Contribution from Rent-A-Port Green Energy NV and SRIW-Environnement SA to the Public consultation on the market functioning rules for the compensation of quarter-hour imbalances ("Balancing Rules")

In their quality of developers of electricity storage assets, **Rent-A-Port Green Energy NV (RAP-Green) and SRIW-Environnement SA (SRIW)** would like to make following reaction to the Balancing Rules submitted to consultation, and in particular to the methodology for definition of the imbalance prices when those are set by the aFRR means.

We understand that a cap on the prices of the aFRR energy bids may be seen temporarily necessary, as well as a pay-as-bid settlement, in the expectation of sufficient evidence that there is enough liquidity in the aFRR market.

But we believe that the proposed methodology to calculate the imbalance tariff as the weighted average of activated aFRR bids does not provide for the correct price signals to the market. Our opinion is that the principles of price cap and of pay-as-bid already sufficiently address risks related to illiquidity of the aFRR market. The calculation method for imbalance prices proposed in the balancing rules submitted to consultation may even have the adverse effect in our opinion to prevent the occurrence of enough liquidity in the aFRR market, as it makes it clearly more interesting for BRPs to rely on collective aFRR means instead of own balancing means in periods where mFRR is not activated.

We refer to Elia's exemplary table on slide 11 of the presentation of last Balancing WG (ref screenshot below).

Price of bid 1 [€/MWh]	activation time of bid 1 [sec]	activated volume of bid 1 [MW]	Price of bid 2 [€/MWh]	activation time of bid 2 [sec]	activated volume of bid 2 [MW]	Min Imbalance price [€/MWh]
1000	60	5	60	840	145	56
1000	60	20	60	840	130	57
1000	300	5	60	600	145	50
1000	600	10	60	300	140	63

We have questions on the resulting imbalance price in the last column of this table first. We obtain the "Min imbalance price" given in the last column only if we divide the total cost paid by Elia for bid 1 and 2 by 150 MW x 15 min, assuming full activation on the considered 15 minute block, while sum of the energy in bid 1 and 2 is not 150 MW x 15 minute.

With our interpretation of the balancing rules submitted to consultation, we believe that the min imbalance price in the table should be between 62.3[1] EUR/MWh (1st line) and 177.5 EUR/MWh (last line). We assume that our interpretation is correct since balancing rules refer to "weighted average price of activated bids". Methodology would also otherwise not really make sense if it results in a minimum imbalance price that is lower than the cheapest activated aFRR bid (in that case, imbalance tariff would be higher when imbalance is 0 than when 1st bid is activated).

[1] (1000 EUR/MWh x 5 MW x 60 sec + 60 EUR/MWh x 145 MW x 840 sec)/(5 MW x 60 sec + 145 MW x 840 sec)

Secondly, even with those higher imbalance prices that we computed ourselves, we believe that the imbalance price applicable with conditions in the last line of the table perfectly illustrates that the correct incentive is not sent to the market. A comment first is that in the example, bid 2 would probably have been activated for the full 900 seconds of the block, and bid 1 for 600 seconds. The minimum imbalance price using a weighted average activated price would then be 102.7 EUR/MWh. For us a situation where Elia had no other choice than to pay 1000 EUR/MWh marginal price for 10 full minutes to activate aFRR (while not having to activate mFRR) to desaturate the FCR, may, and even should lead to higher imbalance prices than ~100 EUR/MWh in order to attract more balancing means on the aFRR / incentivize BRPs to balance their perimeter instead of causing saturation of the aFRR means with 1000 EUR/MWh activated bid(s).

If we push the example to assuming a saturated aFRR for the full 15 minute block (*id est* bid 1 and 2 activated for 900 seconds), the imbalance price would be 122.7 EUR/MWh with a weighted average methodology, and such price could remain valid for multiple hours in a row, while Elia activates a close to 10 times higher marginal price on aFRR over the same period, indicating long lasting saturation / illiquidity of aFRR, a situation that definitely should reflect in sufficient incentives to the market for de-saturating aFRR / provide more liquidity. Think about periods where few spinning reserve will be available due to low expected spot prices (high renewables) and of an unplanned outage on that spinning reserve after aFRR capacity procurement gate closure time, for instance.

As an alternative method, we propose that Elia would use a time-average marginal activated price on the 15-minute block, and to define imbalance tariff based on the activation time, not the activated volume at a certain marginal price. In the example of the table, minimum balancing price would then be respectively 122.7, 122.7, 373.3 and 686.7[2] EUR/MWh.

We believe that this addresses the concern that very short duration activations at high price would reflect in high imbalance prices that would take place with imbalance price purely based on the marginal activated price over the 15 minute block (activation of 1000 EUR/MWh price even for 4 seconds would give a 1000 EUR/MWh imbalance in that case), while staying as close as possible to the principle whereby imbalance price is set by the marginal activated balancing means and not by their weighted average price (if marginal price was 1000 EUR/MWh for the full 15 minute, then imbalance price deserves to be 1000 EUR/MWh), which is the only way to incentivize market players to not primarily rely on Elia's means (If market participants in the worst case pay the same weighted average price as Elia, what is their incentive otherwise to use own means?)

[2] (1000 EUR/MWh x 600 seconds + 60 EUR/MWh x 300 seconds)/(600 seconds + 300 seconds)