# Implementation plan on the evolution towards a daily procurement of mFRR

## Consultation report

**Market Development**

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# 1 Introduction

On May 22th 2018, ELIA published a study on the evolution towards a daily procurement of mFRR. It described – among other things – ELIA's vision on the mFRR product mix, along with an analysis of the advantages and disadvantages to evolve to a daily procurement of the mFRR reserve.

From the answers gathered during the public consultation of this document, ELIA drew 2 main conclusions:

- A transition period with an adapted mFRR product mix – in which the mFRR flex is maintained with new product characteristics – is needed and;
- The implementation of daily procurement cycle is confirmed.

Consecutive to this study, ELIA published on November 9th 2018 its implementation plan in which the following elements were presented:

- The adapted 2020 mFRR product mix and;
- An implementation plan summarizing the needed changes to make the evolution towards a daily procurement cycle possible (operational impacts).

From this second public consultation, ELIA received feedback from four market parties: FEBEG, FEBELIEC, Restore and Next Kraftwerke. This consultation report consolidates the received consultation feedback and presents ELIA's responses.

As all respondents declared that their responses are not confidential, they are now available on ELIA's website.

# 2 Topics

## 2.1 mFRR 2020 product mix

### 2.1.1 Stakeholder's feedback

**FEBEG**

FEBEG strongly favors the implementation of one standardized European balancing product in order to foster market functioning and market integration. FEBEG believes that keeping mFRR flex goes against the spirit of this standardized product and complexifies further European integration such as MARI project.

Furthermore, FEBEG believes it is up to market parties to organize themselves to comply with the requirements and constraints of these standard products.

**FEBELIEC**

FEBELIEC strongly and explicitly re-iterates its position against ELIA's proposal to abolish R3 flex product. FEBELIEC can understand an evolution in ELIA's need for balancing mFRR and accepts – provided that ELIA can deliver sufficient analysis and proof of such modified needs – the proposed 2020 mFRR product mix.

However, before the end of mFRR flex product, FEBELIEC wants a CBA showing that with a combination of mFRR standard and mFRR flex ELIA would not be able to cover its needs, as it is clear that mFRR standard is a more expansive product.

FEBELIEC therefore urges ELIA and CREG to maintain this transition period until conclusive results are provided from the aforementioned CBA.

**RESTORE**

Restore believes that moving to a unique mFRR standard product in 2020 would lead to a significant loss of flexibility that is currently useful to the grid. Going as a first step with an updated mFRR product mix seems a more efficient approach.

Restore underlines that beyond 2020 ELIA should still be able to procure specific mFRR product since European legislation is less advanced and prescriptive regarding standardization of capacity products than for energy products.

Unless it is demonstrated that an mFRR flex product does not bring benefit to the grid, Restore believes ELIA should continue to procure mFRR flex in addition to the mFRR standard product.

**Next KraftWerke**

Next Kraftwerke does not support ELIA's proposal to work with a transition product 'mFRR flex 2020'. Indeed, reasons for such proposal are not clear:

- From ELIA's side, either ELIA believes that the required security for system operations is reached with the characteristics of mFRR flex; or ELIA does not.
- From market parties' side, it is up to them to reflect the costs and/or specific technical constraints in their energy bid price (or capacity bids), as it can be updated up to 45 minutes in advance.

Postponing the implementation of a single product mFRR standard delays a competitive and effective mFRR market in Belgium.

### 2.1.2 ELIA's feedback

ELIA observes clear different and opposite visions between stakeholders on the mFRR 2020 product mix proposal. ELIA's approach seems therefore to be a good compromise solution. In this way, **ELIA confirms the organization of a transition period in 2020 with an updated mFRR product mix**.

Furthermore, ELIA wants to remind the following elements:

- The reasons according to which ELIA proposes to evolve towards one standard product **have already been presented and consulted in the study** on the evolution towards a daily procurement of mFRR published in May 2018 and will therefore not be reminded here;
- The Electricity Balancing guideline foresees **one standard product** with **one standard procurement time (**closest possible to real time). A TSO may develop a proposal for using specific products for balancing energy and balancing capacity if a "*demonstration that standard products are not sufficient to ensure operational security and to maintain the system balance efficiently or a demonstration that some balancing resources cannot participate in the balancing market through standard product"* is provided (art. 26(b)).

  ➔ ELIA must not perform a CBA – as suggested by RESTORE and FEBELIEC – if ELIA wants to remove the R3 flex product. On the contrary, in the future Elia will need demonstrate why a mFRR flex product is still needed.

### 2.1.3 Conclusions

No changes to the initial proposal. ELIA confirms the organization of a transition period for mFRR flex in 2020 with updated product characteristics. Reasons motivating the evolution towards a daily procurement cycle are detailed in the study available on ELIA's website[1]

[1] www.elia.be/en/users-group/Working-Group_Balancing/Projects-and-Publications/R3-mFRR#3

## 2.2 Organization of mFRR capacity tender

### 2.2.1 Stakeholder's feedback

**FEBEG**

FEBEG believes that ELIA's proposal to have **divisible bids** disregards the physical reality of thermal power plants. It would indeed lead to infeasibilities with regard to the Pmin of the power plants.

FEBEG therefore asks ELIA to integrate the technical constraints of the assets into the market design to avoid exclusion of certain assets. Even for some non-CIPU units, full divisibility of capacity bids implies that associated costs with the curtailment of industrial processes will apply onto one MW bid. This approach significantly increase the reservation / activation price of that asset.

FEBEG suggests that bid divisibility should be applied by process and per EAN.

FEBEG believes the two steps approach proposed by ELIA does not provide a **level playing field** between mFRR standard and mFRR flex products, as mFRR standard is put into full competition with mFRR flex without consideration of the higher quality of mFRR standard.

FEBEG also wonders how ELIA will provide an incentive for market parties to offer mFRR standard.

**RESTORE**

Restore understands that ELIA has the intention to progressively increase the minimal volume of mFRR standard to be procured in order to ensure an efficient transition toward a single product. Restore asks that this progressive decrease is undertaken with sufficient visibility, in concertation with market parties and if supported by a quantitative analysis.

### 2.2.2 ELIA's feedback

**On the capacity tender**

ELIA does not agree with FEBEG's remark on the need to consider characteristics of specific units in the bidding rules of the capacity tender. Indeed:

- The capacity tender is **portfolio based**. It makes little sense to consider characteristics of specific units in the tender as the supplier has **the freedom to re-optimize its portfolio after the auction's results**. Therefore, the assets offered at the capacity tender will not be the same than those nominated for the balancing energy in intraday.
- Current set of bidding instructions generates operational complexity while it is not sufficient to perfectly reflect individual technical constraints as suggested by FEBEG (per EAN);
- ELIA needs to simplify its bidding instructions to have an **efficient and transparent daily procurement process**;
- Capacity bids are combinable. This signifies each bid submitted by the BSP can be selected (not an incremental bid logic as applied today). The BSP has therefore the possibility to create "subportfolios" to price its flexibility per technology if needed;
- Constraints "asset specific" such as "Pmin" must be **considered by the BSP in the energy bid submission process**. In this way, to facilitate and improve the current energy bid submission process; ELIA proposes to introduce the notion of "**indivisibility**" on energy bids.

  Exact modalities around the notion of indivisibility will be determined in consultation with market parties and regulator in additional design discussions in Q1 2019.

**On the level playing field between mFRR std and mFRR flex**

ELIA reminds that the discussion on the volume split (minimal volume of mFRR standard and maximal volume of mFRR flex) will be organized in the context of discussions on 2020 dimensioning methodology (Q1-Q2 2019) for which market parties are invited to give their feedback in dedicated consultations (a.o: LFC Bloc Operational Agreement).

ELIA already announced in the implementation plan its intentions to increase the minimal volume of mFRR standard to start with in 2020. Combined with the proposed two-step merit order approach, ELIA believes it will increase the value of the mFRR standard product for market parties.

### 2.2.3 Conclusions

ELIA maintains the capacity reservation rules presented in the implementation plan and introduces – to facilitate and improve the current energy bid submission process – the notion of indivisibility on energy bids. This will allow market parties to consider asset specific constraints if any. Exact modalities around the notion of indivisibility will be determined with market parties and regulator during additional design discussions foreseen in Q1 2019.

## 2.3 mFRR flex product characteristics

### 2.3.1 Stakeholder's feedback

**FEBEG**

FEBEG is of the opinion that it is up to the market parties to organize themselves to comply with the requirements and constraints of the standard products. mFRR flex constraints (e.g: **neutralization time**) are being integrated by ELIA in the market design while it perfectly allows market parties to manage these constraints by themselves (e.g: by not offering all 4 hour blocks within one day).

Furthermore, FEBEG asks ELIA to confirm – as it is not clear from the information presented in the implementation plan – that mFRR flex is no longer kept artificially at the **end of the merit order activation**. FEBEG reminds its conviction that a fully integrated merit order will improve the efficiency of the balancing as well as the quality of the imbalance price signal while avoiding gaming opportunities.

**RESTORE**

Restore asks ELIA to apply the 8 hours neutralization delay from the end of the activation instead of the beginning.

Restore agrees that the solution proposed by ELIA to associate several activation prices to a bid will ease the possibility (that already exists today) for a BSP to increase the price after a given number of activations in order to limit number of activations to provide.

**NEXT KRAFTWERKE**

If market parties needs a neutralization time for technical reasons, they can consider this constraint when bidding their volume in the capacity reservation tender (by not offering on each 4 hours block).

Next Kraftwerke also wonders – given the many other changes considered by ELIA in 2019 – if extra implementation work caused by the implementation of transition period for mFRR flex product makes sense and is the right priority for ELIA.

A compromise – under the condition it allows ELIA to safely operate the system – would be a generic mFRR product with short neutralization time of maximum 30 minutes.

### 2.3.2 ELIA's feedback

ELIA observes a need to clarify what will be the operational impacts of the updated mFRR product characteristics in the operational processes. In this way, ELIA confirms the following aspects:

- **The neutralization time will be considered by ELIA as in today's design.** Indeed, since 1st December 2018, the duration has been reviewed from 12 hours to 8 hours, starting from the first quarter hour of the activation;
- Even though ELIA agrees with FEBEG on its analysis of the benefits of one single merit order, ELIA reminds that this principle is only applicable from the moment there is only one standard mFRR product and in line with its mFRR roadmap previously presented to market parties in WG Balancing.

  As long as the mFRR product mix consists in mFRR standard and mFRR flex product, t**he mFRR energy bids will still be placed at the end of the merit order;**
- With the current mFRR product mix, ELIA sees no reason to complexifies the mechanism with the introduction of a neutralization time (30 min) applicable to a mFRR generic product;
- **ELIA abandons its initial proposal to nominate several activation prices**. Indeed:
  - ELIA agrees with FEBEG and Next Kraftwerke observations that it makes little sense to generate additional implementation work because of design adaptations related to a product that will exist for a limited period;
  - The implementation impact of such proposal is – after analysis and when taking into consideration other design adaptations discussed in this document such as the possibility to consider indivisibility in energy activation bids (see section 2.2.2) – significant for ELIA;
  - Even though this functionality was – as recognized by some market parties – facilitating the introduction of an activation price, market parties are still able to introduce an updated activation price in intraday, until 45 minutes before real time via the application of existing procedures;
  - Finally, when looking at the historical activations of mFRR flex over the last 3 years, it appears that mFRR flex reserve was never activated twice within a 24 hours period (as it is in the end of the merit order). Therefore, such functionality would barely be used by BSP.

All these elements led ELIA to the conclusion to abandon such proposal in order to dedicate its resources to the implementation of other identified priorities.

### 2.3.3 Conclusions

Compared to its proposal made in the implementation plan, ELIA abandons its suggestion to nominate several activation prices on mFRR energy bids. No other changes are brought to the proposal presented in ELIA's implementation plan.

## 2.4 Tender timeframe

### 2.4.1 Stakeholder's feedback

**FEBEG**

FEBEG reminds its feedback already given to ELIA on several occasions in the past about the organization of mFRR tendering cycle. Indeed, FEBEG suggested to contract one single mFRR product in different timeframes (e.g: monthly / weekly / daily).

On top of this, FEBEG prefers to implement ELIA's long-term vision on the organization of daily procurement in day-ahead instead of starting with ELIA's intermediate proposal (procurement of aFRR in D-2). This would reduce implementation costs.

**RESTORE**

Restore supports the idea to move directly to the long-term vision for the organization of daily procurement of FCR, aFRR and mFRR as an intermediate solution will generate additional implementation costs for all involved parties.

### 2.4.2 ELIA's feedback

ELIA understands the operational impact related to its proposal to start with an intermediate solution and therefore **confirms its intentions to directly implement the long-term solution** presented in the implementation plan, with the procurement of aFRR in D-1.

Related to FEBEG's proposal to have several timeframe for the procurement of mFRR reserve, ELIA reminds that the advantages and disadvantages of an evolution towards a daily procurement cycle have already been presented and discussed with market parties on several occasions (a.o: in the study published in May 2018).

Furthermore, the Electricity Balancing Guidelines explicitly requires organizing the procurement on "*a short-term basis to the extent possible*" (art. 32(b)).

### 2.4.3 Conclusions

ELIA will implement the long-term solution (organization of daily procurement) presented in the implementation plan. In this way, aFRR reserve will be procured at 9h in day-ahead while the results will be communicated by ELIA at 9:30.

## 2.5 Implementation plan proposal – timing

### 2.5.1 Stakeholder's feedback

**FEBEG**

Concerning the mFRR flex transition period, FEBEG regrets the absence of clear phase-out date. FEBEG asks ELIA to communicate as early as possible on this as it does significantly impacts contract renewal and/or contracting new volumes for this product

FEBEG notices that ELIA plans operational implementation – including IT implementation – in parallel with the market design being finalized. FEBEG therefore urges ELIA to foresee sufficient time:

- For CREG to be able to consult and make amendments to the proposed design and;
- For market participants to assess necessary investments to be able to continue to participate and to prepare the full implementation. 6 months implementation time at stakeholder's side is considered as a minimum.

FEBEG also suggests starting with the go live of daily procurement outside winter months.

**FEBELIEC**

FEBELIEC takes note that 6 months have been taken into account for regulatory approval. FEBELIEC can understand that the decisions to be taken cover a wide range of elements and should be thoroughly analyzed technically and legally. Futhermore, FEBELIEC understands that there is still uncertainty (e.g : on the potential interaction with a member state as described in the EB GL). However, FEBELIEC strongly urge relevant parties to be as swift as possible to take the necessary steps to adapt the balancing products and framework and **reduce the total decision time to the minimum possible**.

**NEXT KRAFTWERKE**

Next Kraftwerke observes that the timeline for moving to the long-term solution (one single mFRR product) is not clarified yet. Furthermore, Next Kraftwerke does not see a reason why the implementation of mFRR product design (2020) must be synchronized with implementation of dynamic dimensioning methodology. It could indeed be implemented earlier.

### 2.5.2 ELIA's feedback

**Concerning the end of the transition period for mFRR flex product**

As explained in the workshop on 19.11.2018 and in its implementation plan, ELIA will determine the rules around the volume split (minimal volume of mFRR standard to be procured and maximal volume of mFRR flex) in the context of discussions on dimensioning methodology (Q1 – Q2 2019). Market parties will be involved in those discussions and will receive the opportunity to react via the public consultation of dimensioning related documents (such as LFC Bloc Operational Agreement).

➔ ELIA cannot – before these discussions – determine when the transition period will end but agrees that clear and transparent rules should be determined at that time.

**Concerning the implementation plan**

The proposed go live for both mFRR 2020 product design and dynamic dimensioning (1st February 2020) is the earliest go live possible as ELIA must consider in its implementation plan the following elements:

- **3 months** (January – March 2019) to finalize design discussions with market parties and regulator;
- **2 months** for the redaction of the terms and conditions BSP mFRR (April – May 2019);
- **2 months** for the public consultation of the terms and conditions BSP mFRR and the redaction of the consultation report (June – July);
- **5 months** for the approval process (consultation report + regulatory approval) (August – December 2019);
- **1 month** for the organization of the prequalification (January 2020);

In parallel, ELIA will prepare the IT specifications before summer 2019 to leave 6 months to market parties to implement the needed adaptations in the operational processes.

This implementation plan differs from ELIA's initial proposal to consider market parties feedback (FEBEG and FEBELIEC). In this way, the following changes are included:

- **2 additional months** to finalize design discussions with market parties and regulator;
- **1 additional month** given to market parties to answer to the public consultation on T&C BSP mFRR and;
- **An optimization of the approval process** (consultation report + regulatory approval in 5 months) to also consider ELIA's workplan on other topics in 2019;

Finally, ELIA confirms its ambition to implement both the new mFRR product mix and the daily procurement cycle as of 1st February 2020 (not after winter time as suggested by FEBEG) so the updated mFRR flex product characteristics and the dynamic dimensioning methodology are operational from the moment the offshore installed capacity reaches 2.3 GW.

### 2.5.3 Conclusions

- The end of the transition period will be determined in Q1 2019 following discussions on 2020 dimensioning methodology;
- IT specifications will be ready before summer 2019 to leave at least 6 months to market parties to implement the needed changes;
- The initial timing proposed in the implementation plan is adapted to include market partie's feedback. In this way, the following milestones are now fixed by ELIA:
  - Design freeze: 31 mars 2019;
  - Public consultation of T&C BSP R3 : June – July 2019;
  - Approval process: August – December 2019;
- The go live of both mFRR new product mix and daily procurement cycle is confirmed to 1st February 2020.

## 2.6 Dynamic dimensioning methodology

### 2.6.1 Stakeholder's feedback

**RESTORE**

Restore asks ELIA to explicitly add as a pre-requisite for a move to dynamic dimensioning a cost benefit analysis to assess the best methodology to implement.

Furthermore, Restore would like to have an extended period (more than one month as presented by ELIA in its implementation plan) during which results of dynamic dimensioning methodology are published so market parties can assess how it will impact their flexibility potential.

### 2.6.2 ELIA's feedback

**On added value of dynamic dimensioning methodology**

ELIA reminds that a specific study has been presented and published in 2017 to explain the benefits of dynamic dimensioning methodology compared to the static methodology. This study includes a specific CBA. No additional analysis on the added value of dynamic dimensioning methodology is therefore foreseen by ELIA prior to its entry into force in 2020.

**On the one month publication period**

As presented in its implementation plan, the dimensioning methodology will be described in the LFC Bloc Operational agreement. This document will follow the usual approval trajectory (public consultation, approbation by the regulator,…) and should be approved (according to ELIA's estimations) by end 2019. This leaves a one month period to publish the results of the validated dimensioning methodology before its go live (1st February 2020).

### 2.6.3 Conclusions

No changes are included in ELIA's implementation plan as the dimensioning methodology is not part of the consultation's scope. For additional information on this topic, a specific study is available on ELIA's website[2].

## 2.7 Availability tests

### 2.7.1 Stakeholder's feedback

**NEXT KRAFTWERKE**

Next Kraftwerke supports ELIA's idea to implement availability tests in the new mFRR design, provided that the "smart logic" principles are applied. Indeed, it seems logic to consider results of previous availability tests to determine the frequency of future tests and by doing so; minimize the number of tests for market parties respecting their contractual reserve obligation.

### 2.7.2 ELIA's feedback

ELIA already confirmed in the R3 down design note its intention to implement availability tests principles for the upward tertiary reserve. This includes the application of a "smart testing" logic, in which the historical tests results are one of the input used to take the decision to trigger an availability test.

[2] www.elia.be/en/users-group/Working-Group_Balancing/Projects-and-Publications/Dynamic-dimensioning-of-FRR-needs

### 2.7.3 Conclusions

No changes are included in ELIA's implementation plan as this topic is not part of the scope of the consultation. If needed, it can be further discussed during additional mFRR design discussions foreseen with market parties and regulator in Q1 2019.

## 2.8 Transparency

### 2.8.1 Stakeholder's feedback

**NEXT KRAFTWERKE**

During the transition period, a two steps merit order is applied. From reported volumes of mFRR standard and mFRR flex, it will not be clear which part of mFRR standard product is retained in the first step and which in the second. As today, this limits market transparency.

**RESTORE**

Restore agrees that the two steps procurement cycle proposed by ELIA will increase the overall transparency of the mFRR auctions.

### 2.8.2 ELIA's feedback

Transparency is a broader topic than just related to the publication of capacity tender results and was not in the scope of the implementation plan. In this way, this topic will be considered as one of the additional design discussions foreseen with regulator and market parties in Q1 2019 on R3 2020 product design.

### 2.8.3 Conclusions

Transparency was not part of the initial scope of the implementation plan. As this is considered by ELIA as a broader topic than just related to the capacity tender process, it will be further discussed during additional mFRR design discussions foreseen with market parties and regulator in Q1 2019.