

Consultation

aFRR Implementation Plan

Brussels, 5/12/2018

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2. Generic aFRR design

2.1 Bidding Blocks and Bidding Obligations

- **Next Kraftwerke rejects the proposed bidding rules. Next Kraftwerke considers 24h blocks and symmetric bids major design errors that consolidate the existing aFRR market design and hamper a competitive market. The acclaimed short-term increase in procurement costs with 4h-asymmetrical-bids from CCGTs are not weighted against the negative impact of design decisions tailored to CCGTs on the long-term. We emphasize that a cost increase is (i) possible yet not-proven and (ii) temporary in nature. Next Kraftwerke proposes that Elia organises an open round-table discussion on the cost arguments made by all (potential) aFRR providers.**
- **Target model is the final most efficient solution:** Elia clarified in several meetings that the mid-term and final design for the bids for aFRR would foresee 4h blocks and asymmetric bids that are placed independently and cannot be combined among each other. Elia further states that this Target Model is the most efficient solution and should therefore be the ultimate product design.
- **Next Kraftwerke agrees with this view.** This model is not only the to-be-expected European generic model that will allow cross-border sourcing; it also has already proven to stimulate competition and drastically reduce prices in neighbouring domestic markets. For instance, in Germany aFRR capacity prices are close to zero.

- Therefore, Next Kraftwerke is very surprised that it still proposes a two-stop solution, which would allow 24h and symmetrical blocks in a transition model. In general, a two-stop solution is opposed by almost all market parties, because:
 - Such transition models put the market incumbents in charge of the speed at which the target model is reached.
 - Transition models require additional and unnecessary implementation costs both for the market parties and Elia. Given the large number of operational changes ahead, Next Kraftwerke pleads for a direct switch to the Target Model.
 Next Kraftwerke does not find back a single technical argument in Elia's design note to delay the Target Model.
- The only reason given is the threat of increasing aFRR procurement costs. Next Kraftwerke would like to highlight several considerations about this claim:
 - We would like to point out that this argument is only brought forward by those parties who currently operate on the aFRR market as a protected oligopoly.
 - The current aFRR market is known to be an oligopoly with limited competition. The suggestion of some stakeholders that prices on this market are built in competition and are therefore close to marginal costs are far-fetched and not credible. Based on a comparison with other European countries, Next Kraftwerke finds it reasonable to assume that prices on the aFRR market are far above the prices in a more competitive market. This likely long-term reduction in procurement costs has not gotten the attention it deserves.
 - A short-term cost increase is possible but not proven. It is even possible that the increased but limited competition from new market participants in the period after the opening of the market might already be enough to mitigate or even overcompensate the claimed cost increase. Indeed, on a free market the incumbents will have to react to the market pressure immediately.
 - But even if 4h blocks and asymmetric sourcing would result in a temporary cost increase, this is not at all bad. On the contrary, it is a herald of increased future market competition. Why? Almost any market design change will result in a temporary cost increases but eventually, they will be the main driver for new providers to join the market and more asset owners to offer their flexibility – the same way as the supply curve shifts after cost increases on almost any market nicely shown in the picture of one pork cycle swing (Ezekiel).
 - Most importantly, Next Kraftwerke fears that the debate on costs is fed with ungrounded arguments. To give an example: In one answer to the last consultation we read the claim that the start-up costs would have to be priced in each 4h block. This argument is – certainly also to Elia's knowledge – far from what one would expect:
 - a) The argument is first only valid when the plants are severely out of the money. When they are in the money it is obsolete and when they are slightly out of the money they can ride through between blocks (at Pmin) at reasonable costs. If a 140 MW Pmin asset is out of the money with 10 EUR/MWh it can still ride through a full day at Pmin before it even reaches the start-up cost level. Note that we verified these cost figures with a colleague at Next Kraftwerke who was responsible for the dispatch of CCGTs at a large European utility for several years.
 - b) No market party designs its bids on the worst-case scenario, which is the basis for this claim. The worst-case scenario for a market participant with an asset with high start-up costs would be that he is either only selected for one 4h block or for several 4h blocks that are so far from each other that a ride-through at minimum power (with low market prices) is more expensive than a start- and stop.
 - c) All market parties learn! In the small market of aFRR it is highly unlikely that the market would be in permanent reshuffle mode. Market parties will be able to add probabilities to different possible outcomes following their bidding strategy. They would therefore learn when the risk of start and stops is high, when they can ride-through etc.

We conclude that the mere adding of start-up costs to each 4h block would be an unwise strategy. Next Kraftwerke does not find it credible that an experienced and competent flexibility provider would bid in that way and maintain it under growing competition.

- Next Kraftwerke would like to warn Elia for the threat of market power exertion:
 - When 4h blocks can be offered together with 24h blocks: The current market participants can just offer the 24h block at their normal price and offer the 4h blocks at very high prices. This will lead to the situation that in the beginning the 4h blocks can never be combined to a competitive 24h block unless the aggregators can right from the beginning offer significant volumes and combinations.
 - symmetric and asymmetric bids: The same holds for the symmetric and asymmetric bids. The asymmetric bids can be overpriced which will make the combination with asymmetric bids from aggregators unlikely if not impossible.

- **To conclude:**
 - Next Kraftwerke asks Elia to reconsider its implementation plan. To avoid market power exertion the new aFRR design should only allow 4 h blocks and only asymmetric bids that cannot be combined among each other and bids that are fully divisible down to 1 to 5 MW.
 - As long as CCGTs are in the money on average or close-to in the money (e.g. max 15 EUR/MWh below) there is no reason to allow 24h bids and symmetrical bids. This should be considered, and Elia should only switch (e.g. on monthly basis) to the proposed transitional solution when CCGTs are out of the money.
 - If Elia does allow 24h blocks and symmetric bids and puts a bidding obligation to bid 4h and asymmetric bids, then it is indispensable that the overall costs of the 6 x 4h blocks (pendant to the 24h block) and the asymmetric bids (pendant to the symmetric bid) can in overall costs not exceed (or only to a limited extent) the overall costs of the 24h and symmetric bids. We however think that this solution would be far from optimal and as aforementioned only postpones the target model that also Elia foresees.
 - Regarding the argument of a cost increase: Next Kraftwerke regrets that there was at no point an open discussion about the arguments for cost drivers. Next Kraftwerke was always open for a grounded and honest discussion and is willing to learn and accept all arguments that are solid. We fear Elia is confronted with arguments from all sides without an open debate in which naturally all parties tend to strengthen arguments by exaggeration. Next Kraftwerke would still welcome such discussion.

2.2 Daily procurement

- Next Kraftwerke welcomes the proposal for a daily procurement as proposed by Elia.

3. Real-time communication platform for aFRR settlement

- Next Kraftwerke appreciated the open discussion with Elia on the need for real time data per delivery point (e.g. during the pilot but also thereafter). We understand the reasoning and agree that real time data can be an additional barrier to data manipulation. Therefore, we support Elia in the approach to collect real-time data per delivery point and accept possible extra investment that might be needed to do so.
- Next Kraftwerke also sees that the exchange of this real time data via Elia's real-time communication platform can be a possible solution. We agree that it would be impossible to communicate the real time data per delivery point via the scada-to-scada connection. The proposed alternative solution is relieving stress from Elia's but also from the aggregator's scada systems.
- BUT Next Kraftwerke has to decisively reject the idea that the gateway to the real time communication platform has to be locally placed and has to be close to the participating delivery point. This requirement results in large additional costs while so far Elia could not explain to us the benefits that are derived from a local gateway compared to a design in which the gateway(s) is(are) placed centrally at the control system of the aggregator. In case Elia insists on this solution Next Kraftwerke can unfortunately not ensure further engagement in aFRR in Belgium.
- Equal treatment of CIPU units and non-CIPU units: Mid-term the different treatment between CIPU and non-CIPU units shall be abandoned. Therefore, Next Kraftwerke insists that the new rules for communication shall also apply for all CIPU units and that these shall with go-live comply with any rules that are imposed for non-CIPU units. The related costs for large units are perfectly acceptable and there is no reason why Elia should keep the data load from CIPU units on the scada system if an alternative is offered.

- **Some more details on why Next Kraftwerke to reject a local gateway:**
 - **No gain in data-authenticity:** All local gateway does not guarantee and not even increase data authenticity. The real value lies in the real-time communication not in the local gateway. The real time communication of DP data is supported by Next Kraftwerke.
In this regard please note that only the metered data is locally generated while the three other real-time data points are generated by the central control system. These three data points would therefore be sent to the delivery point to be sent locally via a gateway while they could be directly sent from the central system to Elia. (If a local gateway would guarantee data authenticity, would this not mean that the three other values that are generated centrally and sent via a local gateway would not be authentic?)
 - **Checking authenticity:** We think that there are at least two ways to check the data authenticity.
 - The data that was sent in real-time can ex-post be compared with the head meter data. In cases when the metered asset represents the full generation/demand behind the meter this would allow absolute data validation. In case there is for instance still demand on site that does not participate in the service, this methodology would allow an excellent plausibility check!
 - Real-time measurements on site can be compared with the real time data sent to Elia/DSO. This would be absolute validation of the data. Whether the data is sent from a local or a central gateway does not make any difference.
 - **Next Kraftwerke welcomes regular check on service provision and immediate exclusion in case of fraud:**
 - Next Kraftwerke would welcome a regular check on-site or ex-post via head meter data both by Elia and the DSO if these are considered necessary.
 - In case such check should indeed show that data is manipulated the market participant that is found guilty should be excluded from service provision with immediate effect.

4. Timing

- Next Kraftwerke is sincerely disappointed about the new timing. The opening of the aFRR market is again postponed.
- The argument that first the daily procurement of mFRR need to start is not explained. Elia can equally first start with the daily procurement of aFRR,
 - the same way as Elia could have started to first open the aFRR market before opening the mFRR market, or;
 - to open the aFRR market before developing the bid ladder, or;
 - to open the aFRR market before developing the Transfer of Energy framework for aFRR.
- **Next Kraftwerk strongly disagrees with the approach that again priority is given to further fine-tuning of the mFRR market.**
- **We would like to ask Elia and the CREG:**
 - **To reevaluate to prioritize aFRR over other products**
 - **to review the foreseen timing and to see whether some steps can be shortened (e.g. review period of the CREG).**
 - **To clarify that a go-live by July 2020 is the final deadline and that an earlier go-live is possible and intended if possible.**

5. ToE and Pass-through Contract Solution

- **Next Kraftwerke welcomes the solution proposed by Elia to allow the participation in aFRR. The solution proposed is clear, efficient and straight-forward.**

Flexible assets with pass-through contracts typically are already flexibly operated on the market and represent one of the most significant potentials for aFRR – both from consuming and generating assets.

From Elia's explanation we even understand that it can be implemented at comparably low costs.

Finally, we think that this approach creates a level-playing field between demand/offtake and generation/injection. An implementation of the ToE would have discriminated net-injection points.

5.1.1 Transfer of Energy

The implementation of ToE for aFRR would currently lead to a discrimination against net injection points as the energy in law in Belgium unfortunately does not respect that both generation and consumption should be treated equally. Therefore, a ToE for aFRR does in our opinion only make sense when the law is changed allowing the implementation of ToE for both net injection and net offtake points.

As soon as this legal shortcoming is removed, the implementation of the ToE should be considered.