Consultation

"Proposal Terms and Conditions for balancing service providers for FCR"

Feedback Next Kraftwerke, Brussels 17/4/2020

1. Summary and key points

- We welcome many of the product changes that harmonise the FCR product with neighbouring countries and move towards daily bidding on the Regelleistung.com platform. We also like the simplification of pool composition by letting go of the providing groups.
- We have several concerns about the penalty scheme proposed. The penalties for Power Unavailable and failed Energy Availability tests seem to favour large assets over pools of aggregators, favour bulk loss over smaller more frequent underperformance, and more generally seems to treat underperformance of equal impact on system security differently depending on their distribution in time.
- We believe Elia should either clarify the available margin for delivery points with limited energy reservoirs, or stick to communicating the State of Charge, as is the case today.
- We ask Elia to clarify if the indivisibility of bids up to 25 MW as brought up in the WG Balancing of 18/02/2019 is still in place in the common auction. If so, Elia should do all effort to revoke this rule for Belgian providers, since it would keep the local FCR market uncompetitive, as is the case today.

Below, we work out these points in more detail.

2. Product harmonisation

We support Elia's move towards a single FCR product in line with the FCR product tendered in neighbouring countries and the decision to tender it on the common auction platform. We appreciate the transition towards a daily product with 4-hour blocks, making it easier for a wider variety of flexible processes and assets to participate in the FCR auction.

3. Evolution of providing groups

The current system of providing groups is overly complex and does not allow for frequent pool updates that reflect changing circumstances in a pool. We therefore support the transition to a simpler system without providing groups and with 8 frequency bands in which delivery points can contribute to the provision of the standard production.

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We would like to ask Elia to clarify or confirm the following points:

- How are delivery points that form a pool to deliver FCR together identified as being one pool in Annex 4?
- If Elia performs a test of a subset of delivery points, how will it make sure to include or exclude all delivery points that together form a pool?
- Are, in a Capacity Availability Test, Energy Availability Test, or Activation Control, only the delivery points that are marked in Annex 4 to participate in the frequency band relevant to the tested Frequency Deviation considered to evaluate the response?

4. Penalties

Remarks upfront:

- As Next Kraftwerke has brought up several times in workshops organised by the FCR Regional Cooperation at ENTSO-E, we believe it is problematic to have a common auction, without a common prequalification and a common penalty scheme. This creates an asymmetry in the market, where assets outside of Belgium can compete with Belgian assets to provide FCR to Elia, while being evaluated and penalised based on its local rules. We appreciate that Elia wants to work with a similar penalty system for its FCR, aFRR, and mFRR products, but they need to be reflective of the system requirements and circumstances such as cross-border competition.
- We want to make clear we are not against (high) penalties. We believe reserve power should be delivered with high quality and reliability, and failure to do so should be penalized proportionally! Our main concern is that some of the penalty formulas do not always seem to reflect the impact of the failure on grid security. Logically, failures with equal impact should be punished equally. That is not always the case.

4.1 Penalties for Power Unavailable

As we have indicated in the discussion on the mFRR penalty scheme introduced in February, and more recently the proposed aFRR penalty scheme, we believe the penalties for denominating power to be suboptimal. Situations that are equally problematic for the grid are penalised in different ways, depending on their distribution over time.

The main problem is the factor “#CCTU” in the formula which leads to a quadratic increase of the penalty with every additional denomination in a new CCTU- no matter how large the denominated volume. This leads to the following three problems:

- After a few denominations, the penalty becomes so high that the BSP will refrain from any additional denomination and rather opt for the risk of a test activation. This leaves Elia blind concerning the actual available power which might lead to serious problems in case of critical system situations.
- This #CCTU factor favours bulk losses, meaning short unavailabilities of large volumes. In comparison to these an unavailability of the same volume that is spread across various CCTUs is fined with a dramatically higher penalty. This cannot be in the interest of Elia, and it favours large assets over pools of aggregators.
- The non-linear increase of penalties makes it complex for aggregators to allocate penalties to pool participants if necessary. It makes it more difficult for aggregators to be transparent about penalties incurred.

We are aware that Elia expects parties to only bid power they will have available with great certainty. Nonetheless, things can happen from time to time that hinder the BSP to meet its obligations after GCT. With daily bids, it is difficult in practice to find last minute secondary market deals to resolve such issues. We believe it remains in Elia’s interest to have knowledge about the unavailability.

For these reasons we think that this penalty should be reworked. We propose a simpler approach. The total penalty per CCTU should not depend on the number of CCTU’s with denominations in the 29-days

before. Instead, Elia could make the penalty per CCTU with denomination much higher by introducing a (large) scaling factor. We leave it to Elia's judgement what an appropriate level for this factor could be. It would however need to be set sensibly in comparison with the penalties related to failed Availability tests.

4.2 Penalties for Capacity Availability tests (Missing MW)

We think this penalty formula is fair and proportional. Nonetheless the scaling factor alpha might need to be revisited in the light of changes made to the penalty for Power Unavailable. It is important that penalties reflect the impact on grid security: it would be logical that actual failure to deliver is penalised higher than warning Elia, through a denomination, that an obligation to deliver in the future could potentially not be met.

4.3 Penalties for Energy Availability tests (Missing Time)

We think the penalty formula is fair and proportional in itself, but we do not agree with the way the parameter Failed Obligation is calculated. We are aware the same methodology for calculating this parameter is in place today, but it is suboptimal in our opinion. We believe Elia should take the current contract revision as an opportunity to adapt this.

There are two main problems with the calculation of the 'FCR Missing Time' parameter:

- It only looks at the time for which the delivered power is not meeting the requested FCR power, not by how much.
    - This means that, in essence, this is not an energy test. It would be more correct to look at the Missing MW times the Missing Time, to end up with the Missing MWh.
    - Consider for example two BSPs with a pool of 10 MW. Assume the first BSP is providing 100% of the requested power for the first half of the test, and 0% for the second half of the test. The second BSP is providing 99% of the requested power for the whole duration of the test. The energy not delivered is much higher in the first case, nonetheless the second one is penalised much harder.
- The penalty calculates the missing time from the first time a 10 second period drops below the requested FCR power until the end of the test, no matter the performance after that 10 second period. That does not make sense.
    - From a system point of view, if the moment of the first 10 seconds of underperformance takes place at the very beginning of the test, or towards the end of the test should not make any difference. Yet, the penalty is very large in the first case, and very small in the second.

Therefore, this penalty calculation punishes, just like the penalty for Power Unavailable, pools of aggregators compared to large assets, favours bulk losses over smaller but more frequent losses, and favours a loss at the end of the test compared to a loss at the beginning of the test.

We propose to calculate the Failed Obligation simply as the ratio between the delivered energy (in MWh) during the 25 minutes of the test, and the requested energy (in MWh).

5. Other remarks

- We find the definition of the Available Margin for assets with limited energy reservoirs confusing. Such assets have a margin in both upward and downward direction (until fully charged or until

fully depleted). Which one should be communicated? Today, Elia requires the BSP to communicate the State of Charge (SOC), which gives insight in the margin in both directions in one number. We therefore think communicating the SOC makes more sense.

- In the slides of the working group balancing of 18/02/2019, we note on slide 75: 'Indivisible bids of max 25MW will be allowed on the regional platform in addition of divisible bids'. We cannot find any reference to divisibility or indivisibility in the consulted document, nor in the documentation available on Regelleistung.com.
    - We ask Elia to clarify if this rule is (still) in place.
    - If so, we urge Elia to consider how it can revoke this rule for Belgian FCR providers. **Indivisibility of bids would be very problematic.**
    - 25 MW equals the size of Belgium's core share, meaning that a single FCR provider with a portfolio of 25 MW or larger could monopolise the Belgian core share in the auction. This would lead to a decoupling from the common auction and maintain high prices in the Belgian FCR auction, at the cost of Elia and the Belgian grid users. The FCR market is non-competitive today due to the current bidding rules which strongly favour large pools. Allowing indivisibility in the new design would hinder introducing the much-needed competition.
    - Already today, the FCR core share is mostly provided by battery systems. Their contribution will only increase in the future. There is no technical reason for such assets to have indivisible bids. Either way, Elia aims to introduce technology neutrality with this new design, so divisibility up to at least the bid resolution is quintessential!