

Subject: FEBEG's comments on ELIA's Public consultation on a modification of the methodology to determine the balancing capacity in the Elia LFC block

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FEBEG thanks ELIA for having the opportunity to answer ELIA's Public consultation on a modification of the methodology to determine the balancing capacity in the Elia LFC block¹. The comments and suggestions of FEBEG are not confidential.

General remarks

Reserves dimensioning is at the same time critical for the grid security and critical in the framework of investments in existing and new capacities. Furthermore, it is an important opportunity to confront utilities and Elia's views on the upcoming trends to expect for the future. In this perspective, FEBEG considers this document as an indication on what to expect for the coming year. We wish to underline the importance of a stable and long-term regulatory framework.

Period of analysis

FEBEG has some reserves on the approach of using historical data (for example only from 1 July 2018 to 30 June 2020 for non-contracted capacity...). This concern is twofold. First, relying on past data hides the reality behind an ever-changing energy world. Power landscapes evolve in a non-linear way (for example: renewables increase, industry and mobility electrification, assets commissioning / decommissioning) with unprecedented uncertainty (decommissioning of nuclear assets, volume to be auctioned in the CRM, coal phase-out in neighboring countries). As an example, the BE offshore capacity was 877 MW on 01/07/2018, 1671 MW on 30/06/2020, 2044 MW as of this date and will be 2262 MW by the end of the year. Second, the 24 months period does not take into account a very recent moment where the CWE grids were simultaneously in danger, specifically, an event such as that of 15 September should undoubtedly be part of the analysis and used as a stress test.

Questions:

How much historical data was used for the contracted capacity?

How are non-linear trends and recent events taken into account in the study of LFC means?

How does Elia take into account future events and uncertainties?

¹ <https://www.elia.be/en/public-consultation/20201008-public-consultation-on-a-modification-of-the-methodology>

Sharing of reserves

Analysis with other TSO's: As reserves sharing leads to a strong decrease of reserve procurement, FEBEG expects the LFC methodology to be done in close collaboration with surrounding TSO's. Relying on foreign reserves implies that other TSO's would rather be conservative in their dimensioning.

Questions:

Did Elia perform this analysis in collaboration with surrounding TSO's or is it a stand-alone exercise? Does Elia consider that more than 250MW is available simultaneously with the available cross border capacity 99% of the time? Next to this, how can Elia ensure that reliability level while "sharing agreements on mFRR are voluntary and can be subject to modifications on request of the counter-party and these reserves are never guaranteed as the availability of cross-border capacity is not ensured and are therefore subject to the operational availability of interconnection capacity at borders, as well as internal network operating constraints such as congestions"?

Note that we consider such assumption as very optimistic and clearly very risky.

Large-scale cross-border events: Counting on exchange from neighboring countries seems to be a good solution to solve local problems such as outages, storms on specific regions,... . However, there are a series of events that may take place on a much larger geography affecting several domestic markets such as for example severe weather conditions (sunny, high temperatures and nearly no wind). The recent past (15 September 2020) showed an example with very tense and unprecedented situations on CWE grids as negligible wind production occurred while thermal plants suffered from severe temperature deratings. More than 600 MW of contracted mFRR were activated on that day. FEBEG regrets that this occurrence is not part of the period of analysis (stops on 30 June 2020). Some infographics on the events of 15 September can be found in ANNEX for illustration purposes.

Question:

How does Elia take into account the fact that above-mentioned circumstances do not occur at domestic level but at a much wider spectrum (e.g. European)?

UK imports vs exports: The strong increase of available import capacity in Belgium for the studied period seems to be coming largely from Nemolink being in export mode as the explanatory note indicates that "the figure 3 is based on figures data observations from July 1, 2018 to June 30, 2020, which also takes into account periods before the commissioning of Nemo Link. This explains why the 250 MW of positive sharing capacity put forward in Section 3.2 is not yet available at a reliability level of 99%" However, on one hand, recent decisions of UK government waiving current CO2 policies may discredit past data on UK - BE flows. The possible scenario where UK CO2 scheme would be less stringent on market players could revert the UK-BE flows and increase the percentage of time electricity is imported in Belgium. In these circumstances, no reserve sharing from UK would be possible. See infographics below in ANNEX. On the second hand, the transition period of the Brexit will end on 31/12/2020. The partnership between the EU and the UK that will come after that date is still being negotiated.

Questions:

Did Elia include this recent publication in its assumptions on UK-BE imports vs exports?

Can Elia guarantee that the sharing of reserves agreement with NGESO will still be in place after the end of the transition period, whatever its outcome is, so even in the case of a hard Brexit, while "those agreements are voluntary and can be subject to modifications on request of the counter-party"?

Cross-border capacities availability: ID cross-border capacities is a prerequisite for sharing reserves with neighboring countries. Some ongoing projects (cfr. DA balance obligation removal, offshore integration, etc) do consider that enough cross-border capacities will be left over for ID maturity. Nevertheless, FEBEG feels that the trend is going in the direction of allocating large share of cross-border capacities to maturities preceding the ID time frame.

Questions:

*Which assumptions did Elia take on the cross-border reservation per time frame/ maturity?
Which percentage will be left for the ID time frame?*

Reliability level of 99%: Elia aims at an availability service of 100% when contracting mFRR balancing capacity. If a BSP fails to achieve a 100% availability, he will get penalized for this

Question:

Why is a reliability level of 99% sufficient when counting on sharing agreements on mFRR but not when contracting mFRR balancing capacity?

Activation price: The explanatory note says that “these reserves may only be activated under exceptional conditions described in the operational agreements governing the sharing of the mFRR reserve to maintain the balance in the LFC block for a limited number of hours and thus cover part of the mFRR needs. They are generally activated after using all the other available balancing services (the noncontracted balancing energy bids and the contracted balancing capacity)”.

Article 17 - 2.C of the Balancing Rules stipulate that “the price for the upward regulation of the mFRR /sharing agreements between TSOs is the agreed price of the exchanged energy as defined in the bilateral contracts with the other TSOs”.

Question:

Could you Elia communicate those bilaterally agreed prices since they will impact the BRPs via the imbalance tariff?

Other remarks

Non-contracted reserves assumptions: Several ongoing projects (under consultation) are stressing the importance that BRPs cover their positions. Looking at growing intermittency, increasingly volatile imbalance prices (as a result of alpha component and technology neutral integrated merit order), a large share of the non-contracted reserves – traditionally offered to Elia – will certainly be needed to cover BRP positions / for own use. Again, FEBEG would like to stress the fact that reserves made available in the past must be extrapolated with caution.

Question:

According to Elia, what will be the impact of these projects on the volumes offered of non-contracted reserves?

Downwards reserve needs: Elia considers contracting downward reserves is unnecessary for several reasons explained in the document. However, REMIT publications suggest that some units very active on downward regulation (e.g. Coo pump storage) will be in maintenance for several months in 2021.

Question:

Beyond past data, how does Elia include REMIT publication in the methodology of LFC means?

Long-term & stable regulatory framework: A stable and long-term regulatory framework is key when it comes to investments. FEBEG calls Elia's attention on dimensioning reserves consistently through the years. Reserves size is a key element when it comes to investing in existing or new units. Lowering reserves needs is a message sent to existing assets participating actively and reliably to balancing markets and security of supply. FEBEG calls Elia's attention on the importance of having a stable reserve dimensioning through the years instead of a yearly stand-alone exercise. As a reminder, in its "Study on the evolution towards a daily procurement of mFRR" of 2018, article 6.2.2., Elia also shared this concern:

"Deciding not to procure mFRR balancing capacity could make some flexibility disappear on the long run. While some units consider the capacity remuneration as a side payment and get other revenue streams, some units solely rely on the R3 reservation payment to exist and cover their costs. Without capacity payment those units would simply close. In the long run this might lead to higher costs for society if new peak power units need to be brought to market via a mFRR balancing capacity product.

Deciding to procure on some days and not during others or changing the volume to procure often does not promote the stability requested by the BSPs. Those indeed require a foreseeable and stable revenue stream to maintain and further develop the flexibility."

Question:

Did the LFC means methodology consider reserves dimensioning further than year 2021?

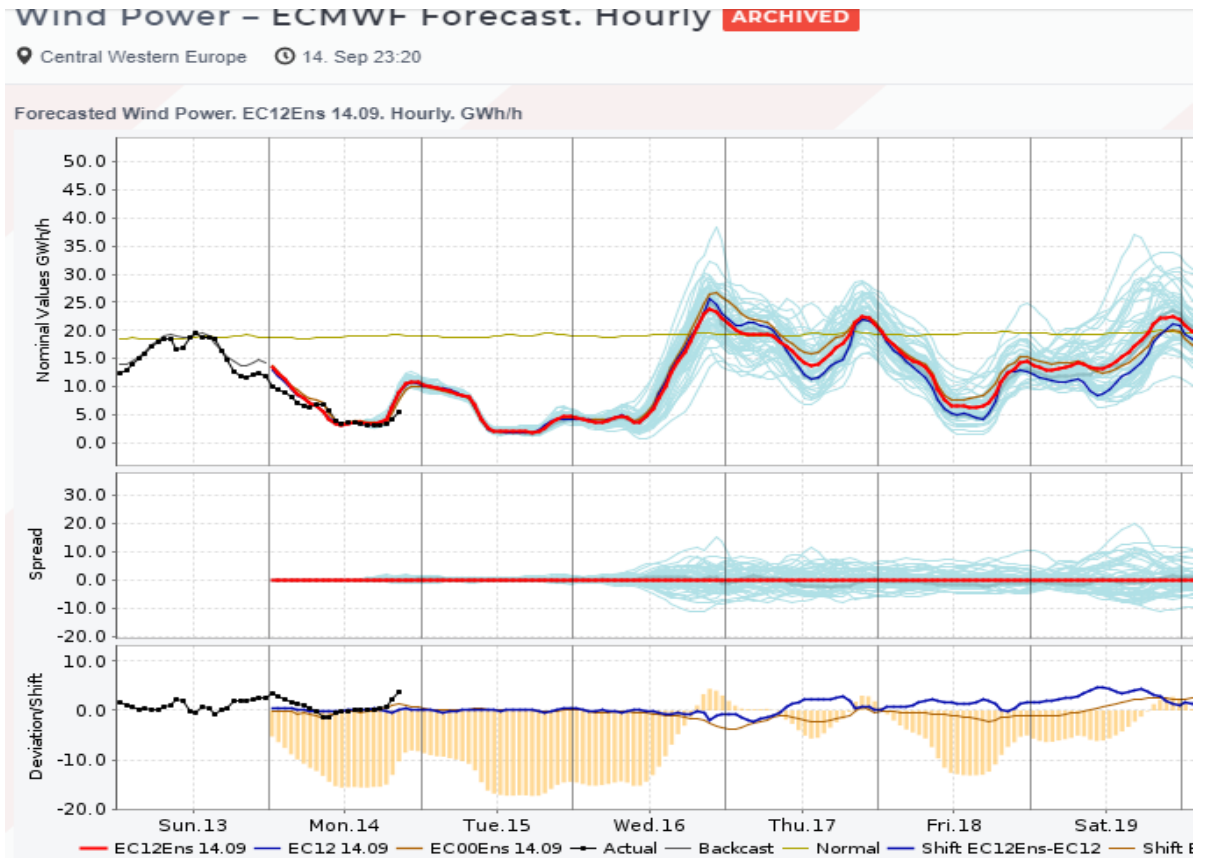
Market liquidity: FEBEG understands the current concerns about market liquidity. Decreasing reserves will certainly help the market liquidity in the short term (2021). However, looking at the longer term and in light with the previous point (Long-term stable framework), this short term solution could have negative side effects on the long term market liquidity. One can think about, for example, permanent decommissioning of existing assets, but also other issues can prevail. In this perspective, LFC means is a lot more than the output of a model as non-quantifiable elements need to be duly taken into account.

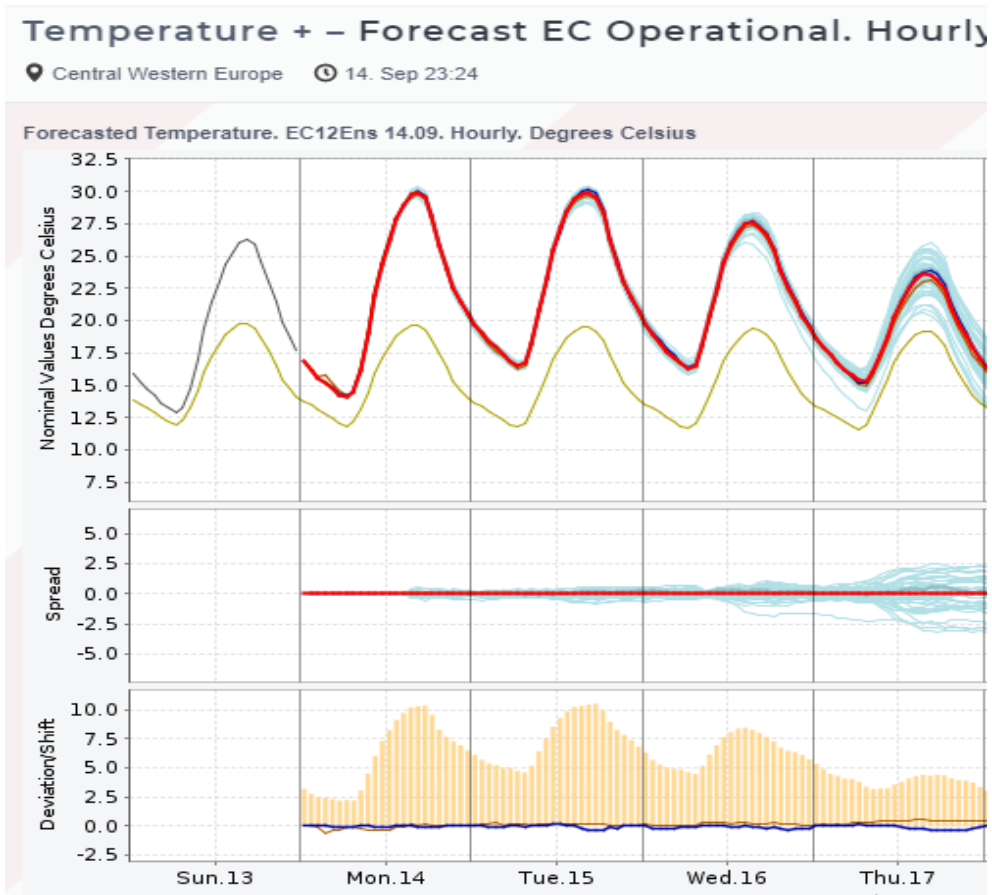
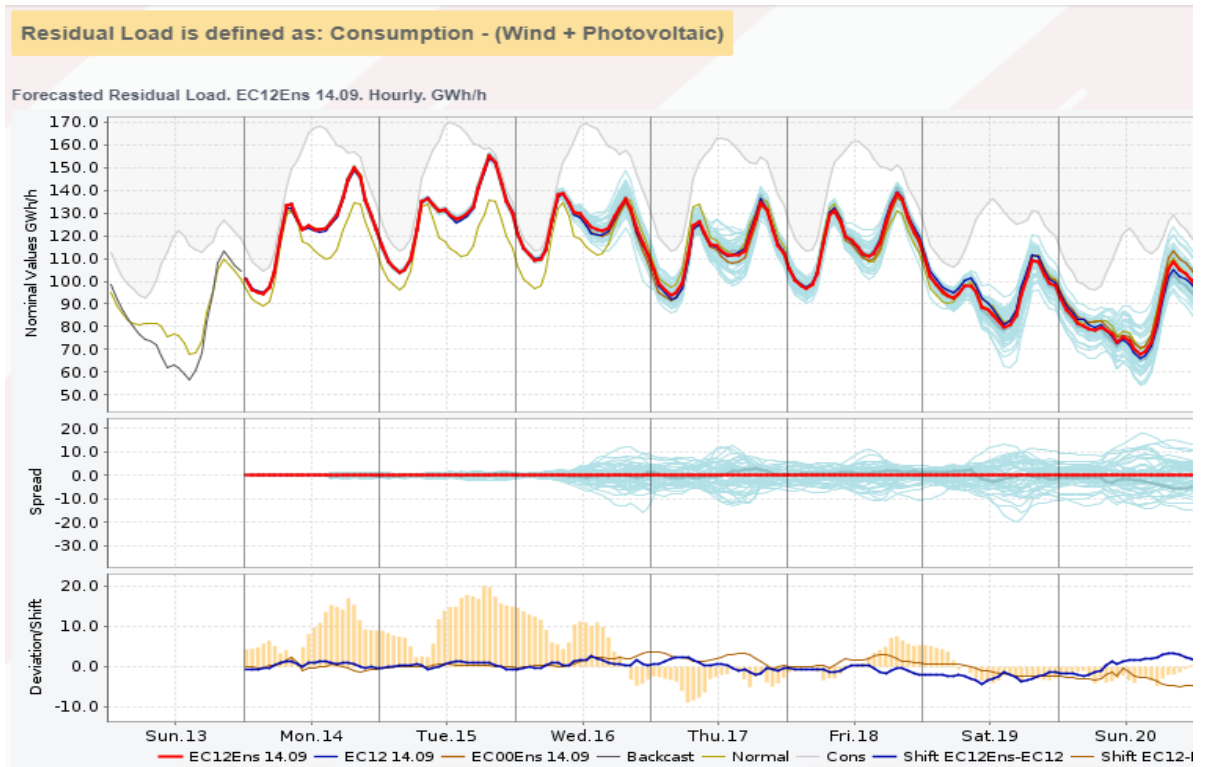
Question:

How did Elia connect the LFC means exercise with the structural complain about market liquidity?

Entry into force: Elia plans to make an 'ex-post' analysis in Q1 2021, meaning a few weeks after the planned entry into force of reserves dimensioning on 6 January. As September and October showed unprecedented situations on the grid, FEBEG believes the entry into force should take place after gaining confidence from the conclusions taken on this ex-post analysis.

ANNEX – Infographics





UK takes evidence on post-Brexit carbon pricing

- Government weighs options ahead of EU ETS exit
- UK businesses in the dark on carbon pricing in 2021
- Government considers domestic ETS, carbon tax

The UK government took evidence from expert speakers on carbon pricing policy Oct. 15 with less than three months to go before a post-Brexit departure from the EU's carbon market, leaving UK-based businesses in the dark over their carbon price exposure in 2021.

The UK is considering three options for carbon pricing post-Brexit: a standalone UK carbon market; a UK carbon market linked to the EU Emissions Trading System; and a new UK carbon tax.

"For an EU ETS link, the positive is that it's a system we know. It's continuity," said Professor Sam Fankhauser, director of the Grantham Research Institute on Climate Change at the London School of Economics, giving evidence to the UK's Business, Energy and Industrial Strategy Committee Oct. 15.

The downside of a linked UK and EU system is that the UK would