POSITION

Subject: FEBEG comments on ELIA's public consultation on the prequalification, control, and penalties for the aFRR and mFRR services

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FEBEG thanks ELIA for having the opportunity to react to ELIA's Public consultation on the prequalification, control, and penalties for the aFRR and mFRR services in the framework of a CREG incentive[1].

The inputs and suggestions of FEBEG are not confidential.

FEBEG comments and suggestions

Overall process and approach of Elia

A few months ago Elia organized bilateral meetings with various stakeholders during which several members of FEBEG have expressed their deep concerns about a critical issue stemming from the current design, i.e. the fact that the monthly remuneration, which is currently subject to penalties, encompasses both capacity remuneration and activation remuneration. As neutral market facilitator Elia should at least consider all feedbacks from market participants. FEBEG is therefore disappointed that this feedback – which is a crucial point for FEBEG members - is not taken into account in the list of with 'all market feedback'.

The disappointment was amplified when FEBEG members noticed that Elia also did not consider the feedback given by FEBEG in the T&C mFRR public consultation (published on Elia website on 23/10). Where it simply mentions that penalties are "the right amount" which was certainly never expressed by FEBEG members. In addition, we consider the process of linking this incentive and the consultation on T&C mFRR as not acceptable. First mFRR availability tests are not in the scope of the incentive (see print-screens in annex). And second, Elia should not conclude based on discussions in workshops (on topics such as this incentive with DL on 23/10) on topics that are still being discussed and consulted with market parties and use these preliminary conclusions (not shared by all market parties) in a very important consultation such as the T&C mFRR. We ask Elia to only use feedback given officially on the consultations, and also to not mix feedback given on consultations with a different scope.

aFRR activation control

FEBEG would like to remind that the CCGT pricing is based on either a must-run cost or an opportunity cost, depending on whether the CSS (clean spark spread) is positive or negative. This pricing is significantly influenced by the Belpex price in comparison to the operational costs: the price is at its lowest when the CSS is close to 0 and becomes progressively more expensive as the absolute value of the CSS increases. The margin is relatively small compared to the must-run/opportunity cost.

[1] https://www.elia.be/en/public-consultation/20230922_public-consultation-on-the-prequalification-control-and-penalties-for-the-afrr-and-mfrr

Therefore, being penalized for discrepancies in the total remuneration amount for activation is a rather severe measure. It also leads to an increase in penalties when, for example, gas prices rise, as in the case of a positive CSS. This results in a significant increase of our opportunity costs, as was the situation in 2022 during the energy crisis. For this reason, the maximum amount considered in the total capacity monthly remuneration for which a penalty applies should be restricted. This is a crucial point as the penalty does not accurately represent the actual margins on the product, especially for gas-based assets when gas prices are high, resulting in increased must-run/opportunity costs.

On top of that, penalizing the total remuneration amount for activation discrepancies is discriminatory and lacks technology neutrality, given the fact that the total capacity remuneration is often much closer to the margin for technologies other than gas turbines. FEBEG therefore asks for the implementation of a penalty solely on activation, while leaving capacity penalty-free. The rationale for this proposal is the following:

- Market players would still have a strong incentive to follow the aFRR signal to the best of their abilities in order to avoid penalties
- There already exists a penalty for ‘MW not made available’ to control the actual availability of awarded capacity in the market
- Some actors might submit very high activation prices to avoid being fully or partially activated, thus avoiding penalties altogether. Such a mechanism would be less discriminatory towards gas units that are in the beginning of the merit order and are therefore activated more frequently
- Overly excessive penalties based on the capacity remuneration will likely prompt taking into account these risks in the capacity bidding and which ultimately could result in higher costs for final consumers.

In such a scenario, FEBEG would not oppose an increase in the penalty factor on the activation part to compensate for the removal of the capacity remuneration component from the penalty formula. It is believed that this adjustment would lead to a fairer design that is less dependent on market circumstances.

Elia's proposal to decouple the penalties for capacity and activation is a significant change. Penalties for activation discrepancy will now be determined by QH (Quarter Hour) instead of monthly, while penalties for capacity discrepancy will be assessed on a weekly basis. This change has several consequences for us:

- Previously, all calculations were done on a monthly basis, with the total revenue calculated accordingly. However, this approach meant that for down bids, it ended up in paying Elia, resulting in a decrease in our remuneration and a lower overall total. Moving to a Quarter Hour (QH) granularity eliminates this effect, and will lead to a penalization for the sum of the absolute values of the QH remuneration instead of the absolute value of the sum of the remuneration.

- FEBEG deems that the penalty on capacity remuneration is neutral compared to the current design. Rarely capacity is lacking and only very seldomly free bids are placed on top of contracted bids, so the expectation is that the underdelivered part of the penalty is 50% of the total activation discrepancy. However this is offset by the new capacity factor which increases from 1.3 to 2.5. Taking into account the increased penalty for activation in point a, an overall penalty increase is expected.

- If the penalty is computed based on the weekly remuneration, the logical consequence is that the total aggregated penalty may not exceed the weekly remuneration. This is a crucial provision in the T&C aFRR that should by no means be dropped.

Penalty factors

FEBEG believes that making 2 clusters i.e. factor 1 and factor 2 does not address correctly the issue to penalize faulty responses. Factor 1 suggests that a BSP is reliable while factor 2 would conclude the opposite. This raises the issue that a BSP could fall in factor2 while he made an overall good job and had only limited failures. Obviously, the reality is much more nuanced than this binary categories. FEBEG recommends to have a more linear (instead of clustered) approach because it will depict a fairer image of the reality. A progressive penalty factor which represents the percentage of successes/ failures seems much more desirable and will be less likely to invite BSPs to include unnecessary risks in the bidding strategy.

Onboarding and prequalification

FEBEG is supportive of streamlining the service and removing barriers, as this could encourage smaller assets and renewables to participate in the service. This, in turn, may introduce more competition into the FRR markets and enhance liquidity, potentially resulting in less extreme pricing fluctuations.

Penalty for MW not available

FEBEG is not overly concerned about this issue. The awarded capacity will continue to be made available in auctions to Elia. An issue could arise due to an operators’ oversight or an IT problem, but such occurrences are very rare and unlikely. FEBEG regrets that there is no contractual process that provides an exemption from penalties in such cases. At the same time, no form of compensation is stipulated if the issue originates from Elia's systems.
Furthermore, these penalties invites BSPs to make use of the transfer of obligation which contributes to the grid security. FEBEG can only notice that transfer of obligations are used in a more limited way than the usual forced outage rate any technology is facing.

Conclusion

FEBEG deeply regrets that its main point, i.e. the fact that the penalty for capacity discrepancy encompasses both the capacity remuneration and the activation remuneration, is not even considered by Elia. Elia should strive for a technology-neutral market design putting all market actors on a level playing field while ensuring that the service is actually delivered. At this stage, FEBEG considers the proposal as unfair and unbalanced. In order to rebalance the proposals while facilitating the access of aggregators in the market, at least the capacity remuneration should be removed from the activation control penalty.

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ANNEX

T&C Consultation BSP mFRR

Availability Test	*FEBEG*	We would like to reiterate that the penalties applied on the availability tests (in Annex 11) are very punitive and somehow disproportionate compared to the income a BSP can make. Furthermore, it is lacking continuity. Failing 2 availability tests out of 100 activations per year is not the same as failing 2 tests out of 3 activations per year. FEBEG asks ELIA to recalibrate this penalty formula. In this sense we welcome the foreseen workshops, and we will actively participate in the discussions.	ELIA understands and wants to remind that this was already discussed as part of the Workshop on the "prequalification & penalties for aFRR and mFRR" incentive. During those discussions, ELIA understood that the penalties have the right amount but that the occurrence should be reviewed. The review of "test recurrence" has been specifically
	FEBEG	The availability tests (Art II.13.2) could be executed and published in a more transparent way. For instance, units often activated and performing well throughout the year should not be tested in the same manner as units being seldomly/never activated. It does not provide learning and it creates useless emissions (for thermal means). FEBEG asks ELIA that the trigger to launch an availability test should follow a transparent and published methodology.	included in the Smart Testing incentive (cf. incentive study of 2020 and related implementation plan), which will be implemented in 2024. ELIA also wants to remind that the purpose of the activation control is to check that the right volume is delivered. As the activation control is now portfolio-based, the BSP has always the choice to use other DPs than the ones included in its bid to deliver the requested volume. The purpose of an Availability test is different: it is to ensure that the volume offered in a contracted bid is available and that a lack of volume cannot be compensated through volume offered in another bid.

INCENTIVE on mFRR and mFRR

1.1 Scope of the incentive

The incentive consists of, for aFRR and mFRR balancing services:

- For prequalification
  - Description of existing prequalification requirements/criteria, prequalification processes (including timing and preparatory steps at the BSP (Balancing Service Provider);
  - Identification, in consultation with Market Parties, of potential barriers to participation and qualitative assessment of the impact of prequalification requirements on market development.
- For control and penalties
  - Identification of the parameters and criteria used in the existing checks and penalties associated with participation in the aFRR or mFRR service and relating to compliance with the obligations resulting from the offer of balancing capacity ("Missing MW" and "MW not made available") and to activation control (the aspects related to the activation control of mFRR which are introduced in the new design, and which therefore require feedback after connection to MARI are **not** part of the incentive);
  - Identification and assessment of the impact of each of the elements identified above on the participation of market players in operational and/or financial terms, in consultation with market players.
- For the 2 parts, on the basis of the list of obstacles to the participation and their impact
  - Identification, in consultation with Market Parties and with the CREG, of the priorities that will be addressed within the framework of the incentive;
  - For those topics identified as priorities, identification, and analysis of alternative approaches to facilitate market participation and proposal to modify the approach, including any preconditions to be met before implementation.

The possible adaptation of the T&C BSP aFRR or mFRR and the implementation of the resulting modifications are **<u>not</u>** part of the incentive.