PUBLIC CONSULTATION RELATING TO MODIFICATIONS OF THE BALANCING RULES

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REstore comments

Antwerp, 22 October 2018

The following document constitutes the comments of REstore on the public consultation launched by Elia from 15 October to 22 October 2018 regarding proposed modification of the balancing rules applicable as of 5 November 2018.

Summary of REstore comments

Regarding the modification of the merit order, REstore asks Elia to:

- **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.**
- **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.**
- **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.**

Regarding activation of bids from non-CIPU units with an activation lead-time, REstore asks Elia to:

- **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.**
- **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.**
- **allow BSPs to re-nominate freely up to 5h prior to activation.**
- **allow use of High X of Y baseline.**
- **assess possibility for BSPs to provide activation times up to 5h.**

1. Modification of the merit order

Though REstore recognizes the current merit order can lead to opportunistic behaviors and an imbalance price that doesn't reflect scarcity on the market, which is not desired, REstore asks Elia for a key point to be clarified, and alerts on another risk this proposal raises in November:

(i) Elia must clarify that the non-reserved bids beyond the 1.000 €/MWh threshold will remain before R3 Flex in the merit order

It is not clear in the consultation document that non-reserved mFRR bids with an activation price >1000 €/MWh would be put in the merit order after R3 Standard, but before R3 Flex.

We ask Elia to clarify this point.

It would indeed not be acceptable to see R3 Flex bids, which in November do not receive an activation payment and have limited number of activations, being used by Elia while there are some non-reserved mFRR bids available. This would also impact the imbalance price, as more volumes with no activation price would be activated by Elia before activating non-reserved bids, not contributing to increase the incentive for ARPs to remain balanced while the system is facing adequacy issues.

Moreover, we underline that if some non-reserved mFRR bids are pushed after R3 Flex in the merit order, this would constitute a significant change of the market design being implemented after the closure of the R3 Flex auction for November, thereby constituting an unacceptable change of conditions for the participants.

(ii) In the absence of the Strategic Reserve this winter and to maintain the key incentive for ARPs to remain balanced, we ask Elia to remove the proposed 1.000 €/MWh threshold as soon as a structural deficit is detected in the system (i.e. economic/technical trigger, structural shortage indicator).

Based on the updated analysis carried out by Elia for the period 2018-2019, the Minister of Energy decided on 29th August 2018 not to set up a Strategic Reserve for the period between 1st November 2018 and 31st March 2019.

Since this decision, Elia identified potential stress situations to maintain the balance between production and consumption, and communicated the need for an additional capacity of 700-900 MW to maintain security of supply throughout the winter.

The Belgian grid is therefore facing concrete risks of shortages, without robust mechanisms in place to ensure that the imbalance price sends the proper incentives to ARPs.

In case of scarcity, the price on the day-ahead or intraday markets might go as high as 3.000 and 9.999 €/MWh. At the same time, balancing reserves such as R3 Standard will be available and activated to provide additional MWs at a price that is not correlated to this scarcity, and therefore much lower. As clearly detailed in the rules of the strategic reserve, such contracted balancing reserves are not meant to cope with system adequacy issues, but to face forecast errors or unexpected outages on the grid. In case of scarcity, they should therefore not be used to set the imbalance price. Otherwise, the possibility exists that APRs are disincentivized to keep their portfolio balanced in such situations.

In the current merit order (until 1 December), this risk is mitigated since the 450 MW of R3 Standard bids are activated after the non-reserved mFRR bids, which are by design more correlated to the market price.

Elia's proposal to implement a threshold at 1.000 €/MWh to put those bids after R3 Standard in the merit order avoids the risk of artificial high imbalance prices in case the market is not scarce. On the other hand, it creates a risk of sending ARPs lower incentives to be balanced during periods of structural deficit, since it will increase the probability that the imbalance price is set by R3 Standard, therefore much lower than the market price.

The proposed 1.000 €/MWh threshold can therefore be applied only when the market is not facing structural deficit. **We therefore ask Elia to remove the 1.000 €/MWh threshold as soon as an economic (price in DA at 3.000 €/MWh) or a technical trigger, combined with a positive Structural Shortage Indicator occurs**, *i.e* as soon as there is scarcity on the market (cf. §7.7.2 of the functioning rules of the Strategic Reserve). During those situations, it is key to ensure the imbalance price sends the right incentives to the ARPs.

(iii) As of 1 of December and the shift towards a single merit order, we ask Elia to come up with a solution to tackle this risk until the end of the winter

REstore notes that as of 1 December, the shift towards a single merit order will create a similar risk: the system might still face situations of structural deficit, without a Strategic Reserve to ensure the imbalance price is set properly.

We therefore ask Elia to come up by 1st of December with a solution that ensures that in case of scarcity and high market prices, balancing reserves such as R3 Standard are not diverted from their main task to resorb unforeseen and temporary deviations, and in fact used to ensure security of supply while at the same time setting imbalance prices artificially low.

2. **Implementation of non-reserved Incremental Bids from non-CIPU technical units with an activation lead-time greater than 15 minutes**

REstore supports the initiative of Elia to open the possibility for slow starting non-CIPU Units to participate to the balancing mechanism as of 5 November. However, in order to enhance the possibility for such Units to effectively provide their flexible MWs through these rules, REstore believes that some modifications should still be implemented by Elia:

- It should be clear that no unpaid simulation tests (and moreover with Transfer of Energy applied) will be implemented for the participation of such Units. As discussed during the working groups organized by Elia, this is a product with very uncertain revenues (no availability revenues + activation at the very end of the merit order) for the participants. Therefore, adding to this uncertain revenues costs that are certain would constitute a *nogo* for the Units able to participate, and would not allow BSPs to offer additional flexibility to the market in scarce situations. In particular, REstore underlines that the position of Elia on the topic of tests remuneration for reserved bids (in aFRR or mFRR) cannot stand here, since BSPs have no possibility to internalize the costs of such unpaid test in their bid (no availability price and uncertainty on volume of activations).
- We support the additional flexibility in the re-nomination process introduced by Elia, allowing to re-nominate up to +/-20% of the proposed MWs up to 1h30 before activation. However, as there is still a risk of a baseline uncertainty that could lead to go beyond this threshold, we ask Elia to remove the limitation of +/-20%. If not feasible, we ask Elia to remove the penalty on the volume supplied so that the uncertainty on the baseline (and therefore on the volume supplied) remains symmetric and can be acceptable for the BSPs. As such, every time the uncertainty leads to a higher volume realized Elia will not pay it, and every time it leads to a lower volume realized the BSPs will face a risk of imbalance.
- In line with the latter remark, we also ask Elia that up to 5h before activation, BSPs can re-nominate their bid without limitations, instead of only having the possibility to withdraw their bids. Especially if Elia maintains +/-20% limitation for re-nomination up to 1h30 before activation, then it is absolutely needed to allow BSPs to adjust their bids up to 5h before.
- We ask Elia to allow the use of the High X of Y baseline methodology, in addition to the 15min prior to activation average, to effectively allow the participation of site with baseline that are not flat. We have identified some concrete cases for which this feature is needed to ensure an effective participation to this product.

- Finally, we ask Elia to allow BSPs to offer bids with an activation time as long as 5 hours, in order to be able to mobilize some additional flexible MWs that we have identified in the last days and that for now have not route to the market for this winter.