

Subject: Elia draft procedure for constitution of strategic reserves
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Introduction

On the 24th of December, 2014 Elia launched a consultation on the draft procedure for constitution of strategic reserves applicable as from 15th of February 2015 for the tendering of strategic reserve for the winter period 2015-2016. The deadline of the consultation is the 16th of January, 2015.

FEBEG welcomes this consultation and would like to put forward some general comments to the design of the strategic reserves as well as some detailed comments to the procedure for constitution of strategic reserves.

General comments

Demand flexibility in the market

FEBEG is of the opinion that the market design should be such that demand flexibility is at maximum used within the actual market. It can never be the objective to contract a gradually increasing volume of demand flexibility in the SDR.

One of the drivers to set-up the SDR was to create an incentive to make additional demand flexible as the TSO pays a relatively high capacity fee to cover the investments costs to become flexible. Once this investment is done, this flexible demand should preferably be offered or used within the market. Therefore, FEBEG wonders whether the SDR should not be designed as a 'one-off product' in that sense that a consumer can only be contracted in the SDR once.

Request for simplification

According to FEBEG the already small Belgian market for ancillary and adequacy products is too fragmented. Elia is in fact organizing tenders for the following products for balancing and adequacy:

- R1 Down;
- R1 Load;
- R1 Symmetric 100 mHz;
- R1 Symmetric 200 mHz;
- R2;
- Free bids;
- R3 Generation;
- ICH;
- R3 Dynamic Profile;
- SGR;
- SDR TSO 'Drop To' 2x4h;
- SDR TSO 'Drop To' 12h;
- SDR TSO 'Drop By' 2x4h;

- SDR TSO 'Drop By' 12h;
- SDR TSO Submetering 'Drop To' 2x4h;
- SDR TSO Submetering 'Drop To' 12h;
- SDR TSO Submetering 'Drop By' 2x4h;
- SDR TSO Submetering 'Drop By' 12h;
- SDR DSO 'Drop By' 2x4h;
- SDR DSO 'Drop By' 12h.

The fact that the market for ancillary and adequacy products consists of so many products has several downsides:

- it considerably reduces liquidity and competition;
- it becomes a real challenge for market parties to commercially and operationally manage such a large set of products;
- it hampers the evolution towards cross border exchange of such products.

Therefore FEBEG recommends to limit the number of standard products in order to increase liquidity, volumes and competition for each of the products and to avoid undue market fragmentation; this recommendation is – as regards the ancillary products - in line with the (draft) Network Code 'Electricity Balancing'.

Comments on the procedure

§ 1 Definitions, 'drop to'

FEBEG proposes to extend the use of the 'drop by' principle to all market segments and to abolish the 'drop to' principle, for the following reasons:

- Security of supply:

The objective of the SDR is to contribute to the adequacy: activating SDR should therefore have a real impact on the system. This impact can only be guaranteed when the 'drop by' principle is applied: the consumer is obliged to effectively reduce consumption by a number of MW's. Using the 'drop to' principle doesn't guarantee any impact on the system at the moment of the activation as the consumption could already be lower than the shedding limit. On top of that, the risk exists that the consumer is being remunerated without having reacted: he will then in some cases be rewarded for coincidentally not consuming and thus not contributing to the peak load.

- Level playing field:

The use of the 'drop by' principle is also more in line with the request of FEBEG to ensure a level playing field between SGR and SDR. As SGR is 'out of market' and in order to ensure a level playing field, SDR should – by principle – be 'out of market' as well. This 'out of market' principle is important to avoid market distortion: putting the SGR and SDR 'out of market' prevents those units of influencing normal market functioning, i.e. impacting the 'balancing merit order' which incentivizes other market operators to contribute to the balance of the system.

Applying the 'drop by' implies that a consumer offering SDR should be non-price responsive in that sense that he will continue to manufacture at high prices to be able to lower his consumption by the contracted number of MW's. He will thus to a certain extent behave as if he was 'out of the market'.

§ 4.1.2., 'For SGR candidates only'

The proposed Power Plant(s) must comply with the Certification of SGR Power Plant(s) criteria. FEBEG wants to point out that generators are not always able to fulfill the technical prerequisites in due time due to contractual, technical or permit-related limitations.

This raises two issues:

- Firstly, there's a timing issue as the current procedure doesn't foresee sufficient time between the decision to grant a strategic reserves contract and the start of delivery of the service to allow the strategic reserves providers to do the necessary investments, e.g. retrofitting, mothball power plants, ... to prepare for the delivery of the service.
- Secondly, there's a lot of uncertainty about the cost recovery of the investment costs to comply with the SGR Power Plant(s) criteria. Therefore, FEBEG urges for transparency on the criteria and guidelines that will be used to assess the reasonable character of the prices, especially as regards investment costs.

§ 4.3.1, page 13, end of page

The exclusion of a SGR Power Plant that is awarded a SGR contract from participation to ancillary services tenders, should not hinder other units or demand facilities at the site (and access point) from participating to ancillary services tenders like R3 or R3DP.

§ 4.3.1., page 14, beginning of page

Each SGR production unit must comply with all technical requirements as specified in the Grid Code. The mothballing or closing of a production unit could be (partly) due to the fact that it is not economically and technically feasible to make this unit compliant with the Grid Code. In the case it is technically feasible, Elia should therefore take into account that this requirement can lead to additional investments in order to make the existing and already connected power plants fully compliant. These investments are to be remunerated by the Strategic Reserve fee. In the case it is technically not feasible, the production unit cannot participate to the tender.

§ 4.3.2., page 16, determination of the maximum Reference Power

FEBEG considers the proposed methodology for the determination of the maximum Reference Power as suitable for stable, recurrent consumption profiles. Nevertheless FEBEG is of the opinion that this methodology is not acceptable for an unstable, variable and non-recurrent consumption behavior: in such a situation the nomination should be the maximum Reference Power.
