

Public consultation on the proposal of amendment of the T&C BSP aFRR

--

Centrica Business Solutions (CBS) response

6th December 2020

Overall message

CBS understands the rationale for the amendment proposed by Elia, in order to increase the efficiency of the Step 1 / Step 2 aFRR auction mechanism. However, CBS points out that such an amendment should also ensure that the access to the aFRR for DP_{PG} is not further limited. Considering the current scheme, CBS believes that the proposal must be reconsidered, and that other alternatives are available to achieve those two objectives.

Key points

- The amendment proposed by Elia will likely not solve the identified issue. Furthermore, it raises additional risks regarding the ability of DP_{PG} to access the aFRR market via the Step 2 auction
- CBS considers some fixes could be implemented if Elia is able to introduce sufficient agility in the sequencing of the Step 1 and Step 2 auctions

The amendment proposed by Elia will likely not solve the identified issue. Furthermore, it raises additional risks regarding the ability of DP_{PG} to access the aFRR market via the Step 2 auction

First, CBS points out to Elia that the proposed approach, relying on the assessment of the volumes of DP_{PG} that are prequalified in aFRR (aFRR_{max} values), is likely to fail addressing the identified risk. Indeed, the fact that volumes are prequalified is not a guarantee that these volumes will effectively be sold on each CCTU and all the time. There is a distinction to be made between the technical capacity prequalified in aFRR on a single CCTU, and the effective capacity that can be sold in the context of daily auctions with 6 consecutive blocks:

- Part of the prequalified capacity might not be always available, especially in the context of aggregated portfolios, which rely on several underlying assets whose primary usage is not to take part to the market. This requires an adjustment of the number of MWs sold compared to the maximum level of aFRR that can be technically provided.
- Because of energy constraints, a capacity might be sold only on a certain number of CCTUs of a given day and not all of them, therefore leading some prequalified MWs from DP_{PG} to not be available all the time.

Example: let's assume Elia uses the number of prequalified MWs aFRR from DP_{PG} to fix the cap of the Step 2. Let's assume there is 10 MW of prequalified DP_{PG} and the cap set at this level. The risk is that there is no guarantee that these 10 MW will effectively be offered on each CCTU. Elia is therefore still exposed to the risk of relying on expensive MWS from DP_{SU} in the Step 2 auction.

CBS also underlines the risk that the proposed amendment will limit the effective access to the aFRR market for DP_{PG}:

- In the case where DP_{SU} would offer MWs at a lower price than DP_{PG} in the Step 2, having a cap based on the prequalified MWs of DP_{PG} could lead to exclude these MWs from the market. This can be particularly true in a certain direction (typically aFRR down), once CIPU units have covered their fixed costs in the Step 1 auction and can offer very low prices in the Step 2 in a certain direction.

Example: if there is 10 MW of prequalified DP_{PG} and a cap set at this level, and if 10MW of DP_{SU} are offered at a lower price in the Step 2 auction, then the DP_{PG} will have no chance to enter the market, given Elia will cap the volumes of the Step 2 at 10 MW, and will not implemented the mechanism to increase the number of MWs in Step 2 until there are further DP_{PG} MWs prequalified.

- In the case where on certain blocks the number of DP_{PG} MWs offered would be lower than the amount of DP_{PG} prequalified MWs, Elia would still have to select MWs from DP_{SU} in the Step 2 to buy the requested volumes. In case these DP_{SU} MWs are at high cost, CBS fears this could lead to blocking the mechanism foreseen to increase progressively the volumes of the Step 2 auction.

For these reasons, CBS believes that the proposed fix must be reconsidered, as it raises more risks than it brings solutions.

CBS considers some fixes could be implemented if Elia is able to introduce sufficient agility in the sequencing of the Step 1 and Step 2 auctions

Centrica nevertheless fully understands the willingness of Elia to find a solution to the current situation. CBS therefore proposes to collectively assess the available options to improve the current design. This will likely require more agility in the auction process. Given the complexity of the aFRR procurement scheme, such changes will have to be carefully considered to make sure they effectively enhance the situation and do not entail unwanted downsides, in particular regarding the ability for DP_{PG} to access the aFRR market via the Step 2 auction.

Considering the current design, CBS for example suggests the following option to Elia: while selecting MWs in the Step 2, Elia could reject expensive MWs from DP_{SU} that would be needed to fill in the requested volumes, and re-open the Step 1 merit order in order to pick the last missing MWs on top of the MWs offered by the DP_{PG} in the Step2.

Example: let's consider a 10 MW volume in the Step 2 auction on a given CCTU, with only 7 MW of DP_{PG} and 3 MW of expensive DP_{SU} MWs. Elia would select the 7 MW of DP_{PG}, close the Step 2 auction, and go back to the offered Step 1 volumes to close the last missing 3 MWs. This would of course lead to contracting these 3 extra MWs on all CCTUs, leading Elia to buy more than the total aFRR need on certain CCTUs. However, this could lead to a total cost lower than selecting the 3 MWs on this CCTU using the Step 2 bids from the DP_{SU}.