



FLEXCITY

by  VEOLIA

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Subject: Flexcity's view on the Formal public consultation the proposal of amendment of the T&C BSP aFRR

Dear Sir or Madam

Flexcity would like to thank Elia for giving us the opportunity to participate in the formal consultation. We would like to take this opportunity to express our concerns on the development of the aFRR markets in general and the impact of the proposed (and already implemented) amendments of the T&C BSP.

Before moving to the points specifically on the proposed amendment Flexcity brings two general comments on the current aFRR design after which we comment on the proposed amendment.

■ **Importance of the “Per CCTU” tender for Non-CIPU or Smaller units**

Flexcity would like to emphasize the importance of the “Per CCTU” tender for the valorisation of non-CIPU aFRR flexibility.

Technically it is possible to offer aggregated aFRR in the “All CCTU’s” tender. However due to the indivisibility of the much larger thermal bids which have, due the nature of the underlying assets, mostly a downwards sloping price, it would be impossible for a smaller player to be selected in the “All CCTU’s” tender at reasonable prices. This is the very same situation that has also plagued the FCR market prior to July 2020 and has led to low liquidity and a very limited number of market participants. It also illustrates the need for technology neutral product designs and bidding rules.

Hence the only remaining tender from which value can be derived is the “Per CCTU” auction. This is therefore the tender on which Flexcity needs to earn back the considerable investment that was required for aFRR. It will also be the prices reached on this tender that can be used to persuade industries to make the efforts required to offer their flexibility to the aFRR markets.

We can conclude this point by stating that any regulatory changes or interventions with impact on the “Per CCTU” tender need to be well studied. Well-meaning but ill-considered interventions might have a profound negative side effects on the further development of the aFRR market and/or future investment decisions.

■ **Imperfect market interactions between “Per CCTU” and “All CCTU” tender**

Within the current market design undesired market interactions between the “Per CCTU” and the “All CCTU” auctions exist.

For example: an out-of-the-money (on the wholesale market) CCGT which has partially been sold in the “All

CCTU” tender has already fully covered their must-run costs caused by their technical minimal output power. This means that in a second tender aFRR volumes can be offered at very low prices. This can be seen as cross subsidizing the offers in the second tender with the results of the first tender making that there is no technologically neutral playing field during the second auction.

These moments with very low prices are both very undesirable as unfair from the perspective of Flexcity: they are artificially low and make it therefore difficult to convince flexibility providers to offer in the aFRR market. And convincing new Flexibility providers and market players to enter the aFRR markets will be crucial. If no or only a limited amount of providers would or could enter the market, the new market design might fully fail it’s purpose.

However, prior to the proposed amendment, the very low prices have one potential advantage: they can increase the volume which needs to be tendered in the “per CCTU auction”. This because when prices in the second tender are competitive or more economical as the first tenders, the to be procured capacity in the second tender will increase. Although slow, this can be seen as a kind of *automatic corrective measure*: low market prices in the second tender compared to the first tender caused by the interactions between the two tenders increases the volume and thus the price of the second tender.

In other moments, when the thermal assets have (nearly) been saturated and (nearly) all flexibility of one plant has been sold (a part of) the capacity offered in the “Per CCTU” tender will include the must-run or start-up costs of a new thermal unit and will therefore be much more expensive. However, due to unevenly distributed market information and the fact that it concerns a pay-as-bid tender, it will be difficult to capture the value in these spikes.

Specific comments on the proposed amendment.

■ **The proposed amendment removes the “Automatic Corrective Measure”**

When limiting the requested volume in the “per CCTU” tender to the NON-CIPU prequalified volume the Automatic Corrective Measure described in the previous paragraph is effectively removed. The volume will remain unchanged and the prices will remain artificially low, hindering and slowing down the integration of new technologies in the aFRR market.

■ **The proposed amendment pushes prices further down during the second tender**

As indicated in the second point of the general comments the prices in the second tender can be very low due to the link with the first tender. When further limiting the volume in the “per CCTU tender” to, for example 4MW of prequalified non-CIPU capacity, instead of the minimum volume of 10MW, Flexcity will be competing with the cheapest 4MW of CCGT capacity instead of the cheapest 10MW. The lower the volumes to be procured in the second tender, the higher the probability that this volume can still be supplied by a CCGT whose costs have already been reimbursed in the first “All CCTU” tender. This further contributes to a market circumstance where new technologies will struggle to find their place.

■ **The proposed amendment does not necessarily avoid high peak prices**

Pre Qualified volumes are not necessarily fully offered in every CCTU. Therefore price spikes might still arise. The proposed amendment will therefore not succeed in avoiding all price spikes.

Conclusion

In conclusion we can state that the negative side effects of the proposed amendment do not weigh up to the expected advantages, especially as of the moment that the first non-CIPU volumes will be prequalified.

If no alternatives can be found that avoids the negative impact on the price setting of the “per CCTU” tender, Flexcity would advocate to fully remove the proposed volume limitation **as of the moment the first aggregator has successfully prequalified the first volumes**. When market designs change in order to attract new technologies price spikes are not uncommon, not necessarily problematic and sometimes even required and desirable. Off course, **until new entrants have entered the market**, the price spikes carry no advantage whatsoever and can, without negative side effects, be avoided by the proposed amendment. Only when these measures would continue too long and interfere with non-CIPU market entrants they might seriously jeopardize the market development.

Kind regards,

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