federation of belgian industrial energy consumers

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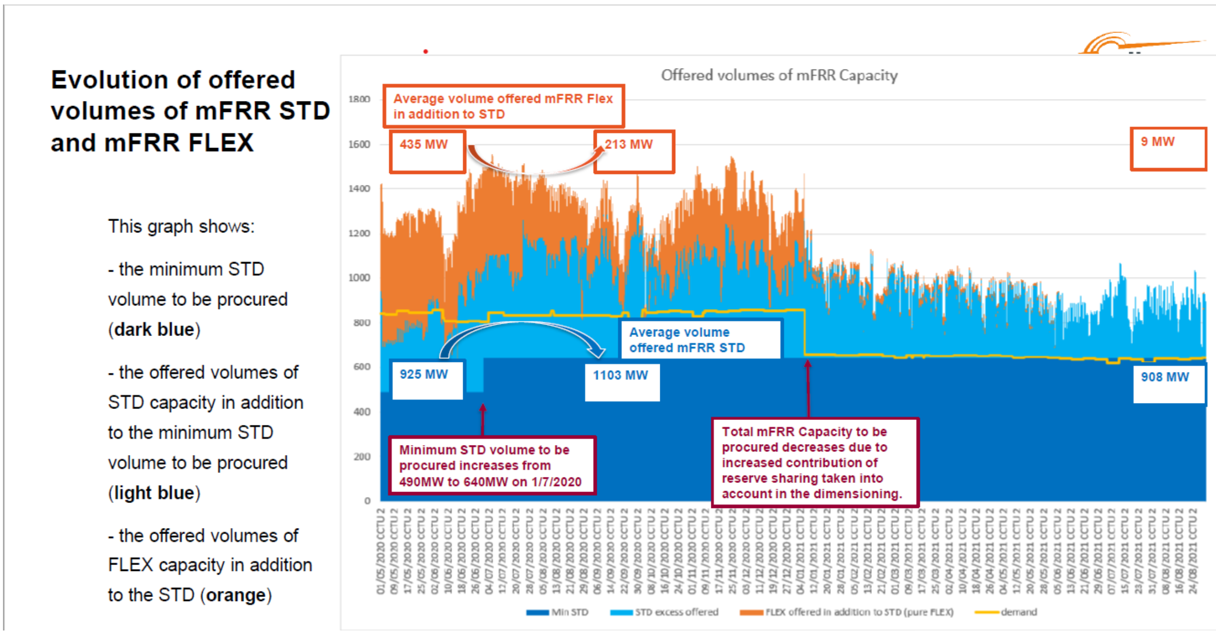
Febeliec answer to the Elia consultation on a modification of the methodology to determine the balancing capacity in the Elia LFC block and on the phase-out of the mFRR Flex capacity product

Febeliec would like to thank Elia for this consultation on a modification of the methodology to determine the balancing capacity in the Elia LFC block and the phase-out of the mFRR Flex capacity product. Febeliec continues to oppose phasing-out this product, as it has done for the past years. Febeliec would like to stress that for certain flexibility, such as demand side response but also storage, a neutralization period between activations is an important feature. By abolishing the mFRR Flex product and only sourcing a mFRR Standard product without such neutralization period, Elia puts certain types of flexibility at a big disadvantage. At best, partial volumes can be recuperated in mFRR Standard products (albeit with lower overall volumes for the same combination of assets), at worst these volumes will complete leave the market, thus decreasing liquidity and possibly even leaving insufficient liquidity in the market to cover Elia's balancing capacity needs at a reasonable cost for the system.

Historically, Febeliec wants to point out that Elia has already made numerous changes to the balancing products that were designed for or at least better cater to the specificities of demand side response and storage, such as the ICH product (discontinued), the R3DP product (discontinued), the first mFRR Flex product (discontinued) and the latest adapted mFRR Flex product (to be discontinued on request of Elia), while such products in the past have shown clear value for the system in Belgium and abroad (e.g. recently when the electrical system encountered some severe issues, interruptible contracts with consumers in Italy and France saved the European system from collapse) and this at a reasonable cost, in most cases much cheaper than the standard products (as could for example also be seen in the winter 2018-2019, when in Belgium at a certain point 6 out of 7 nuclear plants were unavailable and prices for mFRR balancing capacity were rapidly increasing, yet much less so for the flex product.

Based on figures presented by Elia during the last WG Balancing of 15/09/2021, it can be seen that between May 2020 and August 2021, because of the steep reduction of mFRR Flex bought as of 2021, volumes offered for mFRR Flex have dried up (which is logical, when hardly any demand still exists) yet the volumes of mFRR Standard being offered have not significantly increased. Even more so, in the summer months, had the total volume of mFRR to be acquired not been reduced significantly at the beginning of 2021, offered volumes of mFRR standard alone would not have been sufficient to cover the needs (and at some points on the graph even hardly covered the reduced needs). It is clear that the quite healthy margins of mid 2020 have severely disappeared by summer of 2021 and this without any fundamental product changes.



The observed increased costs on the balancing markets are according to Febeliec to a large extent due to the reduced liquidity in the balancing markets, to which the de facto (and soon maybe de jure) removal of mFRR Flex has greatly contributed.

As Elia is planning to move in 2022 towards the European MARI platform for mFRR, with a much more stringent new mFRR standard product (e.g. 12,5 instead of 15 minutes full activation time, which is a very hard target for virtually all flexibility) and ever shifting implementation deadlines in Belgium and abroad because market actors signal they are not ready to deliver this product in the original timing, Febeliec is extremely surprised to see that Elia, as opposed to for example its French colleagues, does not apply for a derogation to maintain the mFRR Flex product (with a sufficient volume to be contracted) until the impact of the switch to the MARI platform is known and it is ensured that this platform will deliver upon its promises (and not be connecting various national balancing markets with severely reduced liquidity because of the more stringent product, ultimately leading to higher costs and potentially even insufficient balancing capacity in case cross-border capacity would not be sufficiently available to share balancing reserves).

While Febeliec understands that mFRR Flex might introduce some additional operational questions (which however have up until now always been handled without too many problems), Febeliec strongly advises against the abolition of the mFRR Flex product before the overall impact of the MARI platform is known and well understood and the platform has clearly shown to be true to its promises. Febeliec urges Elia to be much more cautious, as it knows that its members together with all other consumers will have to cover the costs for any miscalculations and not Elia or its shareholders.

Febeliec thus most strongly urges Elia and the regulator to extend the mFRR Flex product until sufficient experience is gained with the MARI platform, especially as some doubts about this platform have already lead to significant delays in its introduction and even derogations in some countries. Febeliec thus opposes the modifications proposed by Elia in its methodology to determine the required balancing capacity.

Additionally, if the mFRR Flex product were not to be discontinued but a derogation granted for extending its lifetime in order to ensure that sufficient liquidity remains in the mFRR market in light of the recent evolutions and expected future evolutions, Febeliec most strongly insists that the current approach where a fixed volume (almost equal to the entire mFRR need) is required to be sourced in mFRR Standard and only the (very limited) complement in mFRR Flex is replaced by a mechanism as was applied before with minimum and maximum thresholds for each of the products, where for a (much lager than currently is the case) share of the mFRR needs mFRR standard and mFRR Flex are put in competition with each other, in order to ensure that the cheapest and thus most cost efficient combination can be sourced. Febeliec considers indeed that the current artificial reduction of the mFRR Flex volumes that can be sourced leads to a suboptimal outcome, as it so severely limits the potential to be selected for a party offering mFRR Flex that the supply and liquidity automatically dried up. Elia's conclusion that this shows a lack of interest in the product is incorrect as this incorrect presumed lack of interest is only the result of its arbitrary choice to severely limit mFRR Flex volumes to be contracted. Febeliec thus strongly insist for real competition between both the mFRR standard and Flex products and this for a substantial share of the overall mFRR needs, which would then automatically reveal a market optimum, taking into account realistic boundary conditions on minimum mFRR standard volumes.

On the specific topic of non-contracted versus contracted mFRR capacity, Febeliec refers to its (future) answer to the consultation on the daily prediction of non-contracted balancing energy bids. Febeliec however already urges Elia and the regulator to be more ambitious in some of the timelines put forward in this study and is surprised to see that Elia is extremely cautious on this point yet takes a very incautious and maybe even very risky approach towards the abolition of mFRR Flex. Febeliec regrets that different risk standards seem to be applied, and not necessarily to the benefit of reducing overall system costs.