



# **PROCEDURE FOR CONSTITUTION OF STRATEGIC RESERVE FOR WINTER 2019-20 – CONSULTATION REPORT**

**Public Consultation held between 17 December 2018 and 25  
January 2019**

15/02/2019

## INTRODUCTION

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In accordance with article *7quinquies* §1 of the Law of 29 April 1999 concerning the organization of the electricity market (hereinafter 'Electricity Law'), Elia determines and publishes the modalities on the Procedure for Constitution of a Strategic Reserve after consulting grid users, distribution system operators, the regulator and the Federal Public Service for Energy.

On December 17<sup>th</sup> 2018, in anticipation of an instruction by the Minister to constitute a volume of Strategic Reserve conform article *7quater* of the Electricity Law, Elia launched a public consultation on the Procedure for Constitution for Strategic Reserve, which will enter into force as from February 15<sup>th</sup>, 2019. All market parties were invited to submit their views on the Procedure for Constitution until January 25<sup>th</sup>, 2019.

On January 15<sup>th</sup>, 2019 the Minister instructed Elia to constitute a Strategic Reserve of 0 MW for the winter period 2019-2020. Following this Ministerial decree, Elia will not start the tender procedure as described in the Electricity Law, article *7quinquies* §6.

In the present document, Elia publishes a summary of the received reactions to the consultation in order to inform market parties and give its replies.

Elia stresses that it can only respond to issues for which Elia is competent and concerning the Procedure for Constitution. In the present document, Elia does not reply to questions or remarks concerning legal aspects, or questions which are out of scope of the present consultation.

Elia received remarks from three parties to the public consultation; all contributions were submitted as non-confidential:

- Febeliec
- FEBEG
- Restore

#	Author	Subject	Chapter or Section	Remark	Answers Elia
1	Febeliec	General	0	Febeliec remains concerned for those delivery points that do not have a net offtake on annual basis (eligible for SDR) or do not have a CIPU contract (eligible for SGR) and hopes that everything is done to allow the last few potentially remaining cases to offer also into the tender for the strategic reserve. Febeliec nevertheless wants to highlight and appreciate the efforts that have been done by all involved actors in the last few years to remove as many barriers as possible for participation of as many as possible candidates. A clear example are emergency generators, which now have been allowed to participate insofar they fall under the requirements for SDR.	This issue is not part of Procedure for Constitution, and therefore considered out of scope of this consultation.
2	REstore	Context	3	Finally, on page 15 REstore points to a material mistake, as the text should state that “Elia will make a technico-economical selection of the REASONABLE (instead of Unreasonable) offers by the CREG...”.	Elia takes note of the remark and will adapt the adapt the text accordingly
3	Febeliec	Tender	4	Febeliec notices that Elia will contact the selected SDR and SGR suppliers to inform them of their selection. For Febeliec it is important to maintain as much transparency as possible and it would thus be advisable to inform all grid users of the outcome of the selection process, even including a price indication.	Elia will also inform the non-selected suppliers of the fact that an award decision has been taken. Elia will publish the average price for the total volume contracted, as done every year, to the extent possible, without making public commercially sensitive information
4	Febeliec	Ordering Submeters SDR	5	Febeliec wants to re-iterate its comment regarding the fact that the Minister can revise the volumes of the Strategic Reserve till the first of September, while for any candidate wishing to offer SDR to the Strategic Reserve, this entails a risk as submeters for SDR already have to be ordered before the end of August, which could lead to useless and non-remunerated investments by these candidates. Febeliec has already made this comment for this winter 2018-2019 and continues to hope that Elia, CREG and the Minister will find a solution to avoid this problem, as this uncertainty can result in potential candidates not offering their capacity into the strategic reserve, which leads to a sub-optimal outcome for society as this would (unnecessarily) push up the cost of the strategic reserve.	The possibility of a volume revision is defined in the Electricity Law and is as such out of scope of this consultation. Elia wishes to integrate this modality as pragmatically as possible and recognizes the concerns of market actors on the implied uncertainty.

5	FEBEG	Ordering Submeters SDR	5	FEBEG also confirms that the framework for submetering is considered as an entry barrier for grid users wanting to participate in SDR as they have to invest in the installation of meters without any guarantee that they will be effectively contracted to deliver the service and, hence, be able to recover the costs.	The possibility of a volume revision is defined in the Electricity Law and is as such out of scope of this consultation. Elia wishes to integrate this modality as pragmatically as possible and recognizes the concerns of market actors on the implied uncertainty.
6	REstore	Ordering Submeters SDR	5	Regarding the sub-meter requirements, REstore underlines the ongoing discussions regarding the relevance to allow, both at TSO and DSO level, lower accuracy requirements in order to facilitate the use of sub-metering and thus enhancing baseline accuracy. REstore believes that a marginal adjustment of sub-meter accuracy will significantly lower the costs and allow more MWs to be offered.	Submetering is applied also for other (balancing) products, the aspect goes beyond the mere scope of the Strategic Reserve, and is therefore considered to be out of scope of this consultation.
7	REstore	SDR & ToE	5	REstore underlines that in the current timeline, there is very limited time for the full and lengthy ToE procedure to be implemented (including CREG's decision in case of failed negotiations between the supplier and the FSP), in particular with the volume of the reserve being firm only as of September 1st. REstore asks either the CREG to foresee an accelerated procedure for ToE, or the procedure of constitution to allow for an additional delay in case such situations arise (similar to exemptions applied for SGR page 29 of the document in the case of incomplete certification).	In the current design, there is no exception for this situation; ToE administration must be completed before the Simulation Test, which is to be done before 1 November.
8	Febeliec	Return to Market SGR	8	Febeliec appreciates that the conditions for a return to the market of SGR units are now clearly bundled in a new Title 8. Febeliec urges all involved parties to be very strict on this point, to avoid any undue additional market distortions.	Elia is grateful for the support.

9	FEBEG	Tender Schedule	4.1	<p>FEBEG wants to emphasize once more the importance of having a clear and realistic timing for the contracting of the strategic reserves. The uncertainty about the exact timing – increased by the possibility for the Minister to review the volumes until the 1st of September – creates issues for the candidate providers of strategic reserves: on the one hand they want to postpone the simulation tests – that need to be performed before the contracting – as long as possible as they are not remunerated while at the other hand the timeframe between the contracting and the delivery of the service risks to be too short to do the necessary investments.</p>	<p>Elia recognizes this importance for sufficient certainty and reasonable timings during the whole SR tender. However, the possibility for the Minister to review the volume until 1 September is a possibility foreseen by law, which was inserted into the Electricity Law in order to further ensure the security of supply. The timeline foreseen in the PdC needs to adequately reflect this possibility. As per Article 7<i>secies</i> §3 of the Electricity Law, Elia cannot make a selection (and thus not enter into any contract) prior to 1 September.</p>
10	FEBEG	Possible revision volume	4.5.2	<p>The Minister has the right to review – downwards or upwards – the volume of strategic reserves until the 1st of September. This rule also creates some uncertainty. Suppose the Minister has initially instructed no volume of strategic reserves, and hence no tender is being organized, but – due to circumstances – decides to upwards review the volume. Is this possible? What will Elia do?</p>	<p>Elia recognizes the uncertainty which the given example case would entail. It is indeed possible for the Minister to increase the volume in September vis-à-vis any decision previously taken, including a decision instructing to put in place a Strategic Reserve for 0 MW. In which case Elia will minimise any timing issues that may be associated with such instruction, to the extent that is legally and practically possible.</p>

11	FEBEG	SDR DROP BY	7.2.2	<p>Due to the integration of ‘Emergency Generators’ in the strategic reserves, FEBEG would like to repeat its preference for the use of the ‘drop by’ principle to all market segments and to abolish the ‘drop to’ principle, for the following reasons:</p> <p>- Security of supply: The objective of the SDR is to contribute to the adequacy: activating SDR should therefore have a real impact on the system. This impact can only be guaranteed when the ‘drop by’ principle is applied: the consumer is obliged to effectively reduce consumption by a number of MW’s. Using the ‘drop to’ principle doesn’t guarantee any impact on the system at the moment of the activation as the consumption could already be lower than the shedding limit. On top of that, the risk exists that the consumer is being remunerated without having reacted: he will then in some cases be rewarded for coincidentally not consuming and thus not contributing to the peak load.</p> <p>- Level playing field: The use of the ‘drop by’ principle is also more in line with the objective of ensuring a level playing field between SGR and SDR. As SGR is ‘out of market’ and in order to ensure a level playing field, SDR should – by principle – be ‘out of market’ as well. This ‘out of market’ principle is important to avoid market distortion: putting the SGR and SDR ‘out of market’ prevents those units of influencing normal market functioning, i.e. impacting the ‘balancing merit order’ which incentivizes other market operators to contribute to the balance of the system. Applying the ‘drop by’ implies that a consumer offering SDR should be non-price responsive in that sense that he will continue to manufacture at high prices to be able to lower his consumption by the contracted number of MW’s. He will thus to a certain extent behave as if he was ‘out of the market’.</p> <p>FEBEG considers it unacceptable that the ‘drop to’ principle should be applied to emergency generators: this would mean that an emergency generator – which is also a generation unit – would be treated differently than other generation units.</p>	<p>Considering that the PdC follows the stipulations of the Functioning Rules on this aspect, which are also in line with the response given by CREG in their decision of 14/02/2019 on the functioning rules for winter 2019-2020 to this question. Elia wishes to point out that the modalities of the prequalification ensure ample guarantees for the availability of the contracted volume. Moreover, the SDR contract holder is also only remunerated for the minimum of the real available volume (SDR_MAD) and the contracted volume for reservation and the delivery of the required volume (SDR_REQ) for activation. SDR DROP-TO is also a product that does not incentivize consumption during the winter in order to ensure the availability of the volume. The functioning rules additionally impose that (I) the contracted volume has to be available on days with high day-ahead and/or imbalance prices and (II) that the AP shall not have participated in the balancing market since November 2015. Furthermore, article 7quinquies §2 of the Electricity Law specifies that emergency generators are eligible for Strategic Reserve through demand reduction and any other category requires an announcement of</p>
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12	REstore	Certificatio n of Emergency Generators	7.2.2.3	<p>On page 35, REstore notes a limitation for emergency generators to have a nominal capacity that does not exceed 110% of the maximum historical consumption. The justification of this limitation is not detailed in the document, and as this can lead to limiting the capacity offered, REstore asks Elia whether the figure of 110% can be re-considered, at least when cases are identified and seem reasonable.</p>	<p>Article 2 of the Electricity Law imposes that the nominal capacity of Emergency Generators participating in SDR cannot be significantly higher than the maximum consumption of the site and should only be used to cover the consumption of the site where it is installed. In the Functioning Rules, section 5.3.1, this has been fixed at 110% and is consequently out of scope of this consultation.</p>
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13	Febeliec	Maximum SDR Reference Power	7.2.2.5	<p>With respect to the procedure for the determination of the maximum SDR reference power, Febeliec wants to reiterate the comments it made during the last Task Force implementation Strategic Reserve with respect to the high and multiple impact of the unavailability of nuclear plants during this winter 2018-2019. This not only leads to an increase from 1GW to 1,5GW for the 7 year average unavailability factor of nuclear plants for the low probability high impact sensitivity (an impact that will continue to have an effect for the next six winters also!), but also to a severe impact on the table used by Elia for the availability rate of RrefDR, with much higher deratings of demand side on a.o. Saturdays and working days in March (but not limited to this). Febeliec regrets that Elia has chosen to penalize demand side flexibility participation to the strategic reserve because of the unavailability of nuclear plants and in case hopes on a very clear and concise justification of any such additional derating.</p> <p>In any case, Febeliec also wants to stress very strongly in this consultation that it would find it unacceptable if for the calculations for a need for strategic reserve for following winters the much higher publicly and officially announced volumes of contracted demand side response by several market players in different for a, including official press releases, would not be used as the new starting point to apply the existing methodology regarding demand side response in the market. As such much higher volumes have been contracted for this winter by several actors, it would be unconceivable not to take them into account as acquis in any further analysis; the opposite would only lead to a sub-optimal analysis, to the detriment of grid users as they would have to bear the costs of an unnecessarily large strategic reserve, a strategic reserve which will already be inflated because of the unavailability of nuclear plants this winter 2018-2019 because of the above-mentioned elements.</p>	<p>1) These modalities are originally defined in the Functioning Rules and are therefore as such out of scope of the public consultation on the PdC. Nevertheless, Elia wishes to point out that it uses the same method as in previous years, which is based on the dimensioning scenario. Elia does currently not intend to adapt the methodology as it allows to ensure that the requirements laid upon Strategic Reserve providers match the needed service level. Due to the distress of last winter period the low probability, high impact scenario has been altered to take into account such impacts; logically the impact can also be traced in the prequalification criteria. The basic hypotheses and scenarios as well as the methodology used for this analysis are determined by Elia in cooperation with the General Direction Energy, the Federal Planning Bureau and in consultation with the committee, as required by law (article 7bis §4bis).</p> <p>2) Elia notes this remark, but it is out of scope for the public consultation on the PdC. As already indicated by Elia on earlier occasions, this item will be discussed at the appropriate time in the near future. The methodology will allow</p>
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14	REstore	Determination of the maximum Reference Power	7.2.2.5	REstore challenges the increase in the availability rates of the SDR portfolio (RrefDR) that are presented in the table of the chapter 7.2.2.5 - Determination of the maximum Reference Power = the heatmap. This concretely leads to a higher de-rating of DSR capacities, imposing a higher level of average availability during certain periods of the year when day-ahead and imbalance prices are <150€/MWh, i.e. periods of limited scarcity on the grid. During those periods of limited scarcity, a sufficient amount of capacity will be available, thus not requiring the availability of SDR at full capacity. REstore understands this increase is justified by the changes in the hypothesis of nuclear power plants availability, but challenges the decision to increase the required availability for SDR as a consequence.	This is specified in functioning rules and is therefore as such out of scope for this consultation. Nevertheless, the applied methodology is the same as for previous years
15	FEBEG	Bidding principles for SGR Candidates	7.3.3.1	FEBEG wants to point out that there's a difference between the 'moment of announcement to close' and the 'moment of going out the market'. So, in the sentence 'In the first place, SGR Candidates must be able to offer every possible configuration of the (candidate) SGR Power Plant(s) which was technically possible at the time of going out of the market' it would be better to refer to the announcement to close, like elsewhere in the document.	Elia agrees with the remark and will adapt the text accordingly
16	Febeliec	Conditions for starting the SDR or SGR Service	7.6.2	Febeliec would suggest Elia to check section 7.6.2 (Dutch version) as the text with track changes contains several linguistic errors, especially in the last two bullets.	Elia will perform a consistency check between the three different languages before the publication of the final version.