

## **Answer of Febeliec to the consultation by Elia on the Procedure for constitution of Strategic Reserve**

Febeliec welcomes the consultation of Elia with respect to the procedure for constitution of the Strategic Reserve for the winter 2016-2017. Febeliec would like to make a number of comments to this procedure, both on a general level as well as on more specific topics:

### Febeliec general comments

In point 2.1, Elia states *“the market actors, who fall into at least one of the categories identified in the Electricity Law, who have assets located in the Belgian Control Area and who meet the criteria and specifications, may take part in the strategic reserve; some of them are even obliged to submit an offer”*. Febeliec would like to specify clearly also in this document that the latter only applies to generation units and not to demand units, especially as in point 5 is mentioned that fines can apply to market participants that do not respect their legal obligation to submit an offer.

Furthermore in the same point 2.1 as well as point 5, it is written that the King, upon suggestion from the Minister based on recommendations from the CREG, can impose prices and volumes. Febeliec wants to reiterate its position that such imposition of prices and volumes can only apply to production units and not to demand response. Febeliec does not want to undermine the verification of the CREG on the reasonability of offers, but cannot accept the imposition of conditions for demand response in the SDR product, as this would imply involuntary curtailment of demand at prices that do not reflect the impact to the concerned party (e.g. based on the opportunity cost related to non-consumption of energy).

In point 5.1.2 of the document under consultation, Elia includes a disclaimer with respect to the definition of demand response for SDR units (*The assets in the SDR Unit used to provide the SDR Service with the SDR Reference Power should reduce electricity consumption (in MW) by changing, stopping or slowing down an energy-consuming process without relying on increased generation of electrical energy*). Febeliec wants to reiterate its objection to this definition of demand response, as it does not value the impact of an increase of local production (e.g. by emergency generators) that reduces the offtake of a demand site on the Elia grid, resulting in a similar effect for the TSO grid as a reduction of consumption of this site. In general, Febeliec wants to reiterate its concerns with the definition of demand response written into the Electricity Law, as it does not take into account the abovementioned impact of an increase of local production on the offtake from the grid, nor does it validate an increase of consumption as demand response in case of incompressibility on the grids. Febeliec rather prefers the definition of demand response proposed by ACER and CEER, which is much more balanced and covers all the above points.

### Febeliec comments to specific points in the consultation document

With respect to point 4 (Delivery points) and more specific point 4.1.2, Febeliec would like to draw the attention to the (4<sup>th</sup>) option for submetering for Closed Distribution Systems related to the transfer of validated data through the CDS operator. This option was discussed during the Task Force Implementation Strategic Reserves of 08/10/2015 and mentioned in the minutes and the presentation. Febeliec would like to see this option added to the document under consultation.

Febeliec would like Elia to specify if there is a limitation in number and duration on the simulation tests Elia can request to be carried out if it deems it necessary to check the correct delivery of the service. For Febeliec, there should only be one single simulation test, which should be short enough to avoid causing losses for the demand facility offering an SDR product. Any additional test requested by the transmission system operator should be compensated.

With respect to point 5.2.2, on the determination of the maximum Reference Power for SDR, Febeliec wants to draw the attention of Elia, the CREG and the Minister to the fact that this new methodological approach entails a large risk, as it builds on the premise that results obtained in the past are a good prediction of the future, which does not necessarily have to be the case! The Strategic Reserve has always been presented by Elia, the CREG and the Minister as an insurance against loss of load in case of system adequacy issues during winter periods, yet Elia proposes not to pay an insurance premium to the SDR participants that have shown to be responsible market participants in the past. By banking on results from the past, Elia takes a non-negligible risk that these market price reactions will not take place in future situations of stress on the system (e.g. because of order books and production obligations of these demand sites), especially since the results from the past are not representative for a period with high conjuncture, as economic activity has been rather depressed during the last few years. As a result, this approach will neglect cheap and easily accessible sources of SDR volumes and risks having to contract and activate much more expensive sources of SDR. Moreover, this approach leads to discrimination, as market participants that have over the course of the last three winters shown to react to stress signals on the system would be punished for doing so in the determination of their SDR maximum reference power, whereas market participants that would have neglected such responsible behaviour in the past would not be impacted. On top of this, of the proposed data points by Elia, only one took place during the winter period, so the representativeness of the sample for the determination of the maximum reference power is also questionable.