

## Centrica Business Solutions response to the public consultation on the market functioning rules for the compensation of quarter-hour imbalances (“Balancing Rules”)

April 24<sup>th</sup>, 2020

**CBS urges Elia to increase the starting value of 1.000 EUR/MWh, and to improve the procedure which increments the moving aFRR activation price cap once it is reached or exceeded.**

Centrica Business Solutions (CBS) welcomes Elia’s ambitions to open the aFRR market to non-CIPU assets and to move from a pro-rata to a merit order activation. CBS also understands the concerns expressed by Elia regarding activation prices in aFRR, linked to limited liquidity and frequent activation of the full aFRR capacity.

Since the consultation of September 2018, several discussions around the implementation of an activation price cap in aFRR took place within the Working Group Balancing, as well as via formal and informal consultation:

- In the minutes of the aFRR workshop from 15<sup>th</sup> May 2019, Elia explains that *“a price cap is not in line with the Guideline on Electricity Balancing”*, but nevertheless *“understands the question and the need for clarification and will come back later on this topic with a more detailed explanation”*;
- In the aFRR workshop from 23<sup>rd</sup> September 2019, Elia presents a new proposal regarding a ‘moving’ price cap of 1.000 EUR/MWh;
- Annex 9.A of the recently consulted aFRR T&Cs 2020 introduces a price limit for aFRR Up and Down of respectively 1.000 EUR/MWh and -1.000 EUR/MWh;
- Article 18 of the presently consulted Balancing Rules explains that this initial value can be adapted whenever the price cap is reached or exceeded, after submission of a report to the CREG and provision by Elia of a new proposal of the T&C BSP aFRR.

CBS understands the principle of a moving aFRR activation price cap as a means to limit the potential impact on BRPs, in combination with the application of weighted average pricing of activated aFRR for the imbalance prices. While Elia suggests to re-evaluate the moving price cap once it is reached or exceeded, the procedure laid down in the Balancing Rules remains vague. CBS suggests to clarify the procedure, and refers to the guideline on Capacity Allocation and Congestion Management (CACM), which foresees that in the event that the clearing price exceeds 60 percent of the harmonised maximum clearing price for single day-ahead coupling (currently set at 3.000 EUR/MWh), the latter shall be increased by 1.000 EUR/MWh the next day.

In addition, and in line with its previous consultation responses from September 2018, December 2018 and July 2019 as well as informal exchanges, CBS maintains that an initial aFRR energy price cap at 1.000 EUR/MWh is not acceptable, since:

- It is not in line with European regulation, amongst others with article 10 of the Electricity Regulation (EU) 2019/943, as well as EBGL;
- It is below the current harmonized clearing prices of the single day-ahead and intraday coupling, respectively set at 3.000 and 9.999 EUR/MWh;
- It excludes specific assets with opportunity costs above 1.000 EUR/MWh from the aFRR market.

**To better reflect applicable regulation and remove identified barriers for free price formation and market access, CBS therefore urges Elia to increase the starting value of 1.000 EUR/MWh, and to improve the procedure which increments the moving aFRR activation price cap once it is reached or exceeded.**

These measures will attract additional liquidity to aFRR, reducing the risk of high imbalance prices. This risk could be mitigated even further by reviewing the weighted average pricing of activated aFRR, i.e. assigning a lower weight to activated volumes with prices beyond the current proposed cap of 1,000 €/MWh.