

## **Answer from BSTOR SA/NV to the public consultation on a proposal for amendment to Elia's LFC block operational agreement**

Non-Confidential.

### **0 BSTOR**

BSTOR SA/NV is the battery storage assets origination, development, financing and operation vehicle from Ackermans & van Haaren, the SRIW-Environnement and Bruno Vanderschueren.

BSTOR owns 75% of ESTOR-LUX SA, the «*Special Purpose Vehicle*» owner of the ESTOR-LUX project in Bastogne (10MW / 20MWh), Belgium's first battery park connected to the high voltage grid.

BSTOR aims to develop a pipeline of minimum 150 MW battery storage capacity distributed over several sites by 2025.

### **1 Answer to the consultation**

**BSTOR SA/NV believes that the proposed amendment** of taking the netting potential from IGCC mechanism in the volume definition for aFRR (and/or FRR?, this is not clear in the proposed amendment) **in theory makes senses and is defensible**. BSTOR also believes that it doesn't create particular additional market access barriers because we trust that the new market rules provide for sufficiently strong guarantees, **provided that it wouldn't be decided afterwards to play "ad hoc and ad libidum" with the RC factor** defining the level of market access barriers for new entrants.

However, **BSTOR stresses that the only way to keep** the aFRR (reservation and activation) costs and **the balancing costs** (including imbalance tariffs) in general **under control is to foster investment into battery storage capacity**. Present high reservation costs are not due to an excessive volume but to the fact that the service is still largely depending on spinning CCGTs, whose costs for delivering the service are steeply increasing, along with the increasing Clean Spark Spread. On top of that we see high activation costs due to more frequent activation of demand side management and curtailment of renewables, which are a much more expensive option than ramping up or down a spinning CCGT. Battery storage is the only technology capable of providing the service with both moderate holding and activation costs and development of large additional battery capacity is therefore key to keep both the reservation and activation costs under control.

Lead time for such investment in battery storage can range between 2 and 4 years. **Regulatory stability is therefore of paramount importance for enabling such investments**.

However, such stability has been totally missing on the aFRR design the last two years. A new design updated towards technology neutrality had been agreed upon among the stakeholders after intensive consultation process, and translated into new T&Cs on 16/04/2020. The design entered into force with significant delay on 30/09/2020. Shortly after implementation, the design was modified with the introduction of a volume cap on the per-CCTU volume. Then the design was again changed to make this cap variable. Then the stakeholders again intensively met and discussed to agree on a new updated system. The latter entered into force on 4/5/2022 and is not even 1.5 month old that a new major amendment is proposed. The proposed amendment would be the 4<sup>th</sup> (!!!) major change in the market rules in not even 2 years' time, while in about 1 year from now, another new design change should occur in the context of the uniformization of the balancing volume definition at ENTSO-E level, due in the course of 2023. This is only acceptable in case market participants are provided with a sound cost-benefit analysis with a large positive balance for the proposed amendment, information that is totally missing in the consultation documentation.

BSTOR furthermore understands that such methodology uniformization at ENTSO-E level will most probably lead to a significantly higher aFRR volume than the 150 MW currently procured for Belgium. The Netherlands and Germany for instance procure close to 2.8 - 3 MW of aFRR per TWh of primary electricity consumption, while for Belgium, this ratio is currently close to 1.8-1.9 MW aFRR/TWh load. This mean that Belgium could have to source close to 230MW aFRR on the rather short run, by 2023 or 2024, if the European methodology is aligned on the principles applicable in Germany. And this is even before considering the additional needs anticipated in the context of additional offshore wind integration. So while the needs are due to increase on the long run, in the meantime, for few months, one would send a pretty odd signal to the market that needs on the aFRR are instead decreasing. Potential cost saving, if any (as this remain to be demonstrated at total cost level, ref below), on the short run, could therefore lead to much higher costs related to defaulting liquidity on the mid-term.

Considering the fact that a major regulatory change was just implemented beginning of May (!!), and the fact that a new regulatory change is expected soon in the context of the uniformization at ENTSO-E level (or even sooner? Article 2 §5 of the document with the proposal of amendment indeed states "*Elia will present in a next version of the LFC BOA a new methodology to assess the aFRR needs*" without being clear if this relates to such modification as part of the uniformization process, or another, intermediate, umpteenth additional change "on the go"), BSTOR therefor requests that decision to implement the proposed amendment would first be subject to:

1. A sound evaluation of the impact on the system costs from the recent changes in the procurement methodology implemented on 4/5. Was there a positive impact? Isn't the new design already having satisfactory cost reduction impact and isn't the new system robust enough to deal with the present circumstances of anticipated high Clean Spark Spread? From our calculations we see that the average procurement price in March and April was around 95EUR/MW/h in each direction. In May this was around 80EUR/MW/h (-15%), in June, around 60 EUR/MW/h (-35%, despite conditions favourable to high clean spark spread with high renewable generation). Is it worth implementing a change perturbing the new balance that the market is currently asymptotically finding?
2. A sound cost benefits analysis demonstrating that the proposed amendment create a true and significant cost saving, when looking at the total system cost.

- The impact on the cost for aFRR capacity procurement itself could be limited, or even negligible or negative: cost saving from procuring less volume could be partly to fully compensated by the increase of the cost/MW procured as long as 2 CCGT are needed to deliver the needed capacity. The latter could furthermore drive the reference price up and lead to selection of per-CCTU bids that wouldn't have been selected without the volume reduction, causing further deviations from the total cost optimum.
- If the volume reduction affects aFRR only and not the total FRR, we understand the 33 MW volume reduction on the aFRR would actually be transferred to the mFRR on which an additional 33MW would be procured, creating an increase of the costs here that could potentially fully compensate the cost reduction on the aFRR as long as two spinning CCGTs are required to deliver both services.
- In case the proposed amendment enables to successfully reduce the cost for aFRR capacity without increasing total FRR costs (e.g. 1 spinning CCGT is avoided) this could result in a decrease of the ID liquidity, in particular of liquidity with energy bids at moderate activation prices and lead to more frequent activation, by Elia and by the BRPs, of bids with much higher activation prices such as curtailment of renewables or "real-time" load shedding. This could further drive up the costs and risks for BRPs on their short-term supply strategy, in a context of balancing prices that are already exploding.
- Reduction of the total contracted FRR (if the proposed amendments affect the FRR volume), or volume transfer of the aFRR to the mFRR (which would lead to a decrease of the contracted reserve in the down direction since this is not contracted under the mFRR) will lead to less and slower balancing reserves, which could lead to an increase of the ACE and related costs for Elia.

As a resume, BSTOR believes that the potential impact of the proposed amendment could be very limited if not negligible, because it could consist in shifting costs not to reduce those. We believe that the least an investor may expect is that market changes are duly motivated and not taken "*ad hoc and ad libidum*".

Furthermore, BSTOR requests the following

1. There must be clear, objective, undisputable and anticipable rules on potential modifications of the RC factor. This was already a request in our contribution to the consultation prior to implementation of present R&C. This request would only become more pregnant in case the intention to implement the proposed amendment is confirmed.
2. In the document proposing the amendment of the LFCBOA, Article 2 § 5 states that "*While awaiting the implementation of [a] new methodology, Elia will fix the symmetric aFRR needs at the value determined in paragraph 4.*" Article 2 § 4 stating that "*based on paragraph 2 and 3, the aFRR needs are determined at 117 MW*". BSTOR believes that it is an unreasonable proposal. The purpose of the LFCBOA should be to define a methodology, not the volume itself. Should the amendment be adopted, BSTOR therefore requests that the volume of aFRR would be defined according to the approved updated methodology, *id est* with increasing volume if volatility of the system imbalance has increased and/or if IGCC netting potential is fading out in 2022 compared to 2021. BSTOR believe that the exercise should be made with a particular focus on the period after potential implementation of the proposed amendment to capture potential effect from such amendment on the aFRR needs.

3. The impact on the total FRR volumes should be clarified. Does the proposed amendment only entails a transfer of aFRR volumes to mFRR volumes or a reduction of the overall FRR volumes?

As always, BSTOR of course remains open for further discussion on that topic.

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