

Subject: Elia consultation on the design proposals for the pilot project bid ladder  
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## Introduction

Elia is organizing a public consultation on the design proposals for the pilot project bid ladder. The deadline of the consultation is the 8<sup>th</sup> of September, 2016.

FEBEG welcomes this consultation and thanks Elia for creating this opportunity for all stakeholders to express their comments and suggestions. The comments and suggestions of FEBEG are not confidential.

## General comments and suggestions

### *FEBEG welcomes and supports the design proposals for the pilot project bid ladder*

#### Pilot

FEBEG appreciates Elia setting up this pilot project for the bid ladder as this creates – for Elia as well as for all participants – the possibility to learn and gain experience.

The impact of many design details and choices – which for now also hold a lot of pragmatic trade-offs – is hard to predict and for sure justifies the pilot project approach. It is absolutely necessary that Elia and all participants jointly monitor and evaluate the effects of all concepts (e.g. baseline, repartition of overdelivery, ...) after one year of operation. In this sense, FEBEG preserves the right to evaluate and modify its positions.

#### Basic principles

##### *Relying on the market is key*

FEBEG welcomes the Elia proposals for the pilot project bid ladder as well as the underlying market model for the transfer of energy, i.e. the ‘bilateral model’.

FEBEG fully supports the further integration of demand response in the market and is convinced that relying on the market is key. New market developments within efficient and liberalized markets – where market participants freely act in a level playing field – are the only possible way forward to trigger demand response with a maximum of social welfare. Demand response should thus remain a commercial activity: all involved parties should be able to freely negotiate to find the most suitable solution for the end consumer, owner of the flexibility.

In that respect, any regulatory intervention to facilitate these new developments should – if considered really necessary – be limited to a minimum.

*Bilateral model for transfer of energy is compliant with market functioning*

FEBEG is pleased to see that CREG and Elia have chosen for the ‘bilateral model’<sup>1</sup> as the solution for the transfer of energy within the context of the bid ladder. FEBEG has always defended<sup>2</sup> the ‘bilateral model’ as the preferred market model because it is the most market conform solution. The model reduces market distortions to a minimum as it allows the FSP and the supplier of the customer to freely negotiate a balanced and tailor made agreement on the transfer of energy, in which both cover their costs and share revenues as well as risks while servicing the customer.

The ‘model via the customer’<sup>3</sup> neutralizes the impact of the transfer of energy for the supplier and would therefore also be acceptable for FEBEG, but it is very difficult to implement for all types of end consumers and would create huge overhead costs and administrative burden. In order to limit regulatory intervention to a minimum, to avoid unnecessary complexity and to reduce overhead costs and administrative burden, FEBEG strongly recommends to stick to only one market model, i.e. ‘bilateral model’, and not to implement multiple market models for different types of customers.

*Pure bilateral model should remain possible*

FEBEG is convinced that a pure bilateral model covering all aspects of the transfer of energy should remain possible: a tailor made bilateral agreement between a FSP and a supplier allows to take many relevant aspects into account, e.g. baseline, control, metering, portfolio impact, risks ... and even possible ramp-up and rebound effects. The market should be allowed to innovate and develop new flexibility products and services based on all these different aspects.

For this reason, FEBEG welcomes and supports the Elia proposal that the FSP and the supplier are not obliged to use the Elia mechanism for the transfer of energy provided they ask for this and demonstrate the existence of a bilateral agreement via the ‘FSP-Supplier Declaration’, i.e. so called ‘opt out’. According to FEBEG pure bilateral agreements are a normal evolution in the market while the Elia mechanism for the transfer of energy is rather a fallback option – offered by Elia as market facilitator – in case the FSP or the supplier prefers to use this standard mechanism.

Key design elements

Some key design elements in the Elia design proposals for the bid ladder have the full support of FEBEG:

*Asymmetric imbalance adjustment (title 3.5)*

FEBEG also favors the asymmetric imbalance adjustment proposed by Elia and agrees with the underlying principles:

- the BRP-source is responsible for balancing and has the right of ‘reactive balancing’;
- the FSP is only responsible for delivering the amount of energy offered on the bid ladder and requested by Elia.

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<sup>1</sup> ‘Option A.2’ in the ‘CREG study (F)160122–CDC–1459 on the means to be applied to facilitate access to demand response in Belgium’, CREG, Intermediate report, 22 January 2016.

<sup>2</sup> Position paper ‘CREG consultation on the means to be applied to facilitate access to demand response in Belgium’, FEBEG, 30 September 2015, but also in following papers.

<sup>3</sup> ‘Option B’ in the ‘CREG study (F)160122–CDC–1459 as regards the means that should be applied to facilitate the access to demand response in Belgium’, CREG, Intermediate report, 22 January, 2016.

FEBEG confirms that 'reactive balancing' should remain the prerogative of the BRP as the BRP (BSP) will do reactive balancing with own means within his portfolio while a FSP (BSP) that over-delivers would do reactive balancing with means of the customer (i.e. property of the customer, limiting optimization options of the customer, ...). Over-delivered energy would also be out of scope of the mechanism of the transfer of energy and thus exposed to counterbalancing.

*Counterbalancing notification towards the BRP-source (title 2.2.3.1)*

Elia proposes to notify the BRP-source within 15 minutes after the activation request (aggregated requested volume) and within 15 minutes after the end of the activation period (aggregated activated volume). FEBEG welcomes these proposals.

The BRP has a fundamental and central role in the electricity market. New evolutions (growing share of renewables, demand flexibility, interventions of third parties, ...) increase the complexity and the risks related to the responsibilities of the BRP's. Therefore, FEBEG considers it essential that the BRP's are correctly informed<sup>4</sup>: as the BRP has the obligation to balance, he also has the right to be properly informed to be able to fulfil this obligation.

The aggregated activated volume needs to be calculated by Elia to allow Elia to do the imbalance adjustment. FEBEG acknowledges that also calculating the aggregated requested volume implies an additional operational and administrative burden, but FEBEG also wants to emphasize the importance of this first counterbalancing notification:

- some categories of customers – which can have a high impact on the perimeter of the BRP – are actively followed by the BRP's to identify deviations from standard operations and forecasted programs, e.g. customers for which BRP's can buy commercial metering from Elia;
- for the above reason, Elia has already implemented the counterbalancing notification for R3 'Dynamic profile' – notification of aggregated volumes within 15 minutes after the activation – which has already proven to be valuable information for BRP's to avoid counterbalancing: this existing practice should thus be continued;
- FEBEG also strongly supports the evolution towards the publication of the indicative balancing position of each BRP in near real-time: the counterbalancing information close to the start of the activation will be important to be able to construct the balancing position of the BRP in near real-time.

So, FEBEG welcomes the commitment of Elia to send the counterbalancing information within 15 minutes after the activation request, but urges Elia to do all reasonable efforts to send this information as close as possible to real-time as BRP's are monitoring in real-time.

***FEBEG has some concerns that should be addressed in the final design of the bid ladder***

Congestion management

FEBEG is aware that the CIPU contract initially aimed at coordinating the injection of larger production units. Nevertheless, FEBEG supports the initiatives of Elia to gradually open the reserves market so that all grid users can make bids for balancing purposes. This means that CIPU units as well as non-CIPU units will be able to participate in the reserves market.

With regard to the bids of non-CIPU units, the following congestion management rule is proposed: '*To ensure (1) a secure operation of the grid and (2) a level playing field with CIPU free bids, the delivery points with a  $R_{ref} \geq 25$  MW that are located in a red zone, will not be considered when activating reserve*'. FEBEG doesn't agree that this rule creates a level playing field between CIPU and non-CIPU

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<sup>4</sup> Position paper '*Information needs of the BRP*', FEBEG, 25 June 2015.

bids, because in a certain red zone a bid of 1 MW of a non-CIPU unit ( $R_{ref} \leq 25$  MW) will be accepted while a bid of 1 MW of a CIPU unit in the same zone would be refused.

FEBEG is of the opinion that the congestion management rules should be applied to all grid users in a transparent and non-discriminatory manner: in this respect, FEBEG is convinced that the real impact on the grid, i.e. MW injected, should be the criterion rather than the originating generation unit. Pending a more thorough review of the principle of the red zones<sup>5</sup>, FEBEG sees four approaches to avoid discrimination between grid users:

- downstream approach:
  - o bids are offered as foreseen: delivery points grouped by product type, price, technology, ...;
  - o when selecting potential bids, Elia applies a 'red zone' filter for all bids without distinguishing between CIPU or non CIPU units:
    - Elia continuously checks all bids for compliancy with the red zones, i.e. Elia analyzes which delivery points of the bid are situated in a red zone and which ones not;
    - Elia restricts the activation of some bids - partially or totally depending on the list of delivery points - excluding all delivery points in a red zone;
  - o the FSP activates the bid partially according to the instructions of Elia;
- upstream approach:
  - o bids are offered by electrical zone: during the pre-qualification process the delivery point is linked to an electrical zone of which the FSP is informed;
  - o when selecting potential bids, Elia applies a 'red zone' filter for all bids without distinguishing between CIPU or non CIPU units: Elia only selects the bid that is not linked to a red zone (all or nothing approach like for CIPU);
  - o the FSP activates the offered bid;
- allow CIPU units to also increase or decrease their production with maximum 25 MW;
- group all flexibility - for balancing as well as for congestion management - by electrical zone.

#### Price formation in balancing market

According to FEBEG the most important priority should be to improve price formation in the balancing market as soon as possible by removing all distortive elements:

- all price caps should be removed;
- all products should have an activation price;
- the bids on the bid ladder and the R3 products should be integrated in one 'merit order'.

FEBEG is worried because the proposed order of activation of the balancing products distorts the merit order which will in turn affect the imbalance price:

- free bids on the bid ladder will be activated before the R3 products:
  - o as a consequence the market risks to be confronted with high imbalance prices because a highly priced free bid will be called while there are still reserves available;
  - o this risk will eventually be reflected in a higher bill for the customer while Elia will benefit from potential higher margins;
- R3 standard non CIPU (without activation price) will be activated before R3 flex (with activation price).

Both distortions will have as consequence that the imbalance price will no longer accurately reflect the scarcity on the balancing market which increases risks for BRP's.

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<sup>5</sup> Position '*Congestion management on the Belgian transmission grid*', FEBEG, 1 September 2016.

### Explicit bidding

Bids of CIPU units on the bid ladder will be the result of the mechanism of implicit bidding in the CIPU contract (with the exception of virtual power plants) while bids of non-CIPU units will be explicit. As creating a level playing field between CIPU and non CIPU units is a priority, FEBEG would like Elia to work towards explicit bidding for all units.

### **Specific comments and suggestions**

#### ***Framing of the consultation note***

FEBEG would like to thank Elia for the clear, complete and detailed consultation note. FEBEG only wants to point to two important aspects that are perhaps not sufficiently highlighted in the consultation note:

- at first sight the consultation note seems to focus on the development of demand response, but it should be verified that the framework and the rules can also be applied on generation units and more specifically non-CIPU generation units;
- it should also be made clear that the proposed market model for the transfer of energy (title 3) is developed with the objective to create the bid ladder (i.e. delivering balancing services to Elia as BSP): this model should thus not be considered as a general market model that should or could be applied when a FSP delivers other services to Elia, BRP's, DSO's, ...; FEBEG therefore prefers the use of 'BSP' instead of 'FSP' throughout the consultation note.

#### ***Detailed comments and suggestions***

##### Activation of a bid (title 2.2.3)

Elia will perform a technical-economic analysis of the bid resulting in one merit order for all free bids. FEBEG considers it essential that all free bids are put in competition on a level playing field basis.

For this reason and as market confidence is key, FEBEG wishes to have more transparency on the technical-economic analysis that is being performed by Elia. How exactly are bids from 'coordinable' and 'non coordinable' units dealt with? Is the level playing field between CIPU and non CIPU bids ensured?

##### Price (title 2.2.2.1)

Elia states that each bid should provide information about 'price', 'volume' and 'activation period' as well as the 'possibility to prolong the bid' (1, 2, 3 or 4 quarter hours). Also, 'bids will be prolonged at the initial offered price'.

FEBEG would like to ask Elia to further clarify these rules. Can the FSP only set one price and will that one initially offered price be used for all quarters in case of prolongation? Or does the FSP have the possibility to anticipate a prolongation and to upfront set a price for each quarter, i.e. 4 'initially offered prices'?

##### Combination of bid ladder and R3 (title 2.2.1.4)

FEBEG would like to thank Elia for the efforts it is putting in trying to develop solutions for the combination of the bid ladder and R3. FEBEG supports the concept of 'flexible pool management' (title 2.2.1.4.1) provided that the feasibility study shows that the benefits of this solution outweighs the implementation cost.

With regard to the ‘combination of bid ladder and R3 on one delivery point’ (title 2.2.1.4.2), FEBEG is of the opinion that the rules should be further clarified. The current set-up raises concerns:

- the rules don’t explain how Elia will exactly separate the volumes R3 and the volumes bid ladder (baselines, availability of capacity, ...) as the same Rref will be used (no formula for prequalification like in title 2.2.1.4.1.) while FEBEG considers it of utmost importance to safeguard the capacities for R3;
- FEBEG is also wondering how Elia will ensure the level playing field between CIPU units – restrictions within CIPU – and non-CIPU units as CIPU in the way they can combine R3 and free bids.

#### Baseline (title 3.5)

Elia proposes to use the ‘measured value of the last quarter hour’ as baseline for the calculation of the delivered volume.

FEBEG can accept this baseline within the framework of a pilot project, but insists on continuing the discussions on the baseline. FEBEG remains convinced that, in certain circumstances, other baselines, e.g. nominations, would be more appropriate in order to ensure coherency within the market and consistency between products and services.

In this respect, FEBEG considers it essential that there’s only one baseline by delivery point. FEBEG proposes Elia to set up a mechanisms that ensures the free choice of baseline, perhaps completed with a fall-back when no baseline is being defined.

#### Contractual framework (title 4)

In order to elaborate and verify the ‘FSP-Supplier Declaration’ and the ‘Elia-Supplier contract to facilitate data transfer’ Elia will have to be able to identify the supplier. Elia will use the information in annex 3 of the access contract to do this.

FEBEG wants to point out that annex 3 is being debated in other Elia working groups. As more and more consequences (green certificates, transfer of energy, ...) are linked to the appointment of the supplier in annex 3, FEBEG is of the opinion that the rights and obligations of the supplier should be clarified and formalized.

#### Lacking legal framework (title 5)

It is the objective of Elia to implement the bid ladder as of the 30<sup>th</sup> of June, 2017. In title 5 Elia states that only ‘implicit flexibility’, i.e. FSP is equal to supplier, will be allowed on the bid ladder if a legal framework would not be available yet on the 30<sup>th</sup> of November, 2016. According to FEBEG the ‘opt out’ should be mentioned as well to avoid any confusion: there’s no reason why a FSP should not be allowed to put bids on the bid ladder when he proves to have a bilateral agreement with the supplier via the ‘FSP-Supplier Declaration’ even if a legal framework would be missing.

#### **Additional comment with regard to the legal framework**

FEBEG is convinced that the pilot project bid ladder – as it is being set up by Elia – will provide the necessary platform to attract bids from new flexibility resources and pools of flexibility resources.

Indeed, Belgium is already a European front runner with regard of the development of demand response based solutions and their access to ancillary services and wholesale markets. Thanks to the significant

efforts by Elia, in 2015 and 2016 already 423 MW of the needed 983 MW of balancing reserves are linked to demand response offers and 358 MW of the 1.535 MW of strategic reserve were covered by demand response. On top of that Elia estimated the demand response contracted or used by balance responsible parties at 826 MW based on a market survey performed by Poÿry. In total 1.600 MW of demand response, or more than 10 % of Belgian peak load, has found its way to the ancillary services market and balancing market. One can therefore not simply state that the Belgian regulatory framework is preventing the development of demand response. On the contrary, one should avoid to artificially incentivize the development of demand response while the market fundamentals are not favorable for demand response: electricity prices and price spreads are very low and do not reveal a high value for flexibility. This is also demonstrated in the study from the UL included in the CREG study: under the prices for 2015 the study reveals a total value of 13.769 EUR/MW/year recovered in a feasible 64 hours/year for adequacy applications and 60.615 EUR/MW/year recovered in a less obvious number of 325 hours/year for balancing applications. These limited values need to be shared between customer, FSP and supplier. Note that thanks to the return of all nuclear generation in Belgium wholesale prices have significantly dropped and average balancing prices for 2016 have almost halved.

FEPEG is of therefore of the opinion that additional obligations and complexity are not needed and that the related costs and risks will certainly not outweigh the (limited) value that can be harvested with the potential of flexibility from end-users. Uncertainty about upcoming legislation or a too restrictive legal framework risks to hamper the innovations and developments that are now being facilitated with the implementation of the Elia bid ladder.

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