Febeliec answer to the Elia consultation on the MOG II System Integration Study

Febeliec would like to the thank Elia for this consultation on the MOG II System Integration Study. Febeliec will only discuss the Elia report, as it does not have the relevant models and data to validate or not the DTU Wind Energy Report 2020; Febeliec hopes and trusts that Elia, as well as other stakeholders, have done a thorough check of all the assumptions, models, data and calculations of DTU in order to validate the results.

On the Elia Document and public consultation, Febeliec would like to make a few high level comments, before commenting the different specific points. For Febeliec, it is of the utmost importance to maintain and guarantee that BRPs are responsible for balancing their portfolio, with Elia only responsible for residual system imbalances. It is thus of the highest priority to ensure that the correct signals are given to BRPs in order to ensure that they will dutifully and to the best possible extent fulfil their obligation. However, when looking at the report, Febeliec can only wonder whether Elia is not too conservative in its approach, and as such creates both a framework where BRPs might feel less inclined towards balancing their portfolio in all possible conditions, including non-planned but predictable outages or losses in generation capacity. This is for Febeliec very worrisome, as this might lead to ever larger volumes of contracted balancing reserves by Elia, which are paid for by consumers through their grid tariffs. Febeliec urges Elia to not only create the strongest possible signals in order to incentive BRPs to balance their portfolio, but also reiterates a request it has voiced already numerous times regarding the attribution of the cost of the reservation of balancing reserves. If for example this cost were to be invoiced to BRPs, instead of grid users, based on their share in the use of contracted balancing reserves by Elia, this would create an additional incentive for BRPs to hold or contract sufficient flexibility in their portfolio, as those BRPs with sufficient flexibility, which would thus be balanced within their portfolio, would pay less than those BRPs which would always have to fall back on Elia for residual balancing. By doing so, dutiful BRPs would be able to be distinguished from the others and would also be able to provide different commercial conditions to their customers, as they would only have to charge through lower costs for Elia's balancing reserves for their clients. Thus, by charging the costs of balancing reserves via BRPs, Elia would give an additional incentive to the well-behaving BRPs and give an additional financial incentive to other BRPs to perform better, by a.o. contracting extra flexibility. In the end, this would presumably also reduce the need for Elia to contract ever more balancing reserves, which would benefit all consumers. Febeliec strongly asks that Elia and CREG attentively consider such option, in order to avoid that consumers would need to pay for an ever-increasing level of balancing reserves, by providing an additional investment signal to BRPs to invest in flexibility in the market.

On the document itself, Febeliec has following comments, which also in many cases relate to the above comment on the lack of sufficient incentivises for BRPs to maintain the balance in their portfolio as well as Elia being too conservative. Febeliec would like to stress that it is in no way against an increasing share of (intermittent) renewable energy such as offshore wind, but would also like to stress that the intermittency of this generation should be dealt with within the perimeter of the relevant BRPs' portfolios. Otherwise, this could result in the privatisation of profits and a mutualisation of costs, increasing the overall system cost for consumers. As such, it is of the utmost importance that correct signals as well as transparency are given. For Febeliec it is unacceptable that unplanned but predictable events such as storm risk or ramp-ups/downs in case of wind pattern changes would have to be covered completely or even to a large extent by Elia, as this should be dealt with within the perimeter of the BRP portfolio. Febeliec reads in the document that Elia states that "*upfront reservations (by BRPs or Elia) will remain necessary*" and wants to stress that Elia is only responsible for the residual imbalance and as such it are primarily the BRPs that will have to ensure that they contract sufficient flexibility upfront. Febeliec also read in the document that "*a main conclusion is that, at least until the end of 2019, significant differences between BRPs were observed*" with respect to individual BRPs imbalances and their forecast errors. Febeliec regrets that no transparency is given on which BRPs did perform correctly (or rather, which did not perform adequately), and refers to its aforementioned proposal, which could create an additional bonus for the better performing BRPs and an investment signal to the others. Febeliec in any case is already requesting for a long time to publish an overview of performance of BRPs, so that consumers can base their contractual decisions also on such information (also because the cost of balancing reserve activation is most often directly or indirectly also charged to consumers). Febeliec also wonders whether for all events it are the same BRPs who do not succeed in fulfilling their obligations.

Elia refers to the methodology of its latest (and only) adequacy and flexibility study for the relevant scenarios. Febeliec does not want to list all its numerous comments on the methodology of this study (and several other adequacy studies by Elia), which was not formally consulted upon towards stakeholders, but strongly wants to refer to all those comments and voice its concerns and reserves towards the methodology. Febeliec as such cannot approve the methodological approach taken by Elia for the study underlying the current consultation, but will nevertheless present its comments under the premise of the applied (but not approved) methodology.

FEBELIEC also sees that Elia in the document is often (very) conservative towards a.o. remaining cross-border capacity, reserve sharing across borders (e.g. iGCC, MARI, PICASSO), the intraday timeframe contribution towards balancing portfolios, etcetera. While Febeliec does not want to object fundamentally against caution, as it is clear that Elia needs to ensure residual balance, it strongly wants to avoid that Elia is too conservative in its approach, by pancaking all possible effects, without looking at the probability of occurrence, thus risking to over-dimension the needs for balancing reserves. Elia in other consultations (e.g. aFRR needs methodology) already confirmed that some of its earlier conclusions were over-cautious, leading to an overestimation of the needs for balancing reserves. As these come at a cost for consumers, Febeliec urges Elia to very attentive to avoid such over-dimensioning and not take a margin on top of a margin on top of a margin.

In light also of the above comments on the balancing responsibility of BRPs and the residual balancing responsibility of Elia, Febeliec is negatively surprised and disappointed that Elia considers BRPs only to cover 50% of their obligation instead of 100%, especially while it mostly consists of unplanned but predictable events. Moreover, Febeliec is even more surprised that Elia considers a “worst case scenario” where BRPs cover only 35% or one third of their obligation, but also a “best case scenario” where they only cover 65% or tow thirds of their contractual obligation as a BRP. Febeliec finds this a very clear example of an over-cautious approach by Elia, which leads to a higher need for balancing reserves, at the cost of consumers. Febeliec finds this approach unacceptable. While the provided data and conclusions might provide from an intellectual point of view interesting conclusions, Febeliec cannot understand that Elia truly considers these scenarios as the most pertinent. Moreover, from the conclusions it is clear that most violations of system needs occur not surprisingly only in the worst case scenario. When this leads to the conclusion that still additional balancing reserves need to be contracted, Febeliec can only voice its strongest possible disapproval. BRPs have a clear responsibility in the system and by circumventing those obligations, Elia creates a moral hazard risk in the Belgian system, with potentially a vicious spiral that could end in Elia contracting reserves to balance the entire Belgian perimeter instead of only the residual imbalance. Febeliec reads in the document that “*it’s fair to say that neither the most pessimistic nor the most optimistic cases are the most likely to happen*”, yet sees even the most optimistic case according to Elia not as truly optimistic, as described above. In Elia conclusions of the analysis are as Elia itself states not so surprising, with 4,4GW capacity providing a higher risk than smaller installed capacity scenarios, that BRP behaviour has a significant impact on most results (which is exactly what should be strengthened and not reduced by potentially creating a moral hazard issue), that in case violations would materialize they would require mitigation measures (although Elia remains very vague on which entity should take such measure, Elia or the BRPs) and that storm events resulted in extremely long and large violations in the scenario with the pessimistic assumptions, which is of course according to Febeliec not surprising taking into account that Elia under such scenario considers BRPs to only cover one third of their obligation, leaving all the rest to society to cover and pay for.

Febeliec will later come back on the proposed mitigation measures by Elia, but would also like to react to the statement that these measures should not have an effect on existing offshore wind farms. While it might be unadvisable to modify the terms of the subsidy scheme for the existing offshore wind farms, it is clear that general changes to the balancing market (e.g. alpha factor or European platforms) should also be applicable to those BRPs with offshore wind farms in their portfolio. Moreover, Febeliec also wants to stress that after the end of subsidy schemes for the offshore wind farms, it should not be accepted that these would still benefit from a specific different regimes, as this could also create a moral hazard issue while it might also create a discriminatory treatment of assets in the Belgian system who have to function within a market context.

On non-running slow-start units, Febeliec wants to reiterate its comment on the fact that this only covers CIPU-units, and that this should be extended to all types of units. Febeliec also sees that CREG is in support of a technology-neutral approach, as it has included a proposal for a study on this topic in its discretionary incentives for 2021, yet Febeliec urges Elia to always strive for a technology-neutral approach, even without an incentive from the regulator.

As mentioned above, Febeliec will not go in detail into the model and calculations of DTU. Nevertheless, Febeliec notices that DTU is able to provide meteorological data for the period 1982-2018 (yet not 2019), while Elia in its most recent adequacy studies does not seem to be able to propose more recent data than 2016. Febeliec is also surprised by the conclusion of DTU that extreme upward-ramping events are more likely than similar size downward ramping events, and wonders what could be a rationale and how this information could help ameliorate the overall outcome in the future. Febeliec also notices that is mentioned that "*it's to be noted that it cannot be assumed that the historical BRP reactions will grow linearly as the offshore installed capacity will grow*", yet it is unclear in which direction the non-linear growth is then to be interpreted. Moreover, also imbalance activations and prices will not grow linearly in the future and could also strengthen some incentives. Febeliec also wants to refer to its comment on the methodology of the Elia Adequacy and Flexibility Study which was used by DTU and which also impacts the outcome, most in particular due to an underestimate of available flexibility now and in the future, for example from market response. As such, Febeliec does not agree with the section on the available flexibility means, which it considers to be a very conservative approach and to be at best used as a lower threshold. Febeliec also wants to reiterates the comment on the need for BRPs (and not necessarily the TSO) to reserve capabilities. Moreover, the document itself states that cross-border capacity after day-ahead, which Elia considers at 50MW, might be a "*rather conservative estimation*", especially in light of a.o. projects such as MARI and PICASSO (and as also already mentioned before) as well as the interconnections with UK and Germany (as of Q4 2020)[1]. With respect to the reserve capacity needs, Febeliec very strongly wants to refer to its comment on the obligation for BRPs to maintain balance in their portfolio, which is at the core of the functioning of the electricity system. Febeliec sincerely hopes it is not Elia's intention with these proposals to jeopardise the fundamentals nor the design of the Electricity Market Target Model. Febeliec as such does also not agree to decrease the yearly improvement of the LFC block imbalance quality, towards at best stability. Febeliec believes that this is not sufficient and if this would be the case, Elia should develop incentives to ensure that this quality does not only not deteriorate but even improve. Febeliec also strongly wants to refer to its previous comment on the proposed scenarios, with (merely) 35%-50%-65% of the BRP obligations covered by the BRPs, which for Febeliec is insufficient and not acceptable at all (and will almost automatically lead to large violations in the worst case scenario). Febeliec is also surprised to see that is mentioned that "*caution should be kept in not considering very optimistic scenario in term of BRP reaction and in he same time foreseeing large available volumes of restoration reserves*", while the opposite is not considered, despite the obligations of BRPs (while the "*very optimistic scenario*" referred to still only has BRPs covering 65% of their legal obligations!). Febeliec notes that the document states that "*it's important to note that, for the most extreme historical events that have been analysed, it appears that the total system imbalance is given by the BRPs having at least one offshore wind park in their portfolio*", which drives Febeliec, as apparently opposed to Elia, to the conclusion that those BRPs should be doing more in order to cover their obligation by contracting more flexibility themselves, instead of Elia filling the gaps at the cost of consumers and society as a whole and creating amoral hazard issue (as well as possibly a competition distortion between BRPs).

With respect to section 5.3.2.1 and the SOGL-derived obligations, Febeliec is very negatively surprised to see that Elia considers itself to have to cover 25% of the deviation of the Continental Europe Synchronous Area, which seems very high also in light of the size of the Belgian LFC block, resulting in a very large need for balancing reserves (the Belgian LFC block does not entail 25% of the Continental Europe Synchronous Area, but rather under 3% as can be derived from the FCR obligation). Febeliec wonders why Elia does want to take up such high share, as this results in higher costs for consumers in Belgium, and would want to see a full analysis on this calibration.

Febeliec notes that the historical behaviour is used as a basis for defining scenarios, yet wonders how all the (recent) efforts are taken into account in the upscaling, such as for example the impact of the alpha component, the storm risk solution or the new procurement of balancing energy. The document also states that "*the BRP reaction during the Ciara storm in February 2020 showed a very significant improvement with a minimum coverage of 80% of the power drop*" and wonders how this has been included in the study. Moreover, and as already mentioned before, Febeliec cannot agree with the statement "so even if the value of 50% could appear to be conservative", as for Febeliec this is definitely conservative from the system perspective and in the other way as intended in the document which starts from the BRP perspective (who in February 2020 seemed to be able to cover 80% or thus even above the best case scenario of 65% considered in the study), leading to unnecessary and undue yet costly capacity reservations.

On the mitigation measures, Febeliec supports most of the mentioned mitigation measures and reiterates again that it is essential that BRPs cover the imbalances in their portfolios, with Elia only responsible for the residual system imbalance. As such, all mitigation measures that could reinforce the market signal towards BRPs should be duly

[1] Febeliec also wants to refer to its comments on the consultation on the methodology for the dimensioning of the aFRR needs, where it was shown that previous forecasts for aFRR needs were too high and have been revised downwards substantially.

investigated and implemented as soon as possible if they were to deliver a positive impact, in order to avoid increasing the cost for consumers unduly. Febeliec also refers to its previous comment on the way the reservation of balancing reserves is invoiced to consumers, where it merits to investigate whether this should not better be done to BRPs, in order to create an additional incentive. On the mitigation measures implying constraints for wind parks and/or concerned BRPs, Febeliec is of the impression that these are to remain part of the contractual negotiations between those parties, yet it should be very clear that market signals should encourage those parties to come up with agreed solutions to ensure that the BRPs are able to fulfil their legal obligations. As such, it should be clear that the involved actors could agree on the presented mitigation measures or find alternative solutions, yet it would be unacceptable for Febeliec that nothing would be done and the responsibility and cost be pushed to Elia and society.

Febeliec strongly supports the existing mechanisms and ask Elia to continue to monitor them closely and to determine whether incremental improvements could still be necessary. Moreover, Febeliec is pleased to see that Elia states that "*as flexibility and the ability to react to (close to) real time prices penetrates more and more towards retail consumers (enabled by the roll out of smart meters and revised commercial offerings), the potential of reactive balancing is expected to increase towards the future*" and asks that Elia actively incorporates this in all its work and studies, including its adequacy studies, in order to avoid to unduly create an artificial additional need for flexibility which could result in being very costly to consumers. Elia mentions incentivizing reactions to real-time prices as a measure to be investigated; Febeliec wants to point to the obligations in the Clean Energy Package, but also the work done by Elia itself on its Internet of Energy and its future work on e-Mobility, which promises to deliver such impact (or otherwise should be cancelled as not relevant). Febeliec is pleased to see however that Elia states "*these initiatives are expected to have a positive impact on the availability of reserves but also on the ability for BRPs to cover imbalances*" and should thus be duly taken into account in all Elia's analyses. On the measures related to forecast, Febeliec takes note of Elia's proposal of possible upgrades for the forecasts, and asks in any case to include recent data (with recent data not being 2016 data in 2020), such that new patterns and new technologies will be duly taken into account.

Concerning the preventive curtailment of wind farms, Febeliec would like to get a better understanding of this concept, especially related to the remuneration. It is important to understand which actor would curtail preventively, also to ensure that the related costs are not pushed towards Elia and society, in case the related BRP did not obtain sufficient flexibility in his portfolio. In no way could Febeliec accept that profits are privatised and costs socialised, referring also to the moral hazard discussed above.

On the measures to improve coverage of imbalances by BRPs, Febeliec can only completely support this, and refers to its comments on the too conservative nature of the analysis. The BRPs are responsible for 100% of their imbalances, with Elia only covering residual imbalances. Moreover, even though the imbalances for offshore wind might partially be unplanned, this does not mean that they are unpredictable and in any case BRPs should be able to maintain balance in their portfolio.

On multiple BRPs per access point, Febeliec strongly supports this proposal, as it could provide a solution to not only the discussion at hand but could also allow more dynamics for large industrial consumers, who could also assign multiple BRPs on their access points, thus also creating more opportunity for competition between BRPs, which could only benefit consumers. It would also avoid that one or a few BRPs would be the only option for large asset owners.