the declared market price mechanism

Experience from other countries shows that a large share of demand response MWs engaged in a CRM will be positioned on the wholesale market, either day-ahead or intraday. For such MWs, Elia has indeed no tool available to easily monitor the effective availability of the MWs offered if the reference price does not reach the activation price of these MWs.

Allowing these MWS to indicate the level from which they will react to market prices, and therefore from which they must be activated, allows Elia to enhance the monitoring of these MWs.

CBS also supports the following options proposed by Elia:

- (i) a dynamic calibration of the DMP (ahead of DAM market clearing)
- (ii) a DMP based on balancing (and presumably also based on intraday) prices rather than day-ahead prices only, since some MWs will only react to prices that can go higher than the capped 3,000€/MWh in the day-ahead market
- (iii) A DMP depending on the number of MWs activated, to reflect the different activation costs of assets within an aggregated CMU

¹ Bringing to the market a DR capacity will not only be a matter of direct costs (CAPEX and OPEX), but also and mainly about a minimum amount of revenues to make the project viable within the company. Below this threshold (which is usually in € rather than in €/MW), valorizing flexibility through a DR program just does not get high enough to be endorsed and validated.

Further developing these options, we believe that allowing CMUS to declare a different DMP for a given day (e.g. to distinguish between day and night) could bring additional value and better reflect the trigger point for activation of certain CMUs.

-> CBS asks Elia to assess the possibility for a CMU to declare two or more DMP values per day

CBS asks Elia to confirm that activations following availability tests in a balancing service will be considered while applying a smart testing logic for the CRM, to avoid unnecessarily stacking costs of unpaid tests

As pointed out in previous consultations, CBS does support the concept of availability tests, as being an efficient tool to ensure that only effectively available MWS are offered in the CRM by CMU owners. However, Elia's proposal to not pay the availability tests sets a limit on the number of tests that can be accepted before distorting competition between different technologies. While we do understand that Elia's expressed intention is to apply a smart testing approach and avoid unnecessary activations of CMUs in that perspective, we ask Elia to clarify that for a CMU that is engaged in a reserved balancing product (FCR, aFRR, or mFRR), the availability tests foreseen for these products will be taken into account while assessing the need to trigger an CRM availability test. The balancing tests will indeed contribute to demonstrating the effective availability or missing MWs of a CMU, and therefore lower the need for such a check on the CRM.

-> CBS asks Elia to clarify this point as part of its smart testing approach in the CRM design

CBS believes there should be enough time between the announcement of availability tests and the day-ahead GCT, to allow CMU participants to adjust their nominations and avoid creating imbalances during the activation

Elia mentions in the design that availability tests "should be announced at Day-Ahead market closure at the latest". We do support this principle, but also point out that there should be enough time between the announcement and the effective GCT of the market, so that the CMU holder has enough time to adjust its day-ahead nominations accordingly. For both generation or demand-side CMUs, this will allow to take into account the energy that will be provided by the CMU during the activation, and avoid creating some imbalances on the Grid due to an excess of energy injected. This will also contribute to lower the costs of the tests, as the CMU holder will remove the imbalance price risk that will occur otherwise during a test.

-> CBS therefore asks Elia to secure a timing for announcing availability tests that will leave enough time to proceed to such DA nominations.

CBS in principle supports the penalty scheme proposed by Elia, but challenges (i) the need for an Unavailability Period concept and (ii) the absence of incentives to declare unavailability of a CMU in winter

While CBS supports the overall design proposed by Elia, we do challenge the concept and definition of the Unavailability Period in the penalty formula.

First, as we understand it, this concept is introduced in order to avoid applying an availability monitoring of the CMU during all AMT hours that will be triggered. If this is correct, CBS believes there is no need for such an additional concept, as monitoring can and should be done on all AMT hours:

- (i) Selecting only a sub-sample of AMT hours to assess the performance of a CMU and apply penalties will necessarily be less representative of its effective availability than looking at all AMT hours. This is especially true given the overall limited amount of AMT hours (T value proposed at 100 hours)
- (ii) We believe applying a monitoring over all AMT hours is feasible (and is already done in other CRMs)
- (iii) Also, even if UP hours would be the same for all CMU holders (unclear in the design note), it would be more robust to take all AMT hours into account.
- (iv) Not knowing upfront the exact number of AMT hours (only the T+ cap) does introduce some uncertainty in the amount of the penalty, but on the other hand it increases the number of samples and hence becomes more representative of the actual performance (and also applied in other CRMs like in France)

-> We therefore ask Elia to consider removing the UP concept of the formula, and applying the penalty based on (the yearly contract value / # of AMT hours)

Secondly, we understand that during winter periods, Elia makes no distinction between announced and unannounced unavailability, applying the same X factor equal to 1 in both cases. While we do understand the intention to incentivize CMU owners to schedule maintenances as much as possible out of winter, we do question the incentive that remains for CMU owners to declare an unforeseen unavailability that would occur during the winter: indeed, the penalty would be the same without declaring the unavailability and missing an activation. While we do understand that unavailability of a CMU would have the same effect on the grid if being announced or not, as for any other reserved capacity we believe it is beneficial to send incentives to participants to declare when being unavailable.

-> We therefore believe that further assessment should be done on the formula to introduce a clear incentive to declare unavailability of a CMU even during winter periods.