POSITION

Subject: FEBEG's comments on ELIA's Public consultation on Day-Ahead Balance Obligation of BRPs
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Contact: Jean-François Waignier
Phone: +32 485 779 202
Mail: Jean-francois.waignier@febeg.be

FEBEG thanks ELIA for having the opportunity to answer ELIA's Public consultation on Day-Ahead Balance Obligation of BRPs[1].
The comments and suggestions of FEBEG are not confidential.

Executive Summary

Overall, while **a relaxation of the DA Balance Obligation could indeed have some positive effects**, FEBEG is of the opinion that - due to the lack of convincing arguments - the **advantages** of removing the day-ahead balance obligation **are not sufficiently demonstrated.**

However, **<u>if it is deemed useful to "relax" the DA balance obligation</u>,** FEBEG calls Elia for **a very prudent approach** for the relaxation of the day-ahead balance obligation **as too rapid changes could negatively impact the market functioning**. FEBEG thus asks Elia to **work in close cooperation with FEBEG members to ensure a close follow up and a proper implementation of envisaged changes, based on a <u>careful stepwise approach</u>.**

General comments

As a general remark, FEBEG supports all initiatives that improve the market functioning, and this at the different timeframes under consideration. All measures which strive towards simplification, and which can improve the liquidity of the market should indeed be envisaged and are favourable.

In title 2.5. of the report Elia clearly shows that the quality of the average ACE and System Imbalance has increased until 2015, followed by a stabilization, and this despite the increased penetration of renewables. Elia rightfully concludes that the quality of BRPs balancing actions in the current balancing process can therefore be deemed as satisfactory. Besides, the improvement of the System Imbalance after the introduction of the 'single marginal' imbalance tariff tends to confirm the important role that a strong financial incentive plays in order to avoid imbalances that do not help the zone in real time.
While, as referred to in the report, the DA Balance Obligation, in its current form, might have an impact on the liquidity of the ID market and be a barrier for entry for new market participants, the arguments for forward in title 7 of the report do not clearly demonstrate that it is necessary to modify the day-ahead balancing obligation.

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In particular the following arguments are deemed weaker:

- *Few TSO's make us of a day-ahead balance obligation*

  Other countries have balancing systems that function well without a day-ahead balancing obligation while Belgium has a well-functioning balancing system with a day-ahead balancing obligation. What is the argument that necessitates a modification of the Belgian day-ahead balancing obligation?

- *The day-ahead security analysis don't need balanced nominations to work properly*

  Removing the day-ahead balancing obligation will have no or little impact on the security analysis. The fact that removing the obligation is expected to have no negative impact on the security analysis, is not really an argument justifying the removal of the day-ahead balancing obligation.
  More details should be given on the manner the day-ahead security analysis is performed and with which data input, to make sure there would be no loss of data (quality) in the absence of day-ahead balance obligation.

- *The current day-ahead obligation could jeopardize the quality of the information communicated to Elia in day-ahead*

  This argument is also not very convincing: the day-ahead obligation 'could' jeopardize the quality of the information, whereas this 'might' be an important information for Elia. To really justify the removal of the day-ahead balance obligation Elia should perform a more thorough analysis to back up these assumptions.
  While there is a risk that some market players could in theory provide incorrect data to fulfil their obligation, Elia should ensure that the data of the adequacy check and congestion management are not compromised

- *The current day-ahead obligation introduces a non-level playing field*

  Elia argues that the removal of the day-ahead obligation restores the level playing field between Physical BRP's and Trader BRP's: the justification is that the day-ahead obligation could be circumvented by the Physical BRP's and not by Trader BRP's. FEBEG acknowledges this argument, but wants to point out that this approach is a bit one-sighted as Physical BRP's - contrary to Trader BRP's - are also not able to perfectly balance their position due to forecast uncertainties - which is increasing with the growing share of renewables - in their portfolios and have, hence, a higher risk to be exposed to imbalances prices than Trader BRP's. So, FEBEG is not convinced that the removal of the day-ahead obligation restores the level playing field between Physical BRP's and Trader BRP's.

- *The current day-ahead obligation puts up barriers to sport market improvements*

  Elia points to possible improvements in price convergences between markets, as well as liquidity, but doesn't really identify the barriers created by the balance obligation that prevent spot market improvements.

On top of that, FEBEG has the following concerns as regard to the proposal:

Keeping the DA Balance Obligation with adjustments

The proposal is based on a **reinforcement of the monitoring of the day-ahead balance obligation** for **BRPs with physical assets** while having the possibility to ask a **derogation from the balance obligation in tense situations**. This would be allowed by setting standards for acceptable deviation between forecasted values and RT measurement (necessary condition for ensuring a level-playing-field). We agree that a is a challenge, especially for dispatchable units for which the "freedom of dispatch" must be kept.

Therefore, **we consider this proposal is not very effective, as it does not address the issue, and thus would offer limited to no benefits, but nevertheless adds complexity to the market.**

Shifting the DA Balance Obligation to the intraday

If the imbalance price reflects the real-time value of electricity, this should give the BRP enough incentive to be balanced or help the system without any obligation. Shifting the DA Balance obligation to a later timeframe (but before the BAL timeframe) could be an interesting intermediate step but **does not solve the level-playing-field issue** and would **diminish the value of the ID market** during the hours that have to be balanced.

On top of this, such an important change **would require massive investments and implementation, therefore this proposal seems not feasible, at least not in the short term.**

Removing the DA Balance Obligation while keeping the DA nomination process and the RT balance obligation unchanged

Overall, while **a relaxation of the DA Balance Obligation could indeed have some positive effects**, FEBEG is of the opinion that - due to the lack of convincing arguments - the **advantages** of removing the day-ahead balance obligation **are not sufficiently demonstrated.**

However, **<u>if it is deemed useful to “relax” the DA balance obligation</u>,** FEBEG calls Elia for **a very prudent approach** for the relaxation of the day-ahead balance obligation **as too rapid changes could negatively impact the market functioning.** FEBEG thus asks Elia to **work in close cooperation with FEBEG members to ensure a close follow up and a proper implementation of envisaged changes, based on a <u>careful stepwise approach</u>.**

In general, if deemed useful, the **prudent gradual removal of the DA Balance Obligation** could be envisaged under the following circumstances:

1) An important **condition “sine qua non”** is that **intermediate steps are foreseen in the implementation**. The idea of Intermediate steps towards the relaxation of the DA balancing obligation seems a pragmatic one and also seems **crucial for assessing the impact of such a change on notably the imbalance market**. However, the proposal made in the note by Elia (intermediate max open position as a % of offtakes + sales over the last 12 months) still lacks clarity:
    - How would this percentage be determined?
    - How long will the intermediate step be trialled (6 month, 1 year, 2 years?)
    - What about more than one intermediate step towards a full relaxation (e.g. each month 10%)
    - How would this threshold be applied to trader BRP as they have no offtake/injection?

It would also be useful to analyse the implementation plan put in place by Tennet when they abandoned the DA Balance Obligation.

2) **The possibility to return to a previous situation instead of moving forward**. This could be needed if market circumstances demonstrate that the benefits of dropping the DA obligation do not materialise or issues related to higher system imbalances, peaks in imbalance prices, market access/competition are raised.

3) **Data Quality issues need to be addressed**:
   a) Adequacy Checks. Generation schedules for CIPU units and on/off schedules will have to be provided to Elia. However, the other elements needed for a sound adequacy check might not be complete with the absence of DA balance obligation. This is not clear how Elia intends to cover that risk.
   b) Congestion Management. For that purpose, only the schedules and the load forecasts (+ the forecasted XB flows) have to be communicated. The schedules are provided and the forecasted XB flows are known by Elia, but we wonder how the load will be assessed by Elia without a DA balance obligation.

4) **The need to keep receiving (bilateral/confidential) information on the portfolio balance.** Currently, BRPs are receiving a signal from Elia should their portfolio not be (sufficiently) balanced in DA. We would like to keep this service as this is a valuable one, even if this would just be read as an information and not as request to action from Elia.

5) Elia should keep an eye open for a **risk of higher System Imbalance due to forecast errors** by some BRPs and their potential open position in DA, in order to tackle possible issues:
   - Risk for a higher need for Rx (cfr. Rx dimensioning), hence higher cost for the society?
   - Risk of more extreme imbalance prices (plus consideration of the potential scarcity pricing component)

Despite this specific issue raised, we do wish to clarify that removing the DA Balance Obligation does not imply that BRPs will be unbalanced in DA. BRPs will constantly assess the risk to keep an open position at the end of the DA market. Entering the ID market with an open position means that this should be closed prior the balancing timeframe so that the BRP respects the RT balance obligation (of means.

6) **Transparency is essential**: **new indicators** published by Elia should be thoroughly prepared, with great attention and studied in detail. An aggregated view (per Qh) of the open positions, as proposed by Elia, is a valuable indicator. A better indicator would be **the aggregation of the long and the short positions separately** as this **would provide more precise information** to the market.

7) A **well functioning market** clearly essential throughout the whole process. Market Participants can only take advantage of the Elia proposal to remove the DA balancing obligation if a well-functioning (XB) ID market is implemented. Therefore, we would like to recall the following points:
   - XB capacities should be reassessed in towards the ID time frame with an improved and more systematic increase/decrease process (cfr. EFET paper on ID market).
   - Given the current divergent evolution of MTU in the ID market (30min on BE-FR and 15min on BE-NL and BE-DE), a cross-product matching mechanism should be put in place as soon as possible. And this is even truer with the potential evolution covered in this consultation. Currently, market participants must choose on what shared-order-book they will put their bid. This ex-ante choice is de facto leading to market inefficiencies.
   - The future XB pan-EU ID auction, for which we recall our scepticism, should suspend the continuous ID market as shortly as possible. Regulation tells 10minutes and this should be respected (cfr. 40min / 60min currently considered)