

Subject: FEBEG comments on ELIA's public consultation on the study on procurement strategies for a dynamic calculation of FRR means

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FEBEG thanks ELIA for having the opportunity to react ELIA's Public consultation on the study on procurement strategies for a dynamic calculation of FRR means<sup>1</sup>. The inputs and suggestions of FEBEG are not confidential.

## General comments

We support the necessary studies to move to an even more dynamic procurement than today –specifically also the implementation of a dynamic dimensioning of the aFRR needs– as was presented by ELIA in 2020 . The qualitative study under consultation is interesting and provides interesting insights in the future potential of such a methodology. ELIA also highlights the limitations of this study and FEBEG appreciates this transparency and honesty. There are several improvements needed to further assess the potential of partial procurement and obviously, quantitative analysis using representative datasets is a must-have before taking conclusions.

## Specific comments

### Quantitative study

As a first and necessary next step, FEBEG believes that a quantitative study is needed to provide more robust conclusions and recommendations. Also, such a study will need to rely on representative datasets. Past data can be misleading as the power landscape evolves in a fast and non-linear way (speed up of renewable integration, industry and mobility electrification, assets commissioning / decommissioning, CRM). Furthermore, some major changes in the market design just happened recently or are not even live yet (Core flow-based with more EU countries, EU balancing platforms and subsequent available ATC's, etc).

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<sup>1</sup> [https://www.elia.be/en/public-consultation/20220914\\_study-on-procurement-strategies-for-a-dynamic-calculation-of-frr-means](https://www.elia.be/en/public-consultation/20220914_study-on-procurement-strategies-for-a-dynamic-calculation-of-frr-means)

### TSO sharings

For the sake of clarity, FEBEG wishes to remind that current mFRR ‘dynamic’ procurement methodology is actually not fully dynamic. In fact, ELIA considers a fixed amount of TSO sharings through the year – accounting for 250 MW – and expects the energy across the border is available 100% of the time (no matter what). FEBEG is of the opinion that low availability (or exhausted means) in one country is highly correlated with low availability in another surrounding country (situation with high load, high renewable volatility, low generation availability, etc). Actually, the winter plan issued by the government and inviting ELIA not to rely on TSO sharings confirms the above statement.

### Non-contracted energy bids

FEBEG agrees with ELIA that it will be key to monitor the evolution of non-contracted bids. They appeared to be limited at the time of the study (certainly for aFRR) and we have no relevant data on the cross-border bids.

We want to emphasize that the assessment of non-contracted energy bids is highly dependent on the procurement strategy that will be chosen. If the future strategy selected by ELIA differs from the current methodology, we fear that past data on non-contracted bids are simply not usable. More concretely, partial procurement is expected to decrease market liquidity and non-contracted offers of some technologies. For example, a CCGT that was partially selected in FRR auction – consequently with its costs of running that should be paid – will offer non-contracted energy bids. This way, the remaining band of the CCGT can be valorized on the FRR market. However, decreasing FRR capacity might lead to less units of this type to be selected and consequently lower the amount of non-contracted bids.

### Reliability level

The three methods presented could each have a different impact on the reliability level that currently is calibrated to cover 99% of the events. FEBEG is wondering whether ELIA did make an assessment of the physical and financial risks – i.e. serious grid issues – of the remaining uncovered 1%. Or to put it differently, are the potential costs of this uncovered 1% (should it materialize) lower than the total cost increase resulting of larger procurement for the grid users?

## Total cost analysis

The recent discussions on aFRR procurement decrease (at the expense of grid security) and the subsequent fears of high balancing costs for PICASSO go-live (on the back of expensive technologies in a smaller merit order) are particularly worrying to FEBEG's members. When going through this study – which aims to decrease the procurement costs – we yet have another example of an analysis that is disregarding the impact on balancing costs.

The three options presented by ELIA could highly impact the indirect balancing costs; those costs that BRPs are exposed to and that will be passed through to the final customers in the end. Specifically and solely analyzing the direct costs – that is to say the procurement cost – only shows a part of the picture and is risky as it can, in the end, lead to higher overall costs for society.

We believe that units having opportunity costs on EPEX are offered at higher capacity prices than those without (or very limited) opportunity costs. Hence, these units would be the first to suffer from intermittent or partial procurement. Nevertheless, those units by definition have lower activation costs and consequently, they would not drag the balancing costs (imbalance tariffs) to extreme levels. Similarly, the units with low EPEX opportunity costs are most likely to have large activation costs. With partial or intermittent procurement, they would set more frequently the imbalance price and consequently inflate the total indirect costs.

As already stated by FEBEG and its members at multiple occasions, we consider it to be highly important to look at the global picture and analyze the impacts of dynamic dimensioning jointly on direct plus indirect costs.

## Security of Supply (SoS) / adequacy

All three options are worrying when looking at it from a Security of Supply (SoS) perspective and its associated costs.

- What would be the expected impact on the cost of the CRM in case of the three scenarios? For instance, if no/small mFRR revenues for DSM, will the missing money increase?
- What would be the impact on SoS? Nowadays, an important part of mFRR offer is provided by technologies that are not eligible for CRM in the upcoming functioning rules due to CO2 requirements, but are still accounted for in SoS. In absence of mFRR capacity revenues do we expect these capacities to remain in the market? (no missing money?)
- Are possible conclusions on wholesale market liquidity and cost of procurement robust in case of capacities leaving the market?

## Stable regulatory framework

Regarding the important topic of market stability and long-term regulatory framework for investments, FEBEG wishes to again emphasize on the long-term visibility needed to enable the market to be adequate when it comes to means and needs. Implementing a solution only valid for this winter will not provide enough certainty nor give an appropriate investment signal. One can notice that FRR procurement (LFC BOA) has decreased in the recent past – which seems counter-intuitive with the increase of intermittent generation – and that some flexibility has left the market as a result of this. It is a fear that FEBEG expressed multiple times in its position papers and we can only regret that it became a reality. Such an evolution is very unfortunate and FEBEG believes that a stable and regulatory framework is a prerequisite to mitigate that risk.

A stable and long-term regulatory framework is key when it comes to investments/divestments. We call ELIA's attention on dimensioning reserves consistently through the years. Reserves size is a key element looked at when it comes to investing in existing or new projects (visibility is key to encourage business case developments). Lowering reserves needs is a discouraging message sent to existing assets participating actively and reliably to balancing markets and security of supply.

## Planning

FEBEG agrees with ELIA that delaying the accession to EU balancing platforms do have an impact on (i) the timing to conduct the necessary quantitative studies and (ii) on the subsequent implementation planning. Those platforms are game changers and will most likely impact the representativity of the data. After having reliable data, an observation round seems also to be a sound prerequisite before going live.

## Conclusions

FEBEG agrees with the recommendations put forward by ELIA in its study and appreciate the fair assessment of each method. As detailed in the specific comments, we also find that some elements are very worrying. The trend to constantly decrease the procurement while ignoring the potentially important impact on balancing costs is a major concern for all BRPs, and as a consequence should also be a major concern to all end-users. We remind that in Q3-22 ELIA on the one hand decreased the aFRR procurement and on the other hand voiced serious concerns on the impacts of BRPs along with grid users. This dichotomy needs to be studied ASAP according to FEBEG members. We feel that much of the efforts are spent on procurement (direct costs) and a lot less on balancing (indirect) costs.