



REPORT OF THE PUBLIC CONSULTATION RELATING TO MODIFICATIONS OF THE BALANCING RULES - CONFIDENTIAL

ELIA

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INTRODUCTION

In the context of the potential risk for security of supply during the upcoming winter period, Elia has analyzed how to develop additional flexibility from demand side response that is currently not offered to Elia within the existing contractual and regulatory framework. Hereby we target flexibility which needs to be called off more than 15 minutes in advance and could be activated to keep the balance in the Belgian control area in case of scarcity.

In particular Elia proposes an extension of the existing non-CIPU non-reserved Incremental Bids with an activation delay of 15 minutes which are today submitted on the Bidladder platform. A new service level agreement of this product called “Slow non-CIPU Incremental Bids” will be developed enabling to submit bids to the Bidladder platform with an activation delay larger than 15 minutes. Those bids will be activated together with not started CIPU units that cannot be activated within 15 minutes. This new SLA will be only in force for a limited period (5-11-2018 until 31-03-2019).

The Balancing Rules (“Regles de fonctionnement du marché relatif a la compensation des disequilibres quathoraires ») in application of article 159 §1 of the federal grid code (Royal decree of 19 December 2002) are describing the functioning rules regarding the reservation and activation of primary, secondary and tertiary reserves (incremental/decremental bids, R3 flex, R3 standard and reserve sharing contracts with other TSOs) in the framework to maintain the balance of the Belgian control area. These rules are proposed by Elia and approved by CREG.

Currently two different regulatory approved versions of the Balancing Rules exist:

- The first version (approved by the CREG in its decision (B)1713 (B)1658 of 08/02/2018) is currently in use and will be valid until November 30th 2018.
- The second one (approved by the CREG in its decision (B)1806 of 20/09/2018) is supposed to enter into force as from December 1st 2018 and is valid for an indefinite period.

As the new SLA will enter in force already in November, modifications are therefore proposed on both existing versions of the Balancing Rules. Elia proposes these modifications with as objective to describe the key principles of the new SLA. The modifications include the conditions and rules how this new flexibility should be offered, activated and financially settled. Furthermore clarifications are made regarding the impact of its activation on the Imbalance price and the publications on Elia’s website.

On the top of the modifications required in order to introduce the new SLA, some additional changes are proposed:

- clarifications have been made regarding the maximum bid price for mFRR

- the activation of non-reserved 15min Incremental bids with a price of 1000€/MWh or more after the activation of reserved R3 bids (only for the version of November)¹

The consultation period for modifications to the Balancing Rules ran from October 15th (18h) until October 22, 2018 (18h). Elia discussed also the proposed solution with stakeholders during the ad hoc Working Group Balancing of October 10th and October 16th 2018.

The purpose of this consultation was to receive any remarks or concerns that the market players affected by the proposals might have, before submission of the proposal to the CREG for approval.

This document consolidates the contributions received and provides Elia's response to the comments made.

The contributions are explained in detail below.

¹ In December 2018 a merit order activation between contracted (only R3 Standard) and non-contracted will be implemented. Hence this change is only needed for November 2018.

RECEIVED CONTRIBUTIONS

The consultation period for modifications to the Balancing Rules ran from October 15th (18h) until October 22, 2018 (18h). Elia received a contribution from the following parties:

1. REstore
2. Actility
3. FEBEG
4. FEBELIEC
5. Lampiris

All non-confidential contributions are published on Elia's website together with this consultation report.

CONTRIBUTIONS TO THE PROPOSED EVOLUTIONS

1.1. General

1. Question regarding duration period of the product:
 - **Question FEBELIEC:** “With respect to BR2 p11, Febeliec wonders why the duration of this new product is explicitly limited to a period until 31/03/2019. Febeliec would like to get the full reasoning behind this, as firstly the current unavailability of nuclear power plants and the related risk for the security of supply in Belgium might not be solved yet and secondly this product could also prove useful for Elia to have at hand in other periods of the year and/or during following winters. Febeliec would like Elia (and CREG, as no separate consultation will be conducted by CREG on this product) to justify this approach.”
 - **Question FEBEG:** “FEBEG wants to emphasize the temporary character of the new product: The proposed design for slow non CIPU incremental bids offers quite a lot of flexibility in the specific conditions with regard to the firmness of the product. FEBEG understand that this could be necessary in the current circumstances, but it makes that the quality of the product is sub-standard: in no way this should set the standard for other products or for a prolongation of this specific product outside of the temporary period the product is currently aimed at. FEBEG suggests to clearly stipulate in the balancing rules that the SLA for the new product will end on the 31st of March, 2019.” AND “There is quite a lot of flexibility in the specific conditions with regard to the firmness of the product: volume flexibility +/-20% up to 1.5 hours before activation, non-delivery is considered as a zero delivery without a specific penalty (§ 8.5.3), ability to cancel the bid at any time in case of ‘forced outage’ without that there is a definition for what could be understood under forced outage. All this makes that the quality of the product is sub-standard: the new product can in no way be compared to similar CIPU flexibility or to something which could be expected from a standard product. These sort of flexible conditions can according to FEBEG only be applied in view of the current specific circumstances and should be brought up to standard quality levels should the product’s existence be prolonged after this winter’s period.”

Answer Elia:

The new product has been developed as a partial solution to potential adequacy problems in winter period between November 2018 and March 2019. Elia believes that as soon as Transfer of Energy has been implemented for day ahead and intraday markets, the existence of such a product would become obsolete. Therefore the proposed modifications in the Balancing Rules are clearly stipulating that the new product will only exist until 31st March 2019.

Nevertheless Elia proposes – as already communicated in the Working Group Balancing of October 16th - to discuss with all stakeholders after the winter period whether this product should be kept in the future or not.

2. **Question FEBEG:** “FEBEG requests CREG and Elia to have the article 14.4 (see below) of the new transfer of energy rules applicable as from the 5th of November 2018 (launch of the

new product) instead of the 1st of December, 2018 in order to avoid the risk of double remuneration on the customer's side and an additional financial impact on the supplier. Indeed, particularly for contracts with valorization of the deviation, there's a settlement between the supplier and the customer based on the difference between the nominated position and the real position of the customer. Due to the expected tight conditions for the winter 2018-2019, there's a high probability that the imbalance price will be very high – possibly close to 10.500 EUR/MWh in November 2018 – when the new product is activated.”

Answer Elia:

Although this disposition is out of the scope of the Balancing Rules and cannot be added in the Transfer of Energy ('ToE') rules applicable for November, Elia will nevertheless monitor the situation and report any issue to the CREG.

1.2. Descriptions of the new SLA and conditions to offer it

3. **Question REstore:** “Clarify that there will not be any unpaid simulation tests for such bids. Given this would create important certain costs compared to highly uncertain revenues, such a situation would prevent any MWs from participating.”

Answer Elia:

The above question is not in scope of the Balancing Rules but rather a request for clarification regarding the contractual modalities of the new SLA. Nevertheless Elia will answer this question.

The simulation tests for bid ladder needs to be performed only once per BSP before he wants to submit the first bids on the bid ladder platform. The sole objective of this simulation test is to test the whole communication scheme (interfaces with Elia tools).

As for the new product all communications between Elia and BSP will be made by email, a simulation test is not necessary.

4. Questions on the 20% limit:

- **Question REstore:** “Either increase possibility to re-nominate bids up to 1h30 before activation beyond the +/-20% limit, or remove the penalty in case of a higher baseline.”
- **Question FEBELIEC:** “ With respect to the +/- 20% volume adaption after the preparation phase, Febeliec is pleased to see that an increase is only allowed after approval by Elia, but still is unconvinced, as also indicated during the meetings, that a possible reduction of 20% is acceptable, as this could lead to situations where Elia had more offers available, which were not selected because the volume was not needed but with a subsequent volume reduction of the selected offers during the preparation phase, Elia could still end up with too little available volumes, while at the same time unselected volumes were still available but not withheld as the Elia target was reached. Febeliec would urge for the utmost caution for this approach, in order to avoid any gaming but even more importantly to avoid any activation of the load shedding plan because of such reduction. Firmness of offers is important once the selection has been made and the preparation phase has started. Febeliec in any case is pleased that only those volumes that are actually available to Elia (and thus

maybe different from the selected volumes due to actions from the offeror) will be remunerated for the fixed cost component.”

Answer Elia:

In its design proposal Elia tried to find the right equilibrium between reducing baselining risks for BSPs when offering volumes and reducing gaming risks because BSPs could bid intentionally higher volumes in order to avoid the selection of bids offered by other BSPs.

Elia believes that the proposed design allows a maximum flexibility for BSPs to readjust their volumes and/or to take into account the uncertainties in their bid while trying to limit the potential gaming risks or collateral consequences to a minimum acceptable.

The penalty scheme of non-reserved bids is described in the Transfer of Energy (ToE) rules. A modification of ToE Rules is a time consuming process and it is therefore not envisaged to change the rules for this new product as it will only be used for a few months during the winter period.

5. Question REstore: “Allow BSPs to re-nominate freely up to 5h prior to activation.”

Answer Elia:

For Elia it is necessary to have 2 hours of ‘stable’ volumes between call for bids and GCT in order to verify and register bids in tools (received per email), to re-assess the need (with contextual analysis), to put bids in a merit order. Moreover, Elia is not convinced that the estimation of BSPs profile during the 2 hours between GCT and preparation will significantly be refined.

BSPs are free to “split” their flexible volume into several bids as far as those bids are cumulative and not interdependent; a BSP can take into account his uncertainty through submission of different bids (e.g.: 10MW in bid 1 and 20 MW in bid two for the same period to cover but it could be possible to activate the one or the other or both). Until the preparation a BSP is authorized to cancel a bid. In such case Elia will activate – when available – more expensive bids on the merit order.

6. Question REstore: “Allow use of High X of Y baseline.”

Answer Elia:

The only baseline methodology allowed in the current ToE framework for non-reserved bids is the last quarter hour before the request of activation. A modification of ToE Rules is a time consuming process and it is therefore not envisaged to change the rules for this new product as it will only be used for a few months during the winter period.

7. Question REstore: “Assess possibility for BSPs to provide activation times up to 5h.”

Answer Elia:

The product has been developed in cooperation with stakeholders based on their input and was discussed during two workshops. Elia is therefore very surprised to suddenly receive such a request which implies a fundamental change of the design.

As soon as Elia has called of a preparation for a particular volume to a BSP, a compensation is foreseen to cover risks of non-activation. Elia therefore doesn’t understand the need to have an activation time up to five hours.

8. **Question FEBELIEC:** “Febeliec would also like Elia to check whether blocks longer than 4 hours would really be required, as this closer in line with current balancing products. Is it really needed to foresee blocks that can last longer than 4 hours, which could limit participation as all offerings have to be for the entire period (while activation can be for shorter periods)?”

Answer Elia:

This point was already taken into account in the design proposal which was consulted as this was one of the reactions received during the working group balancing of 16/10. Elia has included a default limit (4h) on the activation period in the proposed Balancing Rules. BSPs will still have the possibility to indicate if their bid can be prolonged for more than 4 hours.

9. **Question FEBEG:** “Niet - CIPU technische eenheden ...worden behandeld in het kader van de bestaande regels van CIPU eenheden ... ’. FEBEG supposes this needs to be ‘ CIPU technische eenheden ... ’ “

Answer Elia:

This comment has been considered in the adjusted version which shall be proposed to the CREG for approval.

10. **Question FEBEG:** “FEBEG also wants to point to the precondition of a call for bids by Elia: such call for bids will only be launched when there’s a structural shortage identified by the technical trigger. This procedure not only demonstrates once more that the slow non-CIPU incremental bids cannot be considered as a future proof standard product, but it also an important element in striving for exclusivity. Is the interpretation correct that this call for bids will in practice be launched between 8 to 12 hours before delivery? Could Elia elaborate on this? It is an important factor to evaluate if some potential new prone to be R3 capacities will not be shifted to the new product of the slow non CIPU incremental bid.”

Answer Elia:

This comment has been considered in the adjusted version which shall be proposed to the CREG for approval. Elia has now included that the call for bids will take place in general 8 to 12 hours before the period which need to be covered by the slow product. A call for bids cannot take place before 18h on the day before delivery either.

11. **Question FEBEG:** ““ ...als een bieding die de voorbereidingsfase is gepasseerd niet werd geactiveerd, wordt de leverancier vergoed met een bedrag gelijk aan de vaste component van de aangeboden prijs ... ’ In the existing CIPU rules, this would not be the case for exactly the same CIPU product. In the Elia WG ‘Balancing’ on the 16th of October, 2018 it was stated that Elia would create a level playing field for both equivalent products. FEBEG doesn’t see this implemented in the proposal for changes to the balancing rules.”

Answer Elia:

This comment has been considered in the adjusted version which shall be proposed to the CREG for approval.

12. **Question Actility:** “Actility would like Elia to confirm that all delivery points that have participated historically in ICH but that could not be converted into the new mFRR (R3 non-cipu, R3 non reserved) mechanisms are eligible to the "slow non cipu incremental bids" product.”

Answer Elia:

Elia confirms this.

13. **Question Actility:** “Actility would like to ask Elia to confirm that the granularity of the energy bids is 100 kW (above the minimum of 1 MW). This would allow Actility to reflect the diversity of his portfolio into different his different energy bids.”

Answer Elia:

Elia confirms this.

1.3. Clarification of the price cap for balancing bids

14. **Question FEBEG:** “Elia refers to biddings for which ‘ de prijs van de bieding ...gelijk is of meer bedraagt dan 100% van de hierboven genoemde limiet ’. FEBEG doesn’t understand how the price of the bidding could be higher than 100% of the limit. Could Elia detail in which scenario this would be possible? Or clarify how this sentence should be interpreted?”

Answer Elia:

This comment has been considered in the adjusted version which shall be proposed to the CREG for approval.

15. **Question Lampiris:** “Afin que les principes de non-discrimination, de proportionnalité, du raisonnable, de diligence et de precaution soient respectés, Lampiris considère qu’Elia doit maintenir le plafond de 4.500 €/MWh pour les prix offerts pour les activations de réglages tertiaries non réservée via des unités techniques non-CIPU telles que visées à la section 8.5 des Règles Balancing. »

Answer Elia:

The request of Lampiris is according to Elia’s understanding out of scope of the public consultation: the fact that 10500 price cap becomes explicit is only a clarification of a mechanism already consulted and approved in CREG’s decision (B)1806 of 20/09/2018.

1.4. Exclusivity of product

17. **Question FEBELIEC:** “ As also indicated during the related Working Group Balancing meetings, Febeliec can understand that any delivery point that was offering “normal” R3 balancing services cannot participate to this new slow start non-CIPU product (where Febeliec still would like to make the comment that for demand side response due to changing economical or technical conditions on sites this is not always true and thus might hamper participation of delivery points), but that Febeliec cannot accept at all that for delivery points participating to this new product it is prohibited to offer “normal” R3 services in the future. Febeliec understands that this new product is chosen to be limited in time (on which more below), but still, Febeliec has seen in the past that temporary solutions tend to have long lifetimes and would thus want to avoid that this leads to the exclusion of delivery points to the balancing market. Febeliec does not at all understand why it would überhaupt be a good idea to block new participants who would get a first experience with the balancing market through this product to upscale their offer to the higher quality/value products of the “normal” balancing market. Febeliec would rather have expected that everything would be done to encourage these participants to see this as a first stepstone into the balancing market, in order to be able to increase liquidity and competition in that market, rather than foreclosing it for certain delivery points.”

Answer Elia:

Elia accepts this comments and will make the following modification to the Balancing Rules.

Delivery points offering the new product can offer ‘normal’ R3 services in the future. However once such delivery points have been used in a prequalification for ‘normal’ R3 services, they cannot be offered anymore in Slow non-CIPU Incremental Bids.

1.5. Technico-economic merit order

18. Questions regarding modifications of the merit order:
- **Question REstore:** “Clarify that non-reserved mFRR bids with activation prices higher than the determined threshold of 1.000 €/MWh are put after R3 Standard but before R3 Flex in the merit order.”
 - **Question FEBELIEC:** “In BR1 in section 8.9 Elia added a point 4 to the merit order approach, where free bids with a bid price above 1000€/MWh would only be started after the use of the contracted balancing reserves. Febeliec understands this approach from the perspective of limiting the imbalance price, but wishes to make following comments: the imbalance price is a clear signal to market parties (BRPs) to do their best to stay in balance within their own perimeter (Elia only handling the residual imbalances of the system); limiting the signal is not the best approach to Febeliec, even though Febeliec understands the reasoning behind this request from BRPs. Second, Febeliec also wonders how Elia will tackle the event where contracted reserves have been used and exhausted (reaching the end of their activation period) and would thus not be available anymore in a subsequent period, while in that subsequent period it might be the case that not sufficient free bids are available. Nevertheless, Febeliec seems to understand that this measure is only for the month of November as of December a full merit order activation of R3 reserves will in any case be

applied, which would make this point irrelevant. In the other case, Febeliec would like to get a clarification from Elia on this point.”

- **Question FEBEG:** “With regard to the technical-economic merit order, for the part under point 2), ‘Start/stop van productie - eenheden...’, FEBEG assumes that also here ‘waarvan de prijs minder bedraagt dan 1000€/MWh’ should be added. In that case under point 4), it should be ‘...bedoeld in punt 1&2 ...’”

Answer Elia:

Elia confirms that, for November, the non-reserved mFRR bids with an activation price higher than 1000€/MWh will be activated after the R3 standard bids and before the R3 flex. This order of activation is consistent with the merit order implementation which shall be implemented in December 2018.

Elia has therefore clarified the order of activation in the adjusted version of balancing rules which shall be proposed to CREG for approval.

The move to a merit order activation for mFRR was already consulted and approved by the CREG in its decision (B)1806 of 20/09/2018. The consequences of changing the activation order for bids larger than 1000 €/MWh are actually similar than the move to a merit order activation. Elia also would like to explain that bids with an activation price higher than 1000 €/MWh will be still activated before R3 flex. This means that a strong price signal will be given to BRPs once R3 standard is fully activated. Considering the product characteristics of R3 standard, we believe that the risk that this product will be exhausted remains limited.

19. **Question REstore:** “Remove the proposed 1.000 €/MWh threshold as soon as the market shows signs of scarcity (economic/technical trigger, structural shortage indicator), to avoid having an artificial low imbalance price not sending ARPs a clear incentive to be balanced.”

Answer Elia:

Elia believes that although the activation of non-contracted bids mFRR with an activation price higher than 1.000 €/MWh will be only requested once all R3 standard reserves with an activation price lower than 1.000 €/MWh are activated, BRPs will still face a significant imbalance price risk. In respect to this, it is important to consider that in November the price cap for energy bids will be increased to 10.500 €/MWh.

Elia therefore will not consider this proposal.

20. **Question REstore:** “Propose a solution to fix this risk for the rest of the winter, which remains once a single merit order will be implemented as of 1 December in the absence of the Strategic Reserve.”

Answer Elia:

Elia agrees that the implementation of a merit order activation in December will affect the imbalance price risks for BRPs in normal conditions. Elia has therefore presented in the Working Group Balancing of October 16th a proposal to modify the components in the imbalance prices in order to give stronger imbalance price incentives when important imbalances occur in the Belgian

Control Area. This modification shall be only implemented after having consulted all relevant stakeholders and approval by CREG.

Elia doesn't agree that BRPs won't face imbalance price risks during the winter in case of adequacy problems. As of December the price cap of energy bids will be increased to 13.500 €/MWh.

1.6. Publication and monitoring

21. Questions on transparency:

- **Question FEBELIEC:** “With respect to the communication and transparency of all activations of offers or even the start of the procedure for slow start (CIPU or non-CIPU) units, Febeliec understands the very short time constraints and can agree with the proposed pragmatic approach, but would indeed like to get full transparency and an analysis of this product and its use during the winter 2018-2019 in order to be able to draw lessons learned from it.”
- **Question FEBEG:** “Transparency will be of utmost importance: Elia should make all necessary efforts to ensure a same level of information for all market parties.”

Answer Elia:

Elia understands the need for full transparency regarding the use product. Elia proposes therefore to explain and discuss the use of this product in a meeting of the Working Group Balancing after March 2019.

Although the very short time constraints Elia believes that it has proposed a solution which ensures the same level of information to all market parties.