

# Minutes of Meeting of the 3<sup>rd</sup> Workshop in the framework of the Incentive on Prequalification, Control, and Penalties for the aFRR and mFRR Services

## Meeting

<b>Date</b>	24/11/2023
<b>Organiser</b>	Loup Vanderlinden

Participants		Attended	Excused
BSTOR	Fieuids Arthur	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CREG	Maenhoudt Marijn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CBS	Adigbli Patrick	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CBS	Gillis Jeroen	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Eneco	van den Berg Jasper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Eneco	Williame Jean-François	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ENGIE	Donnay de Casteau Loïc	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FEPEG	Waignier Jean-François	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FEELIEC	Van Bossuyt Michaël	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Flexcity	Van Vlaenderen Emiel	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Luminus	Chafaqi Laïla	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Luminus	Harlem Steven	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Luminus	Van Engeland Sam	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Next Kraftwerke	Kreutzkamp Paul	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Norther	De Schryver Christophe	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Riva Group	Marin Alexandre	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TotalEnergies	Van Buylaere Lionel	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TotalEnergies	Hofman Hannah	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Yuso	Vermandere Jasper	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Participants		Attended	Excused
Elia	Bakker Carsten	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Elia	Magnant Philippe	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Elia	Pierreux Nicolas	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Elia	Vanderlinden Loup	<input checked="" type="checkbox"/>	<input type="checkbox"/>

## Report

Author	Loup Vanderlinden
Function	Business Reporter of the incentive
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Status	<input type="checkbox"/> Draft <input checked="" type="checkbox"/> Final version

### 1. Agenda

1. Onboarding & Prequalification
2. Penalty for MW Made Available
3. Penalty activation control aFRR

### 2. Report

#### 1. Onboarding & Prequalification

- On the prequalification (PQ) test, Febeliec reminds that performing the test is costly, and the cost must be recovered in the capacity auctions later on. Therefore, the PQ test is seen as an entry barrier, especially for DR. Elia agrees that barriers remain, but highlights that the new design proposal already lowers them significantly, e.g., shortening the PQ test time-window reduces the costs associated with the PQ (lower opportunity costs).
- Febeliec explains that the PQ test only shows that the volume is available at a given moment in time, not that it is always available. Elia agrees but explains that the PQ test does give some comfort on the capability of the BSP to deliver the volume. Elia reminds it counts on this volume to meet its reserve needs.
- On the possibility for a BSP to test the compliance of a DP without being exposed to penalties, Febeliec suggests Elia to make the PQ test optional.
- Febeliec reminds that NC DR is not yet carved in stone. Elia confirms this, adding that the NC DR requirements and implementation will need to be further discussed. However, the direction in which the ongoing discussions seems to go is the organization of an ex-ante PQ test for standard balancing products. Elia reminds that CCMD and specific measures for small decentral flexible assets are being worked on.

#### 2. Penalty for MW Made Available

- Elia explains the feedback from CBS on the penalty for MW Made Available: CBS suggests to add an additional penalty factor (*factor0*) equal to 0 or 1, to explicitly consider FOs in the penalty, up to an average compliance value of 99.5%. If CBS's proposal was to not be adopted, CBS asks Elia to clarify the definition of FO and precises that FOs should not be a penalty waiver. CBS thanks Elia for taking comments on board. CBS acknowledges Elia's message on the goal of the penalty: it should not be understood that there is a tolerance in the availability as Elia is counting on the contracted volumes at all times, hence it cannot be the objective to incentivize a BSP to grasp opportunities in other markets because the average quality in a given period is high and could be slightly decreased. CBS would still prefer to not see penalty waivers for FOs because CBS believes that practically speaking, the SOGL definition of FO is unclear. Elia invites CBS to discuss concrete cases to clarify with Elia whether or not they would qualify as FO, which is welcomed by CBS. Elia gives as a counterexample that an outage resulting from the negligence of the MP would not qualify as FO as it has to be out of MP's control.

- Febeliec feels uncomfortable with the simplification of the penalty formula leading to a constant, low penalty; Febeliec would prefer that frequent incompliances lead to higher penalties. Febeliec therefore preferred Elia's initial proposal. Elia insists on the importance to ensure the right hierarchy between the penalties. Also, Elia explains that it is challenging to find the right balance between on the one hand, giving BSPs the right incentive to commit to their capacity obligations, and on the other hand, incentivizing BSPs to submit their unavailabilities. Febeliec questions the message Elia wants to give by keeping the penalty low. Elia answers that it is certainly not the message that it is fine whatever the BSP's average compliance level is.
- Next Kraftwerke (NK) strongly supports Elia's amended proposal. NK believes it is cleaner, and it avoids the change of BSP's assessment on whether the incident should be declared (when jumping from level 1 to level 2). NK values the simplicity of the penalty design. On this, Febeliec reacts that the penalty level of 1.5 may not be high enough. NK considers that Elia's penalties are in general very incentivizing compared to other TSOs. NK adds that it could understand if Elia was to consider a slightly higher penalty level but reminds that, specifically for this penalty, it should not be too high to keep incentivizing the BSPs to report their unavailabilities.
- FEBEG reacts that, as explained by Elia, there are other means than penalties to address an issue. FEBEG reminds that it is concerned by the discontinuity of Elia's initial new design proposal. Febeliec questions which other measures than suspending a BSP from the service Elia has. Elia replies that suspending BSPs would be a very extreme measure indeed but states that a lot can be solved by having bilateral discussions with the BSP. If needed, the T&Cs can be amended again if BSPs take advantage of the low penalty to lower the quality of the service. Febeliec suggests to have alternatives triggered by CREG without having to amend the T&Cs.
- CREG considers that the new penalty design presented by Elia theoretically gives a sufficient incentive as an unavailability leads to a revenue loss. CREG observes that there are many different objectives in the penalty for MW Made Available, and considers it is impossible to calibrate it perfectly. Elia agrees that the value cannot be defined in a scientific way, so it would have to partly be arbitrarily defined. CREG questions the added value of level 2 in the penalty initially proposed by Elia if not incentivizing a reserve providing group to improve its availability. CREG considers that a penalty more related to market prices could be investigated, which is supported by Febeliec.
- Febeliec could consider a penalty increasing linearly, without a cap. Elia reminds that beyond a certain penalty level, BSPs are not incentivized anymore to submit their unavailabilities, which would make the penalty ineffective.
- Febeliec concludes it does not feel comfortable with Elia's amended proposal. The incentive will be finalized this year, but this should not prevent to continue the discussion. Elia agrees: as current discussions are taking place in the framework of the incentive and not in the framework of T&Cs amendment, there is no absolute need to come to final conclusions. Elia will document the different point of views in the final report of the incentive, so that the discussions can be carried on afterwards.

### 3. Penalty activation control aFRR

- ENGIE voices concerns on the idea of using the activation control to penalize the capacity remuneration. ENGIE and Luminus consider this part of the activation control not to be technology neutral and propose to replace the capacity penalty based on activation control by the performance of availability tests. Elia disagrees with the fact the proposal is not technology neutral since it is the same penalty formula for all technologies. Elia adds that penalties should not be based on the margins of the BSPs or the costs of the assets. Furthermore, Elia questions why the mFRR availability tests are considered to be technologically neutral by FEBEG, since they are also based on remuneration, not the margin. Elia highlights that the willingness to

avoid frequent availability tests by relying more on the information already available through the activation control had been supported during the discussions on the smart testing; the current proposal follows the same logic.

- After discussion, Elia understands ENGIE and Luminus' concern as follows:
  - A BSP can have all its capacity available but have some underdelivery when following the activation signal due to inaccuracies in steering the asset. Elia understands this argument but argues that there is a 15% tolerance band in the activation control, which should at least partly cover this concern.
  - Assets in the beginning of the merit order will be activated more frequently and hence have a higher risk of paying penalties on the capacity remuneration. Elia explains that the requested volume is in the denominator of the penalty formula. Therefore, activation frequency does not provide an advantage to assets at the end of the merit order, as the penalty is proportional to the average underdelivery percentage over the considered period, regardless of the number of activations during this period.
- NK highlights the incentive to overdeliver with Elia's proposal and criticizes the design complexity, questioning whether the added value is sufficient to compensate the design complexity. On the first point, Elia explains there is a tolerance band. Elia reminds that the proposal is the result of detailed discussions between Elia and the BSPs on the needed design improvements. For instance, the current design implies that a BSP submitting non-contracted bids will be penalized on its capacity remuneration of the month, in case of discrepancy resulting from the activation of these non-contracted bids. In the particular context of the connection to PICASSO, Elia believes it is even more important to address this issue and to incentivize BSPs to submit non-contracted bids.
- Flexcity supports Elia's new design proposal, as it helps better managing the risk. Flexcity does not know how to make it simpler while keeping the design as good. On the increase of design complexity, Flexcity does not consider it to be an issue. Flexcity adds that the new design allows to avoid availability tests, which is seen as an improvement.
- Febeliec suggests to penalize capacity on the full obligation instead of the aFRR Requested. Elia considered such option, but came to the conclusion that it is preferable to compare the aFRR Supplied with the aFRR Requested, for the following reason: when the aFRR Requested is low compared to the Obligation Up, it may be excessive to penalize up to the obligation whereas BSP was only requested a small part of its obligation. This penalization scheme could incentivize BSPs to overdeliver whereas the objective is to incentivize BSPs to follow the 4s-signal. On this, NK notes that the unavailability of a small asset can lead to an underdelivery, adding that Elia should avoid penalizing the whole obligation volume for a steering issue, or the unavailability of the first MW of the BSP's portfolio. ENGIE adds that it is not because a few MW were missing that the full obligation is not present, as it may be a steering issue.
- NK supports Elia's proposal. NK explains that availability tests have as a drawback that they rely on a different process than activations. Therefore, the tests can be failed while the capacity is available, leading to a significant penalty for the BSP. NK proposes to completely remove the availability test to remove complexity from the design.
- For Luminus, it is important to keep the discussions on the activation control aFRR and its resulting penalties open after the incentive. Elia agrees and commits to further discuss these points with market parties before proposing a new design in a T&C amendment process.



- On Elia's amended proposal for the energy penalty in the case of a positive price in the downward direction (or a negative price in the upward direction), reactions from market parties are positive. However, this point is quite new, so Elia invites market parties to provide additional comments after the workshop.

#### **4. CREG – Goal of the incentive**

- CREG reminds that the goal of the incentive was to get attention on these topics and make sure that all views are included in the report (comprehensive starting point to continue the discussions). Contrary to a proposal for amendment of T&Cs, the objective of an incentive study is not necessarily to provide firm, final recommendations in the study report and Elia's proposals can still be discussed after the incentive study is finalized. CREG invites market parties to communicate any considerations they may have to Elia for inclusion in the final report. The goal is to have a good overview on issues, problems, arguments,... CREG agrees that today's latest discussions, as reported in the minutes of meeting, are annexed to the final report.