

PUBLIC CONSULTATION

New aFRR Design

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We very much appreciate the development in opening the R2 market for non-CIPU units. The following points are of main relevance in our opinion:

- a baseline that allows the participation of pools of various units and does not discriminate against smaller pools and smaller units. (s. Article 1.1)
- the obligation to place asymmetric capacity bids for all volumes offered (s. Article 1.2)
- the timely elaboration of a process that allows the participation of DSO connected units (s. Article 1.3)
- the allowance to participate with net injecting units within the framework of the transfer of energy – at least with those holding a pass-through contract (s. Article 1.4)

The explicit request for opinion by Elia is tackled in Article 2.

Further relevant points are summarized under Article 3.

1. Important points

1.1 Baseline

1.1.1 Baseline Evaluation Based on Non-Participating Units

The baseline is evaluated on the pool of non-participating units (s. Article 14 in design note). We understand the reasoning for the approach, but also see an important issue:

- The R2 activation will be executed by the “participating DPs”. A provider selects those delivery points which are available, which are connected, react and can follow the set-point.
- An aggregator must keep a redundancy in case he “loses” some of the participating unit due to an outage or a loss of connection. In that case he can switch non-participating units to become active in the participating pool. This also means that the “non-participating” units are not necessarily unavailable neither do they not necessarily not react.
- However, the non-participating pool typically hosts also those units with connection losses or outages. Therefore, the baseline of the non-participating pool is not as accurate as the one for the participating units. While the accuracy of the baseline for the non-participating delivery points might be worse for instance due to units starting or having an outage.
- In case the activations are rather small and only a part of the offered R2 volume is activated this effect will be limited, but as soon as a large volume of R2 is activated the aggregator typically activates to a large extent those units that are reliable at those moments and switches these to the participating pool. In such case the non-participating pool still hosts the redundant units, but the share of units that are not available, that have lost connection or that ramp up or down due to start-ups and outages will be larger. In particular the outage and start-up ramps are more difficult to forecast and will have a significant impact on the accuracy of the baseline. In these cases, the less reliable or not connected units might dominate the baseline error.

We therefore propose that Elia carefully evaluates this problem. It might be a solution to exclude the times of high R2 activations from the base line evaluation if a strong distortion can be observed.

1.2 Asymmetric Capacity Bidding

The R2 market is currently difficult to enter for new participants. One of the reasons is that R2 is still sourced as a symmetrical product. A new entrant that only offers R2 up or R2 down relies on an offer from another party offering the product part to combine to R2 symmetric.

To our understanding the current proposal suggests that all parties offering a symmetrical volume also need to offer this same volume in two asymmetric capacity bids.

We consider this obligation of utmost importance for the success of opening the R2 market.

However, even if this obligation is implemented we have a strong concern that the dominant market parties offer the asymmetric product parts at very high prices compared to the symmetric pendants exploiting the current position of market power. This would make the entrance either impossible or would ask the new entrants to offer their asymmetric products largely below market value. We understood from our discussions with Elia, that it is intended to prohibit this exertion of market power by imposing total cost rules that would not allow to increase the costs of asymmetric products artificially. **Considering the low competition on the market we however fear that in case the first new entrants offer primarily R2 up (R2 down respectively), that market parties with market power can react by price dumping this very product part and increasing the cost for the pendant R2 down (R2 up respectively).**

We would therefore like to ask Elia to consider the following two additional approaches:

- **Obligation for all market parties to offer a part of the overall offered volume (e.g. 25 %) as fully asymmetric products (no symmetric offer for these volumes)**

and/or

- **Elia sources a part of the overall sourced volume (e.g. 25%) only from asymmetric bids.**

Furthermore, we would be happy if Elia put the discussion of the capacity bid and selection process for R2 on the agenda as soon as possible as it is a crucial element for the success of the product.

1.3 Discussion with the DSOs

Several non-CIPU products developed by Elia were in a first stage only accessible for TSO connected delivery points and only later for delivery points on DSO level. In our opinion this discriminates flexibility on DSO level.

In the design note it remains unclear in how far the DSOs are involved in the discussion and the implementation process and how it will be guaranteed that both DSO and TSO level delivery points can enter the R2 market at the same time. We would therefore ask Elia to engage in early discussions with the DSOs and organize the time line accordingly to ensure a level playing field for all market parties.

1.4 Transfer of Energy

1.4.1 Imbalance-pass-through contracts

Imbalance-Pass-through contracts are contracts between the owner of an access point and his supplier/BRP in which it is stipulated that the owner of the access points also carries the full responsibility of imbalances (difference between his "nomination" to the supplier and the real production/consumption). In other words, any imbalance is passed through.

The owner of access points typically opted for this solution because he wanted to sell their flexibility directly to Elia via "reactive balancing". It is often argued that the holder of a pass-through contract sold his flexibility to the supplier/BRP. This is a totally wrong interpretation. **It is important to note that the contract holders did not sell their flexibility to the supplier/BRP. On the contrary: As the imbalance costs/gains of activated flexibility are directly passed through to the owner of the access points, the ownership of the flexibility remains entirely with the owner of the access point.**

Even though the access point owner owns his flexibility it is impossible for him to freely participate in delivering reserve power, because the supplier/BRP is not obliged to pass through the corrections for an activation. This has the following consequence:

- For negative reserve power the supplier/BRP passes the imbalance through but keeps the positive correction, which usually is a payment by Elia to the BRP. The access point owner carries the costs of an activation, while the BRP/supplier benefits without any contribution on their part.
- For positive reserve power the supplier/BRP has to pass through the positive imbalance and is stuck with the negative correction. In this case the owner of the access point can exploit the situation and benefit also from the positive imbalance of an activation for which he is not corrected.

Next Kraftwerke had worked out various solutions on how a solution for pass-through contracts can be implemented. We think that the following rules and process would be a good solution:

- Principles:
 - o The pass-through contract holder can freely join a BSP pool to provide reserve power as he is owner of his flexibility and always carried the responsibility of imbalances himself. **The holder of this contract does not even have to inform the supplier/BRP about this step because the use of flexibility is therefore no novum for the BRP/supplier. On the contrary: This is what the pass-through contract is designed for.**
 - o **Consequently, the BRP/supplier does not have to be informed about the activation of flexibility of such access point** as the holder of the pass-through contract is always by this contract allowed to divert from his nomination and has done so before e.g. to follow day-ahead prices, in the framework of reactive balancing or simply to follow technical on-site constraints
- Process in case of an activation:
 - o BRP/Supplier
 - In case of an activation, the Supplier/BRP is not informed and the Supplier/BRP is furthermore not corrected for the activation.
 - The Supplier passes as the imbalance of the activation through to the holder of the pass-through contract as he would normally do by (pass-through) contract.
 - **There is no negative nor positive impact on the BRP/Supplier.**
 - o BSP
 - **The BSP is corrected for the imbalance of the activation. There is therefore also no positive or negative impact for Elia.**
 - The physical correction remains with the BRP of the BSP who takes the associated costs/gains. The BSP can then pass the monetary value of the correction through to the owner of the pass-through contract. The BSP and the holder of the pass-through contract can of course agree on any other settlement for this imbalance correction if desired.

This simple solution would solve the challenge to give pass-through contract holders access to the reserve power market via a BSP. The beauty of the solution is that the work for implementing this solution is limited for Elia as far as we can judge. Elia only needs to redirect of the correction to the BRP of the BSP.

1.4.2 Net injection is discriminated against

Next Kraftwerke has during various occasions (consultations, bilateral discussions, TF meetings) stated that the exclusion of net-injecting delivery points from the framework of transfer of energy is unacceptable and without reason:

- The limitation is discriminatory against generation technology.
- There are no technical arguments to exclude net injection points.
- The volume that can participate in the ToE is limited and therefore also the value offered for reserve power might be limited if the ToE proves to be an efficient framework to tap flexibility potential.

We believe that it is Elia's and the CREG's responsibility to advise the Belgian Government to make the necessary adaptations in the Belgian law to allow the participation of net-injecting access points in the ToE.

2. Questions asked by Elia

2.1 Preferred option for implementation – several steps or one-stop (p. 41)

Next Kraftwerke is fine with a one-stop option even though this might mean that the product will be opened at a later stage.

Next Kraftwerke however only votes for a one-stop option if Elia can provide a high level of certainty that the suggested timeline can be kept and that a go-live by January/February 2020 is highly probable.

2.2 Price caps (p.55)

Next Kraftwerke appreciates the removal or shift of price caps. A first stage price cap of about 1500 € for positive energy bids and of about -1500 € for negative energy bids seems to be a good intermediate solution to avoid market power excretion at high prices. We think that mid-term the price caps should be completely removed.

3. Other Relevant Points

3.1 Security of Implementation

In chapter 6.3 on page 41 it is stated that the go-live for the R2 non-CIPU is scheduled for beginning of 2020. At the same time a list of condition for keeping this date is given (as e.g. a good development of FCR market, the lesser use of asymmetric FCR product, the possibility to cost efficiently source FCR and aFRR separately...)

We would like to point out that for any investment in R2 by an aggregator it is very important that there is a high level of certainty that the R2 non-CIPU product will be developed, that it will be developed with high priority and that a strong effort will be made to keep the suggested timeline.

3.2 Activation tests one time per month (p73, Principle 12)

On page 70 under principle 12 it is stated that Elia envisages an activation test one time per months

This seems to be a very high frequency of activation tests which will result in high costs for the aggregator.

We think that the following should be considered:

- If during the last x days (x to be defined, suggestion 30), the BSP provided the service with good compliancy and if the furthermore the BSP was able to also provide the requested power when the full or a large volume of the offered bid was activated (e.g. activation of >70% of the offered volume) no activation test should be executed or at least the probability of an activation test should be largely reduced.
- In case Elia insists to execute activation tests frequently, it might be an option that Elia covers the activation costs provided the BSP responded correctly to the test signal.

3.3 Ex-post data

The design note explains that there so far it is still unclear how the aggregator shall transmit the metering data of each delivery point to Elia.

Next Kraftwerke would like to highlight that it is preferable to keep the ex-post data exchange scalable. This could be achieved by e.g. removing the need to send every 4-second value for every delivery point but working with virtual delivery points.

3.4 Transfer of Energy – Provision Error

As Elia considers an activation following the set-point with +/- 7.5 % as compliant, we think that an overdelivery of 7.5% should not be considered an overdelivery yet. Any volume exceeding the 7.5% should however be considered overdelivery and can indeed be corrected as suggested in Annex 2 – Case Study.

3.5 Minor Remarks

- Page 12, Article 4.3, 2nd paragraph:
We think that this should be "...; **and** a maximum precision..."
- Page 13, Article 4.3, 1st paragraph:
Data availability of 95% is requested here. It would be good to clarify, which data this refers to (real-time?), what time horizon is looked at (1 d, 1m, 1a) and what would be the consequences if the availability falls below 95%?