

Febeliec answer to the Elia study on the evolution towards a daily procurement of mFRR

Febeliec would like to thank Elia for this study on the evolution towards a daily procurement of mFRR as well as the consultation of the stakeholders. In general, Febeliec is not opposed towards the evolutions in R3/mFRR products and sourcing Elia has conducted in the past, opening up these products and the market to a wider range of actors, thus creating more competition to the benefit of consumers. However, towards the future and taking into account an increased need for balancing reserves as identified by Elia, Febeliec wants to urge for caution against too swift and simultaneous evolutions. Elia should avoid moving too fast, at the risk of losing current providers of flexibility by too frequent and far-reaching changes. Amongst others, Febeliec would like to urge caution towards the abolition of R3Flex, as with the abolition of the ICH product, already many providers to this product have struggled to find their way to more demanding products such as R3 flex. Now abandoning this product too soon could lead to the exit of certain providers of the market and would also not entice them to (yet again) spend time and efforts to fulfil the obligations of a new product that might yet again change in the near future.

With respect to the context, Febeliec wants to stress that art32 of EBGL indeed states that the procurement shall be performed on a short-term basis (with no specification towards the interpretation hereof) but this to *the extent of possible* and *where economically efficient*. Elia interprets this as daily procurement, but this does not automatically follow out of EBGL and in any case would not be an obligation as this could prove impossible and/or not efficient. Moreover, country-specific products are possible under some clear conditions. Taking into account the specific situation in Belgium, with the main volumes of many balancing products being provided by a very limited number of actors requires attention, to avoid the risk of exertion of market power by such actors, driving up the cost for consumers.

With respect to the FRR dimensioning process, Febeliec is surprised to read that Elia mentions that it might be lacking capacity in periods with real high imbalance risk. Febeliec understood that in the current process, as presented in the Dossier Volumes, such periods are also covered. If not, Elia has accepted a situation with non-covered risks or wants in the future to go even further in building in margins, which would lead to higher costs for grid users. Both approaches present issues for Febeliec and Febeliec thus hopes for some additional clarification from Elia on this point.

With respect to a comment made by Elia on page 8, Febeliec has some issues: *“Those changes have allowed a better functioning of the mFRR capacity market with as results more volumes offered and slightly lower reservation prices even though volumes procured have increased and the quality of the products have improved”*. One of the changes mentioned above this sentence is the abolition of the ICH product. Can Elia substantiate its claim that the abolition of ICH has lead, ceteris paribus, to lower reservation prices? Febeliec is not convinced that abolition this cheap product and replacing it by a more demanding and thus more expensive product has not lead to a relative increase in cost, meaning that with the retention of the ICH product the overall cost of mFRR would probably be even lower than the current results. Febeliec thus urges caution towards Elia to making such general statements without a clear quantification and/or analysis.

With respect towards the possible evolution towards daily procurement, Febeliec does not oppose Elia in the advantages listed, but expresses its concerns with respect to the disadvantages as the visibility on revenue for providers, especially (industrial) demand side response providers where measures have to be taken towards participation that are not without effect on the core business of these providers, and the operational burden are not to be underestimated, as these could be detrimental towards the participation of a sufficient number of stakeholders, in order to avoid market concentration within the hands of a very limited number of actors, with detrimental effects on the cost for grid users. Febeliec is, despite economic theory, also not convinced that moving from monthly to daily auctions will automatically allow BSPs to offer more volumes at a more competitive price, as markets do not function perfectly in Belgium due to a wide range of issues, some of them referred to above, and thus this might not necessarily be the case. Elia presents the case of wind farms, which can only deliver capacity in one direction. The other direction will have to come from other stakeholders, and as Febeliec is afraid the proposed evolutions are not of such nature as to make things necessarily easier for demand side response to participate, as discussed above, this might leave the other side of the market to a very limited number of actors with concentrated market power. Febeliec also wants to draw Elia’s attention to a statement it makes itself in point 3.2.1: *“However when moving to those shorter term procurement period, we’ve observed an increase of liquidity combined with a healthy competition and a*

relative price stability". For Febeliec, it is inconceivable how Elia seems to be satisfied with an increase of liquidity and healthy completion, without this leading to lower overall prices. Economic theory states that such conditions should normally lead to lower prices, thus benefitting consumers. If this is not the case, what is the purpose of pursuing all these changes? Modifications should only be done in light of benefits to the overall system costs, not just for the sake of change itself. With respect to the operational risk in case of lack of volume in auction, Febeliec takes note of Elia stating that it will be proactive in contacting all BSPs to make sure they offer all volumes available in the second auction round, but it remains unclear how this will be done within the scope of daily auctions. Moreover, it is still unclear what the approach will be in case such second auction does not lead to sufficient volumes. Thus on the implementation of a daily procurement of mFRR balancing capacity, Febeliec underwrites in general the advantages presented by Elia, but urges for caution because of the enumerated disadvantages as well as potential overestimates by Elia of the advantages, which could lead to a worse outcome, especially taking into account the very near implementation dates proposed by Elia (begin of 2019 for mFRR down, thus in merely one semester, and begin of 2020 for mFRR up).

With respect to the possible evolution towards a (single) standard mFRR balancing product, Febeliec in the above comments as well as during previous consultations and discussion in the Working Group Balancing of Elia has already provided has already highlighted several elements. The most important point for Febeliec is the risk of pushing existing flexibility out of the market, such as for example the providers of the ICH product volumes that have already had to adopt their internal operations to cope with the requirements from R3Flex and would again have to comply with a more stringent standard product. With respect to the comments from Elia on the R3Flex product in point 4.1.1, illustrated by the given example, Febeliec wants to stress explicitly that it is the obligation of the BRPs to be in balance, and that Elia is only responsible for the residual imbalance of the system. If certain BRPs are not fulfilling their obligations, Elia should rather work on this point by giving clearer incentives to these BRPs (such as an imbalance price model that leads to higher imbalance prices, in combination for example with a more steep increasing alfa-factor) to respect their obligations. BRPs and/or generators with large intermittent generation capacity in their portfolio must clearly take their responsibility in these cases, by providing their own means to cope with such events, which can be done through market actions but also by technical actions (e.g. variation in cut-off wind speeds for individual units). In any case it is not the grid user that has to bear the cost of inaction and/or lack of preparation of such actors. On the competition between R3 Standard and R3 Flex and the latter (potentially) pushing some volumes of the former further in the merit order and thus out of the selection, Febeliec is clearly of the opinion that if the needs have correctly been dimensioned and thus the split between both types of reserves has been identified, there is no reason to acquire more stringent and thus more expensive reserves without clear justification. Taking into account that the cost of reservation of balancing capacity is borne by the grid users, Elia should maximize efficiency by not sourcing unneeded capabilities for the sake of easiness. On the issue of simplicity, discussed by Elia in point 4.1.4, Febeliec believes this is not a valid argument, as the main objective should be efficiency of overall system cost, and not on some elements. Moreover, the EBGL explicitly foresees the option of specific products in Member States, clearly indicating the volition of the legislators to take overall efficiency on a Member State level also into account. In any case, on the possible evolution towards a (single) standard mFRR balancing product Febeliec is definitely not convinced of the advantages and does not share the believe of Elia that the flexibility currently participating to R3 Flex will still be able to get valorised in the market through participation to the standard product. In many cases, this would also mean that individual grid users will no longer be able to participate directly, but would require intervention of other actors, reducing the upside for them and thus their appetite for participation. Febeliec deplores the proposed move by Elia, especially so short after the abolition of the ICH product.

On the impact of non-contracted mFRR (free bids) on mFRR balancing capacity to procure, Febeliec wants to stress that it considers Elia to be extremely conservative in its approach, which thus leads to a sub-optimal outcome which is not in the benefit of the grid users who have to pay for the reservation of balancing capacity. Moreover, Febeliec has an issue with the statement of Elia (point 5.2.2) that *"some units solely rely on the R3 reservation payment to exist and cover their costs"*. Febeliec can understand that such units exist, but does not agree that this should mean that the entire design of sourcing of balancing reserves should be based on the needs of such individual units (also limited in volume and quantity). Febeliec also wants a clearer clarification of Elia that (point 5.3) *"an important part of the reserves is yet covered by assets whose main income is the capacity remuneration"*. Moreover, in the point 5.2.2, Febeliec has a major issue with the statement from Elia that *"deciding to procure on some days and not during others or changing the volume to procure often does not promote the stability requested by the BSPs"* as Elia now suddenly is in favour of such concern when it suits her purposes, but does not want to take into account such elements nor the

operational burden when participation of demand side response was discussed in the working group when discussing moving towards daily procurement. Either Elia considers this a valid argument, and then also applies it to all the other parts of this analysis, or it does not take it into account and then it has no place here, but it is intellectually unfair from the side of Elia to apply criteria very selectively to suit its own purposes or preferences!

On the impact of reserve sharing, Febeliec understands the comments made by Elia, but wants to point out that Elia is again extremely conservative in the volumes that are taken into account. Febeliec has no issue with such approach, other than the fact that this leads to the inclusion of a large number of security margins at each different aspect of the determination of required volumes and the reservation of balancing capacity, leading to the exclusion of large volumes of potential reserve capacity and thus to a higher required volume to procure. Moreover, with additional (electrical) borders to arise in future years, Febeliec would like to learn the potential impact hereof on the dimensioning of reserves in Belgium (while also wondering if the existing BeDeLux connection could not already provide some impact here).

In general on this Elia study on the evolution towards a daily procurement of mFRR, Febeliec believes it has made clear that it is not in principle opposed to such evolution, but that many elements are not sufficiently mature and/or prerequisites are not in place, meaning that a too swift evolution could lead to a sub-optimal outcome, in the worst case even below the current situation. As a result, Febeliec urges Elia as well as the CREG towards extreme caution with such evolutions in the very short term; some of the proposed implementation dates by Elia are already begin of 2019, leaving little time for market actors to adapt, while many uncertainties are not yet clarified.