POSITION

Subject: FEBEG comments on ELIA's consultation on T&C BSP aFRR
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Introduction

On the 06/11/2020 Elia launched a consultation on a proposal for amendment of the T&C BSP aFRR [1]. FEBEG would like to thank Elia for organizing this consultation and for providing all stakeholders with the opportunity to submit comments and suggestions on the proposal for amendment of the T&C BSP aFRR. The comments and suggestions of FEBEG are not confidential.

Consequences of the new aFRR design

The new aFRR design, which went live end of September, has introduced new rules concerning the capacity auctions which, in the current market where no other technologies than gas fired plants are offering aFRR capacity, inevitably lead to a suboptimal market result.

To cover Elia's full need of 145MW of aFRR capacity, in the current market, Elia needs typically 2 CCGT powerplants to run. The purpose of the "all CCTU" auction (24h block) in D-2 is, to FEBEG's understanding, to ensure a cost effective solution to guarantee that the must run costs of the CCGT's are covered. FEBEG recommended (30/05/2019) that the volume of the D-2 auction should be such that 2 CCGT's would be contracted in D-2.

In the "per CCTU" auction (4h blocks) in D-1 it is much more difficult to ensure this in a cost effective way, as potential costs need to be attributed on smaller blocks both in time as in volume (ie you could be retained in D-1 for only 4 hours during the day or, due to the divisibility of the volumes, for only 1MW).

Even though prices offered and retained in the "per CCTU" auction in the course of October were increasingly high, volumes were continuing to be transferred from the "all CCTU" auction to the "per CCTU" auction. In FEBEG's reading, this is due to a, flaw in the market design, and a consequence of not taking into account explicitly the prices offered in the "per CCTU" auction. As the market design is defined today, indeed, the check that is being performed is whether volumes can be procured in D-1 at prices that are below the ones retained in D-2 (with a 20% margin). If the result of this check for a given block is negative, it does not matter how much more expensive the block procured in D-1 was.

Example : in case each day the following situation occurs :

- for all blocks except one, large volumes are offered at prices lower than the Reference price (D-2 marginal price + 20%), and so the reference volumes are high
- for one specific block (eg. bloc 2), all volumes are offered at very high prices, much higher than the Reference price. For that block, the reference volume is 0 MW

[1] https://www.elia.be/en/public-consultation/20201106_public-consultation-on-the-proposal-of-amendment-of-the-tc-bsp-afrr

- When averaging the reference volumes over 7 days, the average volume will still be very high, and possibly higher than the current volume to be procured in D-1, implying a transfer of volumes from D-2 to D-1.
- So the volumes to be procured in D-1 will increase also for the block 2, for which no volumes are available at a 'low' price.

In FEBEG's view this should be reviewed as proposed below (see additional measures).

Proposal for amendment

Consequently to the high prices observed in 'per-CCTU' aFRR capacity auctions of 18 and 21 October and after analysis, Elia and the CREG have decided to apply a protective measure aiming at better aligning the aFRR capacity auction design with market circumstances.
The protective measure has been applied as of the delivery day of 25/10/2020. This proposal of amendment intends to include the protective measure in the T&C BSP aFRR.
This protective measure consists of a derogation to Art. II.9.1 and Annex 7.F of the BSP Contract aFRR: the volume demand to be procured in the second step of the aFRR capacity auction ('per-CCTU capacity auction') will be capped to the total prequalified aFRR volume corresponding to delivery points DPpg ('non-CIPU'). In consequence, all remaining aFRR capacity is procured in the first step of the aFRR capacity auction ('all-CCTU capacity auction').

Position

FEBEG supports the proposed amendment

The market design for the aFRR market design has been extensively debated between all stakeholders. At several occasions, FEBEG has expressed its concerns and made suggestions for improvement.
In line with these concerns and suggestions, FEBEG supports the proposed amendment of the T&C BSP aFRR confirming the implemented protective measure as an urgent and necessary measure pending a further evolution and improvement of the market design for the capacity auctions aFRR.

FEBEG recommends improvements to the market design

In order to prevent the circumstances that have led to the implementation of the protective measure, FEBEG would like to suggest improvements to the market design for the aFRR capacity auctions.

FEBEG supports Elia's proposal that as long as no other technologies than gas fired plants are participating to the aFRR auctions, all the volumes should be contracted in the "all CCTU" auction. One important remark however is whether this volume cap on the "per CCTU" auction should be limited to prequalification of DPPG, ie NON CIPU assets. One could imagine also DPSU, eg Offshore wind, that could profit from a D-1 auction.

However, FEBEG believes that, even with the proposed modification of the rules for the volumes repartition between the "all CCTU" and the "per CCTU" auctions (the 'volume switch'), situations as seen before October 25, where must run costs of a CCGT have to be covered by the D-1 auction, can still occur : eg. when only 1 CCGT is contracted in D-2, and there is not enough volume from other technologies offered in D-1 requiring additional volumes on some or all CCTUs.

Therefore, FEBEG recommends Elia to take into consideration following additional measures:

- FEBEG is concerned that market parties are squeezed between two conflicting principles: (1) the obligation to bid in the "per CCTU" auction in D-1 the volumes offered in the "all CCTU" auction in D-2 which were not retained and (2) the monitoring and scrutiny of CREG as regard to the reasonable character of the prices that are bid in. Ideally, high prices are allowed as they provide a price signal to invest to enter into the market. Taking into accounts the events of October, FEBEG prefers to propose to remove the strict obligation to bid in D-1 in combination with a list of measures that ensure that D-1 auction becomes more attractive, will be made more efficient and will allow a fair competition between all types of actors

- allow divisible and non-divisible bids in the "per CCTU" auction in D-1: the authorization of indivisible bids would be accompanied by the following precisions:
    - Indivisible with a maximum of x MW (5 or 10 MW?): the amount of MW chosen will be the leverage for the price decrease;
    - Maintain the existing 100% merit order selection;
    - Contract overcapacity if indivisibility is last accepted bid (preferred option) or skip indivisible bid to next bid.

- modify the rules for the evolution of the volume repartition between the "all CCTU" and the "per CCTU" auctions:
    - Elia should explicitly take into account the prices of the offers submitted in the "per CCTU" auction for the determination of the volume switch, so as that if the average cost over 24h of procuring 1MW in D-1 is more than 20% more expensive than procuring the same capacity in D-2, no more volume can be transferred towards the D-1 auction.;
    - Elia should review whether the proposed volume cap on the "per CCTU" auction should be limited to DP_{PG} prequalified volume, or if also other technologies that fall under DP_{SU}, eg Offshore wind, should be included;
    - Apply a rule for volume change on week/weekend basis (in order to take into account a possible difference between both).

- if the "per CCTU" auction would not clear, a 24 hour block auction could be organized to supply missing volumes on several blocks