

## 20201106\_Public consultation on the proposal of amendment of the TC BSP aFRR

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### Comments/suggestions to the consultation

RWE Supply & Trading GmbH very much welcomes the opportunity to respond to the public consultation organised by Elia regarding the proposal for amendment of the Terms and Conditions for balancing service providers for automatic Frequency Restoration Reserve, dated 11 November 2020.

In this context, we would like to express our concerns with regards to the amendments introduced by the updated T&C BSP aFRR.

With the change Elia wants to address the risk of greater price volatility in the per-CCTU capacity auction. This volatility is a result of the requirement for market participants to place fully divisible bids. This means that whenever a generation unit has to take part in the per-CCTU capacity auction (in which only fully divisible bids are allowed), market participants will calculate their bid price in such a way that they can live with an acceptance of only the smallest unit available in the smallest possible timeframe (currently 1MW for 4 hours). Consequently, even in the case whereby the volume to be procured in the per-CCTU capacity auction is subject to a cap, market participants will price such volume accordingly.

Having said this, the cap would indeed provide a route for Elia to reduce price volatility in the reserve market witnessed most prevalently in October 2020, but only in case that no capacity will be procured in the per-CCTU capacity auction, i.e. when the cap is set to zero. In case non-CIPU units have prequalified in order to participate in the per-CCTU capacity auction, it is not guaranteed that all such units would participate at every auction. In the event that such units are unable to participate and to provide sufficient capacity, the remaining capacity will currently have to be provided by CIPU units, which includes conventional gas-fired power plants, thus leaving Elia exposed to increased price volatility.

Despite the cap, Elia will thus still see potentially high price volatility within the per-CCTU capacity auction. This is because the current market composition in Belgium for reserve capacity is unfavourable for the market design to be implemented under the European Balancing Guideline. In fact, due to simple economic principles, we would also expect non-CIPU units to adjust their bidding accordingly by taking into account the higher levels of volatility.

However, the only way to reduce the magnitude of the price volatility would be to allow market participants to use indivisible bids in the per-CCTU capacity auction, at least until sufficient investment has been made by new market entrants so that they can participate in the market and provide more liquidity.

**Almost done...**

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**Answer confidential ?**

Completely non-confidential

It is important to know that Elia will consolidate the different remarks and publish them on its website at the end of the consultation unless the respondent requests confidentiality in its response. The Elia response to the remarks made will be provided via a consultation report. This consultation report will also be published on the Elia website.