

Specific Conditions for manual Frequency Restoration Reserve (mFRR) Service

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Centrica Business Solutions (REstore) comments to Elia following formal consultation

November 4th, 2019

Executive Summary

- CBS overall supports Elia's new proposal with regards to penalty for "MW not made available"
- CBS however asks Elia to consider the following points to enhance the formula:
 - Clarify that forced outage situations can be applied to any situation and technology, as long as it is "unforeseen", "not under the operational control of the BSP" and remains exceptional
 - Replace the "CPwa" value in the formula with the contract value of the CCTU where MWs are missing
- CBS asks Elia to change the foreseen scheme for suspension of DPs following non-compliant mFRR activation
- CBS welcomes Elia's new availability test proposal, and advocates to quickly move to a smart testing approach
- CBS renews its ask to Elia to further assess implementing in the next mFRR design update the proposal around linked bids CBSs submitted in the previous consultation rounds
- CBS points out a typo error in paragraph 11.D regarding the determination of the β factor

CBS overall supports Elia's new proposal with regards to penalty for "MW not made available"

CBS welcomes the change in the penalty formula proposed by Elia following the discussions in the working group and the informal consultation on the first draft T&Cs. The new formula does answer to the main concern raised by CBS and other market parties regarding the need to implement a penalty proportionate to the number of declared unavailability.

CBS however asks Elia to consider the following points to enhance the formula

Clarify that forced outage situations can be applied to any situation and technology as long as it is "unforeseen", "not under the operational control of the BSP" and remains exceptional

While CBS understands the forced outage declaration (and the 4-hour delay granted to find a transaction on the secondary market before applying penalties) has to remain exceptional in order to be accepted by Elia, we also point out that whenever such a situation occurs, the same criteria should be applied to all technologies.

When it comes to aggregation and Demand Response, defining forced outage situations can be less straight forward than for a single generation asset. CBS therefore asks Elia to confirm that the current definition provided in the T&Cs applies to all BSPs, irrespective of the technology, as long as the forced outage situation is unforeseen, out of the BSP's control, and remains exceptional.

It is indeed of utmost importance that such a clause does lead to distort competition between technologies, that can face different amount and types of forced outages.

Replace the “CPwa” value in the formula with the contract value of the CCTU where MWs are missing

CBS points out that the current proposal exposes both the BSP and Elia to situations where, for a given CCTU with MW not made available, the penalty applied would be based on an mFRR value price that is totally decorrelated from the market fundamentals of the CCTU involved, leading to risks of arbitrage.

For example, if the CPwa is rather low, while the DAM price of the CCTU is high, this can lead to arbitraging the mFRR against the DAM, declaring MW not made available to seize revenue opportunities on the DAM market, which would be a wrong incentive.

We therefore propose to use the weighted average price of mFRR for the involved CCTU where the MWs are not made available, to keep the correlation with the market fundamentals of that period.

CBS asks Elia to change the foreseen scheme for suspension of DPs following non-compliant mFRR activation

CBS points out that in the design note that was presented, a suspension only of the delivery points concerned was foreseen. In the proposed T&Cs, ALL delivery points in the non-compliant mFRR bids risk such a suspension.

While CBS supports the principle of administrative sanctions following non-compliant activations, we believe the T&Cs should be changed to implement a better balances framework:

- either by ensuring that only the DPs that are responsible for the missing volume are suspended. In this matter, CBS would support Elia going below bid level to assess which DPs have led to overall missing volumes
- or, merging the administrative sanctions foreseen in case of several missed actions or availability tests, applying (i) a reduction of the prequalified power from the 1st MW not delivered during 3 consecutive activations or tests, and (ii) suspending all the DPs of a bid only if a certain threshold of missing MW is reached (e.g. 50%), demonstrating the inability of a BSP to correctly control its bid and the amount of MW provided vs. the one requested.

CBS is also open to other alternatives, as long as Elia is able to bring the design closer to the one presented in the design note, avoiding suspending an entire bid for which only 1 MW would be missing (even during 3 consecutive availability tests).

CBS welcomes Elia's new availability test proposal, and advocates to quickly move to a smart testing approach

As stated in previous consultations, CBS supports the principle of availability tests, which are an efficient tool to provide incentives to BSPs to make capacity effectively available. However, this insurance comes at a cost. Indeed, Elia activates capacities outside of the merit order, at times when these capacities would normally not have been activated. Since these test activations are not paid, CMUs must internalize the additional costs in their bids, increasing overall costs of the balancing reserves. In addition, there is a limit to the number of tests that can be performed before distorting competition between technologies – since some technologies demonstrably have higher activation costs than others while providing the same valuable insurance to the grid, too frequent test activations can degrade their competitiveness without economical justification. Therefore, while tests are a useful insurance to guarantee reliability of the reserves, unnecessary activations need to be avoided to reduce overall costs for society and guarantee fair competition between all technologies.

CBS welcomes the fact that Elia considered these stakeholder concerns and adapted its availability test proposal to limit unnecessary activations. This is a first step to find the right balance between reliability of reserves and costs of tests. To further enhance availability tests, CBS advocates to quickly move to a smart testing approach, as suggested by the CREG.

CBS renews its ask to Elia to further assess implementing in the next mFRR design update the proposal around linked bids CBS submitted in the previous consultation rounds

As pointed out in the previous consultation on the design note for the mFRR 2020, CBS asks Elia to consider implementing the possibility to offer sub-bids, below the maximum “overarching” 100 MW bid, based on the illustrating figure below. Such a scheme would allow BSPs to offer to Elia, from a larger 100 MW bid with a unique activation price, a combination of smaller bids (that would be linked to each other), with different activation prices. Concretely, this would add liquidity on the mFRR merit order, avoiding having too large 100MW blocks with a unique price.

In order to be workable for BSPs, such a model would however need to allow BSPs to include same Delivery Points in several of the sub-bids (as long as a given DP is not included in 2 overall bids). In the example below, the DPs 1 to 25 would all be part of the max 100 MW overarching bid 1, and included also in each sub-bid linked to this one. This feature is needed to preserve the added value of aggregation, allowing a BSP to provide the mFRR volume required by Elia during an activation or an availability test using whatever DPs available in the overarching bid (as it is the case today when using only overarching maximum 100Mw bids).

CBS believes such a model would bring value both to the BSPs and to Elia, without introducing additional complexity compared to the existing model.

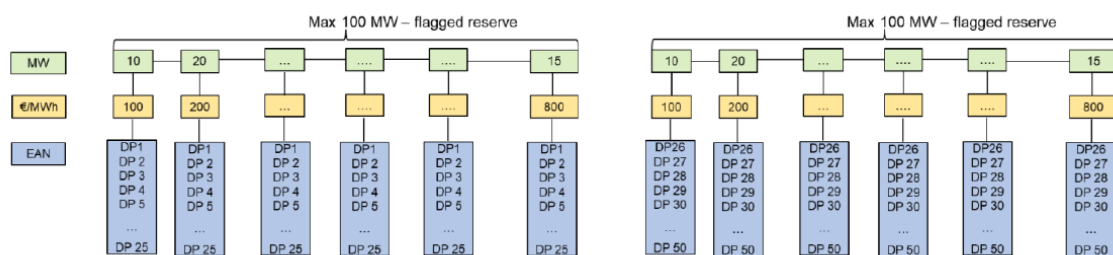


Figure: illustration of how the parent-child linking of bids could work to allow BSPs to better split aggregated pools with different prices

CBS points out a typo error in paragraph 11.D regarding the determination of the Beta factor

CBS believes the current formulation “a binary value, equals to 1 if the mFRR Supplied is not equal to the mFRR Requested, pursuant to Annex 12” used to define the Beta factor should rather be formulated as “a binary value, equals to 1 if the mFRR Supplied is inferior to the mFRR Requested, pursuant to Annex 12”.

Indeed, in the case where the mFRR supplied is higher (so still not equal to) to the mFRR request, the Beta factor should be 0, as there is no missing MWs.