CONSULTATION REPORT

Public consultation on Terms and Conditions for balancing service providers for automatic Frequency Restoration Reserve (aFRR)

February 11, 2021

Content

1. Introduction

Between the 6th of November and the 6th of December 2020, Elia organized a public consultation on a request for amendment to the Terms and Conditions for balancing service providers for automatic Frequency Restoration Reserve (aFRR) (hereafter referred to as "T&C BSP aFRR")[1].

Consequently to the bidding behavior 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 request for amendment intends to include the protective measure in the T&C BSP aFRR. The consultation aimed to receive formal feedback from the stakeholders on the protective measure. This feedback will be taken into account in a further design evolution of the capacity auctions, which will be discussed with the stakeholders as of Q1 2021.

Elia received 6 non-confidential answers to the public consultation from the following parties:

- Febeg
- Febeliec
- Next Kraftwerke
- Centrica Business Solutions, hereafter referred to as "CBS"
- Flexcity
- RWE Supply & Trading, hereafter referred to as "RWEST"
- Rent-a-Port Green Energy and SRIW Environment, hereafter referred to as "RAP-Green and SRIW"

This consultation report contains the overview of feedback from the stakeholders, and the answers of Elia thereon. For the full responses of the stakeholders Elia refers to the individual feedback responses.

All relevant, information on this consultation is available on the consultation webpage[1]. Elia has submitted the final request for amendment of the T&C BSP aFRR together with the consultation feedback and the consultation report to the CREG in line with EBGL requirements.

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

2. The protective measure as a short term solution

Febeliec feedback

Febeliec agrees with the proposed changes as they constitute a short term solution to avoid the issue that has been identified in October 2020 regarding the extreme increases in cost for aFRR reserve procurement after the instauration of a new aFRR procurement mechanism.

Febeg feedback

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

Elia response

Elia thanks Febeliec and Febeg for their support in implementing the protective measure and confirms it is currently working on a further evolution of the design of the capacity auctions. This will be discussed with the stakeholders as of Q1 2021.

CBS feedback

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.

Next Kraftwerke feedback

Next Kraftwerke rejects the “Proposal for Amendment T&C BSP aFRR”.

We ask Elia to reinstall the former design and open the market as soon as the first Megawatts of non-CIPU units are entering the market.

In parallel Elia can then investigate in discussion with all market parties a possible design adaptation for the case that again extremely high prices are observed. The new design adaptation proposal needs to ensure that there is full competition between step 1 and step 2.

Elia response

Elia acknowledges that the protective measure may have an impact on the access of DP_{PG} to the market and is currently working on a new proposal. However, considering the extremely high costs observed in October and the still very limited newly prequalified volumes, Elia is not in favour of abandoning the protective measure before the next amendment is implemented. For the same reasons, it is too early to abolish step 1, as this would lead to a systematic increase of costs and have unacceptable consequences on the tariffs.

Alternatively, we suggest removing market complexity and abolish step 1.	

RAP-Green and SRIW feedback	**Elia response**
Rent-A-Port Green Energy NV (RAP-Green) and SRIW-Environnement (SRIW) understand that an amendment to the T&C BSP aFRR was needed considering the present market situation, and believe that the cap implemented by the proposed amendment is appropriate for dealing with the current, extraordinary, temporary and unexpected market situation (0 MW or very few DP_{PG} prequalified capacity on aFRR). However, RAP-Green and SRIW believe that the amendment fails to be proportionate, because unlimited in time, which creates important adverse effects. It is indeed our understanding that the proposed limitation of the volumes on the “per-CCTU auction” (or “step 2” auction) to the volume of prequalified DP_{PG} will remain applicable even when the market situation will be “fully normal”, with sufficient liquidity on the per-CCTU auction. Under such normal market conditions, the market rules, extensively discussed among market parties, must apply for definition of the volume procured on the per-CCTU auction. RAP-Green and SRIW understand that this would not be the case with the proposed amendment: even if the price of the capacity procured in “step 2” in D-1 is competitive with prices observed on step 1 in D-2 in a way that should lead to increasing the volume procured per CCTU in step 2 as per the approved market rules, those step 2 volumes will not increase in case of insufficient prequalified DPPG units because of the volume cap introduced by the proposed amendment of the T&C. RAP-Green and SRIW believe that it is essential that the amendment would have an explicit temporary character.	Elia thanks RAP-Green and SRIW for their support in implementing the protective measure as a short term solution. Elia agrees that the protective measure should not remain in the long term and is currently working on an alternative solution. In the meanwhile, the volume cap should remain even if competitive bids from DP_{PG} are received in the per-CCTU auctions. The objective is to avoid spikes in auctions’ costs, which can occur in situations where capacity cannot be delivered by DP_{PG} units and needs to be covered by out-of-the-money CCGTs. Although Elia’s intent is to finalise soon an alternative proposal, discuss it with market parties and the CREG, and submit a new request for amendment, it is not considered appropriate to limit in time the application of the amended T&C as it would create a contractual and regulatory risk in case more time is needed for the consultation, approval or implementation process. The risk to abandon the protective measure before a suitable alternative is implemented is also not considered acceptable considering the consequences it may have on the procurement costs, hence on tariffs.

3. Remaining risk of high prices once DP_{PG} units will be prequalified

Febeliec feedback	**Elia response**
As stated above, the proposed solution by Elia only wins time, as it does not solve the problem. Indeed, if at some point a certain volume of potential aFRR capacity related to DP_{PG} delivery points will be pre-qualified, the identified issue and related substantial cost increase could yet	Elia agrees with stakeholders that the protective measure does not fully cover the risk of high prices. This is one of the reasons, besides the access for the newly

again occur without the currently proposed measure having any effect.

RWE feedback

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.

Febeg feedback

FEBEG believes that 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 prequalified units to the aFRR capacity market, why we are working on a new amendment.

However, it should be noted that the protective measure still allows to limit the risk of high costs when DP_{PG} units are prequalified, as the market conditions that led to the very high costs in October are only expected when a significant volume is allocated to step 2 that cannot be covered by DP_{PG} and by already running CCGTs (see the example provided by Febeg where a second CCGT would have to be started-up for the per-CCTU auction). In addition, in case some CCTUs need to be covered by out-of-the money CCGTs because the DP_{PG} units did not submit bids for those CCTUs, the volume to be procured at high prices will be reduced in comparison with the situation in October.

Finally, on the basis of the feedback from the public consultation and of discussions with the CREG, a Cap Variable has been introduced. The value of this Cap Variable is initially 0MW and can be adapted based on Elia's analysis, after approval from the CREG. The Cap Variable is intended to allow:

- An increase of the cap, for instance if newly prequalified DP_{SU} assets (which are not included in the current definition of the cap) appear to be offering in the per-CCTU auction on a stable basis
- A decrease of the cap, for instance if the prequalified volume offered with DP_{PG} increases significantly, but that the actual volumes offered remain too limited on some CCTUs, leading to a risk of high costs in the per-CCTU auction

volume from other technologies offered in D-1 requiring additional volumes on some or all CCTUs.

Flexcity feedback

The proposed amendment does not necessarily avoid high peak prices: Pre Qualified volumes are not necessarily fully offered in every CCTU. Therefore price spikes might still arise.

The proposed amendment will therefore not succeed in avoiding all price spikes.

RAP-Green and SRIW feedback

We believe that those adverse affects are far from being compensated by the advantages of such measure when significant MW of DP_{PG} will be prequalified on the aFRR: the risk still exists that Elia must procure limited MW capacity for limited duration from CIPU units on step 2, with high prices as a result.

Next Kraftwerke feedback

The proposal shall ensure a cost reduction for aFRR sourcing with the objective to avoid extreme prices. This cost reduction is however at full expense of step 2 bidders and at the sacrifice of putting step 1 and step 2 in competition. But even though it is turning the design upside down at the expense of step 2 and non-CIPU, it does not even solve the problem that there will be extremely high prices in case a CIPU unit needs to be started up for step 2.The problem therefore remains and will occur again as soon as larger step 2 volume (about 30 MW) is prequalified.

CBS feedback

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 (aFRRmax 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.	

4. Positions on initial design and impact of protective measure

4.1. General comment on the design

Febeliec feedback	Elia response
Febeliec also wants to clearly stress that it during the design phase of the aFRR procurement mechanism has already indicated, just as did several other market parties, that the design by Elia has several major flaws. However, the comments from Febeliec and other stakeholders were discarded and not taken into account. Recent history shows nevertheless very clearly that at least one of the identified flaws has lead to a faulty design.	Elia does not agree that stakeholder comments were disregarded. In the design process, Elia and the CREG need to take into account the constraints of all market parties as well as the legal framework.

4.2. Volume allocated and clearing price of the per-CCTU auction

Febeliec feedback	Elia response
As already stated in April 2020, Febeliec urges Elia and CREG to monitor the minimum threshold volume of capacity to be acquired under the second step very	The first weeks after go-live of the new design has shown that the minimum threshold doesn't seem to impact the volume allocated to the per-CCTU auction, as bids of

closely and proposes that already now the design is modified to take into account additional mitigating measures or revert to a different approach as the current approach has lead to substantial avoidable cost increases. Febeliec regrets that in order to break the chicken-and-egg deadlock, the current approach allows to allocate certain volumes at any clearing price, which of course pushes the cost for consumers to stratospheric levels as has been shown in October (and this despite the fact that at first sight no parties seem to have applied speculative bidding behaviour, indicating that the outcome is the result of a fundamental design flaw).	CCGT units in the per-CCTU auction were often below the reference price. Elia will however monitor the minimum threshold volume, should this conclusion evolve once more DP_{PG} units will be prequalified. In addition, Elia will further investigate for the future amendment at what conditions the volumes in the per-CCTU auction are cleared.

4.3. Positions on the balance between the 2 steps in the initial design

Febeliec feedback	**Elia response**
In general and as stated amply during earlier consultations and during discussions on the aFRR design, Febeliec understands, as already indicated in an earlier phase, that Elia tries to break the chicken-and-egg deadlock for new entrants and new technologies. However, Febeliec strongly insists on the need to avoid a cost increase for the reservation of balancing capacity for this purpose, especially in light of what happened in October 2020. Febeliec still remains, as already stated in April 2020, principally opposed to the proposed two-step approach. Febeliec reiterates its position that shifting volumes towards the second step in the aFRR mechanism should definitely only be done insofar the aFRR market succeeds in materializing the required volumes, which has not been shown, and this at a competitive price level. As the recent events have shown, such volume has not materialized yet.	It's important to keep costs under control and this is the reason why the protective measure has been introduced. As announced recently, the first DP_{PG} volumes have been successfully prequalified in December 2020 and January 2021, but indeed additional volumes are necessary for the design of the capacity auctions in two steps to become relevant.
Flexcity feedback	**Elia response**
Importance of per-CCTU auction for non-CIPU or smaller units Technically it is possible to offer aggregated aFRR in the "All CCTU's" tender. However due to the indivisibility of the much larger thermal bids which have, due the nature of the underlying assets, mostly a downwards sloping price, it would be impossible for a smaller player to be selected in the "All CCTU's" tender at reasonable prices.	Elia agrees that the total cost optimization of the "all-CCTU" auction reduces the chance for "small" players to be selected in that auction and understands that the "per-CCTU" auction is of particular importance to these players. The potentially low prices in the "per-CCTU" auction (due to units selected in step 1 having already covered their

Hence the only remaining tender from which value can be derived is the “Per CCTU” auction. This is therefore the tender on which Flexcity needs to earn back the considerable investment that was required for aFRR. It will also be the prices reached on this tender that can be used to persuade industries to make the efforts required to offer their flexibility to the aFRR markets.

- ⇨ See Flexcity’s consultation feedback for full comment

RAP-Green and SRIW feedback

Barriers for new entrants to take part to the Step 1 auction in D-1 are extremely high: because of the total cost optimum selection for a symmetrical service on that auction, even with a bid price that is fully competitive, there is a high risk that a new entrant with modest capacity isn’t selected on that auction, because its selection would increase the total cost compared to selection of large capacity from a limited amount of large (CIPU) units. On step 2, the same bidder can face concurrence of cheaper bids on some of the CTTUs, including from CIPU units and therefore be deprived from revenues if the volume procured on step 2 is not sufficient. CIPU units can indeed take part to the per-CCTU auctions in step 2, and could offer very competitive service for selected CCTUs.

Example: if there is 20MW prequalified DP_{PG}, from which a 10 MW battery (within an aggregated portfolio), that battery could fail to be selected on step 1 while fully competitive for 24h delivery, but also fail to be selected for CCTUs 8-12h and 12-16h for instance, because a CCGT planned to operate only at those hours and setting the marginal price on the spot market offers 20MW of aFRR at very low price for these CCTUs. If this is the case, rules agreed upon as a consensus between all stakeholders and the CREG should apply and the volume on step 2 should be incremented to increase the market size accessible to new entrants. Otherwise obvious market barriers are created.

Next Kraftwerke feedback

It is important to explain why the volume shift between step 1 and step 2 was so important for the BSPs and why it was central for their investment decision.

fixed costs) is indeed to be compensated by the resulting increase in volume allocated to this auction.

This will need to be well calibrated in the future proposal, as it’s also necessary to mitigate the risks on tariffs resulting from a high volatility in prices observed in step 2.

The reason is that the CIPU units price in all their costs in step 1. In particular the must-run and start-up costs are priced in. They need to do so to guarantee the aFRR service is profitable for them. However, this allows the CIPU units to offer step 2 volume with running plants at very low costs. These costs do not reflect the costs that such plants would have in a market with 4 hour blocks and merit order as envisaged by the European Commission.

In step 2 the non-CIPU units are therefore put in competition with units that have covered there must-run costs and start-up costs and an additional margin already in step 1. During the discussion for the current market design, we had explained this problem various times in detail and we stated clearly that we see this as the biggest risk for our investment. Elia's team fully understood these concerns but explained that step 2 auctioned volume would increase if prices are low in step 2. Therefore, eventually the prices for step 2 should rise again. We followed this line of argumentation and accepted the design. It must be obvious that exactly this idea that step 2 auction volume would increase convinced us. We would in no case have positively responded to a design in which step 2 volume is capped and in which low step 2 prices would not lead to an increase of step 2 volume**.**

Flexcity feedback

Within the current market design undesired market interactions between the "Per CCTU" and the "All CCTU" auctions exist.

For example: an out-of-the-money (on the wholesale market) CCGT which has partially been sold in the "All CCTU" tender has already fully covered their must-run costs caused by their technical minimal output power.

This means that in a second tender aFRR volumes can be offered at very low prices. This can be seen as cross subsidizing the offers in the second tender with the results of the first tender making that there is no technologically neutral playing field during the second auction.

However, prior to the proposed amendment, the very low prices have one potential advantage: they can increase the volume which needs to be tendered in the "per CCTU auction". Although slow, this can be seen as a kind of automatic corrective measure : low market prices in the second tender compared to the first tender caused by the interactions between the two tenders increases the volume and thus the price of the second tender.

⇨ See Flexcity's consultation feedback for full comment

4.4. Impact of protective measure for "small" units

Flexcity feedback	Elia response

The proposed amendment removes the "Automatic Corrective Measure". The volume will remain unchanged and the prices will remain artificially low, hindering and slowing down the integration of new technologies in the aFRR market.
 	
Flexcity feedback
 	
The proposed amendment pushes prices further down during the second tender.
 	
The prices in the second tender can be very low due to the link with the first tender. When further limiting the volume in the "per CCTU tender" to, for example 4MW of prequalified non-CIPU capacity, instead of the minimum volume of 10MW, Flexcity will be competing with the cheapest 4MW of CCGT capacity instead of the cheapest 10MW. The lower the volumes to be procured in the second tender, the higher the probability that this volume can still be supplied by a CCGT whose costs have already been reimbursed in the first "All CCTU" tender. This further contributes to a market circumstance where new technologies will struggle to find their place.
 	
CBS feedback
 	
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
	• As long as there is no sufficient liquidity of non-CCGT units, covering all CCTUs, which would allow a 1-step auction with 4-hour blocks, Elia needs to find a compromise which allows the participation of competitive new entrants while avoiding an excessive increase of costs (the goal being in the longer term to reduce the procurement costs of aFRR capacity).
	• Situations experienced on the 18th and 21st of October must be avoided and Elia had to implement a fast solution, requiring no implementation time, and taking into account the delay of new entrants.
	• However, Elia understands that the amendment increases the competition for the "small" units in the "per-CCTU" auction, while not fully covering the risk of very high procurement costs once a significant volume of DP_{PG} units will be prequalified. Therefore, Elia is currently working on a new amendment, which will be discussed with the stakeholders as of Q1 2021.
	• In the meanwhile, Elia would like to add some observations:
	  - As long as the bids in the per-CCTU auction are not more than 20% more expensive than the all-CCTU auction, there is still an opportunity for all DP_{PG} units to be selected.
	  - In addition, as stated by several stakeholders in §3, prequalified DP_{PG} volumes are not necessarily fully offered in every CCTU. This means that, for those CCTUs where the complete prequalified DP_{PG} volumes are not offered, the volume allocated in the per-CCTU auction may be higher than the volume

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.

of bids submitted by DP_{PG} units, increasing the chances to be selected.

Next kraftwerke feedback

The proposal removes the key element of the market design which puts step 1 and step 2 in competition. The proposal installs step 1 and step 2 as two independent markets where new market entrants are trapped in step 2 with prices which are no longer representative of the aFRR market. This is entirely against the idea that Elia had when working out the market design. The proposal is no quick fix but a complete change of design. And it changes the design that Next Kraftwerke positively responded to in the previous consultations and based on which Next Kraftwerke made significant investments into the development of aFRR.

5. Need for higher prices in step 2 to attract new players and new volume

Next Kraftwerke feedback

The goal of Elia is to create an open market for aFRR in Belgium. During the last decades, the market was closed for non-CIPU units and many design features were made just for CCGTs which was indeed the only technology present on that market. The latter also because it was simply not possible to enter with other technologies due to these design features (chicken-egg problem).

If the market is now opened, we will see as expected higher prices during certain moments and for the first year or years. These prices are necessary to attract new players and new volume to the market.

Elia response

Elia indeed tries to break the chicken-egg deadlock, namely by the 20% price adder in the volume allocation.

It’s not certain that there will be permanent overcapacity, as several market players with DP_{PG} will not necessarily bid in all CCTUs the entire prequalified volume.

This being said, as stated above, Elia is working on a new amendment to address the issues raised by the stakeholders.

By limiting the volume in step 2 to the prequalified volume there is permanent overcapacity. The to be expected low prices will fail to deliver the price signals for new volume. Higher prices would also be needed to attract new investments in new capacity like batteries.	

6. Long term vision

RAP-Green and SRIW feedback	Elia response
This goes against the evolution towards the long term model defined by Elia, with the whole aFRR volumes procured through the per-CCTU auction. By definition, if the volume on that auction is capped to the DP_{PG} prequalified volume, it is impossible to reach the situation where all aFRR volume, including the one procured from CIPU units, is procured on the per-CCTU auction. The signal sent to the market is the one of a long lasting “Chinese wall” between the “CIPU” auction in step 1 and the “DP_{PG}” auction in step two. This is the exact opposite of the long term model promoted by Elia, and goes again the necessity to evolve towards a single, technology neutral level playing field.	Elia confirms its long term model, but reminds that this is based on the prequalification of sufficient new entrants, which is very far to be the case 6 months after the initial go-live was planned. This long term vision is aligned with article 32(3) of EBGL for the obligation to purchase separately upward and downward balancing capacity for aFRR. In the meantime, Elia has been granted an exemption by the CREG in the decision (B)1879 of 18 December 2018, which is valid until 15 December 2021.
RAP-Green and SRIW feedback	
To foster a technology neutral level playing field, Regulation 2019/943, under Article 6, requires balancing capacity to be procured separately for up and down products, for 24 hour duration blocks and maximum 24 hours ahead. This is not the case in current case, for (almost) all aFRR volume that is procured in D-2 and symmetrically. This is only acceptable if evolution toward D-1 and asymmetric merit order procurement is not hindered by an arbitrary volume cap. RAP-Green and SRIW urge Elia to move as soon as possible towards an aFRR procurement that fully complies with EU Regulation 2019/943 Article 6: in day-ahead, for maximum 24h periods, and with an asymmetric merit order based procurement instead of a symmetric total cost optimum selection.	

7. Impact of changing market rules

RAP-Green and SRIW feedback	Elia response
We conclude that the proposed amendment, if our interpretation hereof is correct, would create a fundamental, unjustified and adverse change in the market rules that is totally inacceptable: • First, the consensus reached among the market participants, Elia and the CREG after a long, time and energy consuming market design process would be fundamentally denied and disrupted in a way that would undermine the very rationale of having had such prior consultation. • Second, at our particular level, we may suffer significant damage from the amendment. We have based our final investment decision for our recently announced 10MW battery project in Bastogne based on the market rules that were published by Elia after this long market design process, and assumed that a certain market stability would prevail, guaranteeing us satisfying access to the aFRR market. Apart from the long and consultative market design process that should guarantee such regulatory stability, Elia had also explicitly stated in the design note and workgroup presentations that the long term market vision was the per-CCTU auction, and that evaluation of the market rules would be made after 1 year and in order to evaluate how we can fasten, not slow down the evolution towards such long term market vision. We do not deny the right to Elia and the CREG respectively to make use of their prerogatives to propose and approve regulation changes, but we believe that it is totally unacceptable that such changes would increase market barriers to new entrants, reduce technology neutrality and create further deviation with the EU electricity Regulation. ⇨ See RAP-Green and SRIW consultation feedback for full comment We therefore ask Elia to stick as close as possible to the message sent in the design phase, and to evaluate the market functioning after a sufficiently long period, and with the announced objective to evolve towards the long term model.	Considering the situation observed in October, Elia could not afford to wait 1 year for a re-evaluation. It was absolutely necessary to implement a protective measure in the very short term. Elia however understands the concerns of Next Kraftwerke and RAP Green and SRIW and will take them into account in the new proposal which is under preparation. Elia acknowledges that a pilot project has been conducted for activation, but not for capacity auctions. Elia invites Next Kraftwerke to share its ideas on this topic, if not yet included in this formal feedback (see §11).

Next Kraftwerke feedback	
<u>Investments were made based on the former design.</u> Next Kraftwerke and other BSPs made significant investments based on a market design consulted and proposed by Elia. The investment costs for developments in Belgium are particularly high compared to the aFRR development costs in any other country that Next Kraftwerke delivers aFRR in. This is due to the complexity of the market design, the communication requirements by Elia, the local gateway requirements etc. Next Kraftwerke had raised these concerns in several discussion with Elia. We proposed various simplifications that would have reduced the cost significantly without lowering the service quality. We never understood why the design of the pilot project in which already two BSPs participated was not chosen at least for the start of aFRR with non-CIPU units. The development costs for the pilot project were a fraction of the costs to be ready to participate in the current aFRR market. The complexity of development was also reflected by the delay of all BSPs for the market opening date. However, the BSPs took the investment decision knowing that high costs would be encountered. The decision was taken based on the consulted market design and the expectation that the competition between step 1 and step 2 will eventually also show higher prices and therefore payback the investment. **Next Kraftwerke might not have taken the investment decision for aFRR in Belgium if step 2 volume would have been capped in the original design.** **The new proposal of Elia removes just this very key design element that was so important for us.**	

8. Currently prequalified DP_{PG} volumes

RAP-Green and SRIW feedback	Elia response
One should avoid drawing premature conclusions because the market rules do not function optimally in a situation for which they were not meant to optimally function (0MW prequalified DP_{PG}). High prices have also been observed in a context of a CIPU captive market (ref	Elia observes that the DP_{PG} volumes are entering the market at a much lower pace than announced by market parties. This has a significant impact on the market and can't be ignored.

2011 – 2013 period, when it had to be defined by Royal Decree, or winter 2019). Statement that with the new rules, no new entrants are observed at go live, should not lead to market changes making entry of new entrants even more complicated. Arrival of new entrants should be facilitated instead if one want to ensure long-term liquidity on the service, including in periods with low grid inertia (high RES).	
Next Kraftwerke feedback The market design was not tested with the competition from non-CIPU units: the high prices that were observed on the market occurred in a market without competition from non-CIPU units. Before a design change can be considered (which should be in any case different from the proposal consulted here) the market design current market needs to be tested with competition from non-CIPU units.	

9. Some DP_{SU} units are more suited to the “per-CCTU” auction

FEBEG feedback	Elia response
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 DP_{PG}, ie NON CIPU assets. One could imagine also DP_{SU}, eg Offshore wind, that could profit from a D-1 auction.	Elia agrees with the fact that some CIPU are more suited to the “per-CCTU” auction. Therefore, a Cap Variable has been introduced in the T&C submitted for approval to the CREG (see §3). This comment will also be taken into account in the future proposal.
Next Kraftwerke feedback It needs to be pointed out here that we always say that only CIPU units can compete in step 1. That is in fact not true. Whether or not one can be successful in step 1 depends on the total volume one can offer. An owner of a smaller CIPU unit. For instance, a 100 MW plant with 25MW flexibility can also not be competitive in step 1. The current market design is made for players that can offer large volumes. Any bidder with smaller volumes cannot be successful in step 1 at reasonable prices.	

10. Implementation costs as a guiding argument

Next Kraftwerke feedback	Elia response
Design change implementation costs cannot be the guiding argument: We also understand that more complex solutions that really fix the issue encountered require additional work from Elia and that the proposed design change is hardly any IT implementation and can be easily implemented. We hope that this was not the guiding argument for the current amendment proposal.	Considering the costs of some auctions in October, an immediate action was needed and there was no time available for deep design and implementation work. The protective measure allows to give Elia and stakeholders more time to discuss the next amendment.

11. Requests and suggestions for further design evolutions

Market parties have made several interesting suggestions of improvements. Elia provides its general appreciation of the suggestions made and will further analyse them in a new amendment proposal, which will be discussed with market parties as of Q1 2021.

11.1. General request for revised design

FEBELIEC feedback	Elia response
Febeliec requests in the strongest possible way that the design of the aFRR procurement is completely revisited as the proposed measure does not solve the underlying design flaw that has lead to the disastrous outcome of several aFRR procurement auctions in October 2020, leading to a more than substantial cost increase for consumers through their tariffs.	Elia is actively working on a solution which would prevent the very high costs observed in some of the auctions in October.
FEBELIEC feedback	**Elia response**
Furthermore, as Febeliec is of the strongest possible opinion that the design will need to be adapted to remediate several observed fundamental flaws, Febeliec urges Elia and CREG to also take into account other much needed design modification. Amongst other, Febeliec remains disappointed that it remains impossible to offer aFRR and mFRR from a same delivery point.	Elia refers to the consultation report on the previous version of the T&C BSP aFRR. *Elia acknowledges the disappointment. It is possible to offer aFRR and mFRR from the same delivery point DPsu as specified in Annex 9A of the T&C BSP aFRR. For DPpg, this is not possible.* *In case the same delivery point DPpg within an aggregated bid can be activated for aFRR and mFRR on the same moment, additional complex settlement rules need to be developed and implemented. Before adding such complexity, Elia proposes to first observe how the participation of smaller delivery points in the aFRR market will evolve and then assess based on relevant experience the benefit of such an implementation.*

	Elia observes that, in the meanwhile, no experience could be built up with smaller delivery points.

11.2. Allow indivisible bids / block bidding in the per-CCTU auction

RWE feedback	Elia response
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.	The proposal mitigates the risks of extremely high costs. However, spreading the fixed costs over e.g. 5MW instead of higher volumes is a source of (significant) inefficiency. It would indeed lower the price compared to the initial design, but still potentially result in a significant increase of the per CCTU auction costs when the fixed costs of CCGT units needs to be covered by that auction. In addition, applying a pure merit-order would imply an almost permanent overdelivery, which is by nature suboptimal. An alternative could be to limit overdelivery by rejecting the competitive bids above the allocated volume, but this would lead to unfair competition for small assets and to a lower transparency. As the possibility to submit indivisible bids would only help in some specific market conditions and that the drawbacks identified above would be permanent, Elia is investigating alternative solutions. This will be further discussed during stakeholder workshops.
FEBEG feedback FEBEG recommends Elia to take into consideration a measure allowing 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	
Next Kraftwerke feedback The extremely high prices seen in step 2 could be avoided by allowing those units that also bid in step 1 to spread their costs over larger volume. Currently CIPU units price their complete costs in the first MW selected in step 2 if a new unit needs to be started up. If these units could put indivisible bids in step 2 of for instance 5 MW, this would mean a significant bid price reduction. Of course, the volume in step 2 should still be sourced by applying a merit order. In case Elia needs to procure indivisible bids to fill the volume and these are marginal, Elia may have to contract overcapacity.	
RAP-Green and SRIW feedback The option of allowing block bidding for several CCTUs (in the same direction) on step 2 should be investigated. We understand that this is not necessarily incompatible with merit order selection since such option for block bidding also is available on EPEX DAM.	

11.3. Removal of the volume cap

RAP-Green and SRIW feedback	Elia response
The best and only option to avoid the risk of high prices is to allow volumes to increase on step 2 for being able to procure large CIPU capacity per CCTU, which is exactly what will be hindered by the proposed amendment. ⇨ See RAP-Green and SRIW consultation feedback for full comment It should be clarified that rules for incrementing/decrementing volumes on step 2 based on the respective market results between step 1 and step 2 prevail on the rule capping the volume of step 2 to the volume of prequalified DP_{PG}. With other words, as long as there are no DP_{PG} prequalified, there is no step 2 auction. As long as there is less than 10MW DP_{PG}, step 2 is limited to the prequalified DP_{PG} volume, but as soon as there are more than 10MW prequalified DPPG, volume procured per CCTU on step 2 increases as per the previously agreed and extensively discussed market rules.).	Elia understands the proposal of RAP-Green and SRIW is combined with indivisible bids. If this is the case, Elia refers to its answer in §11.2. If not, Elia reminds the objective of the protective measure is to avoid high costs in the per-CCTU auction, which cannot be done by removing the volume cap without further mitigation measures.

11.4. Obligation to bid in the per-CCTU auction

Febeg feedback	Elia response
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.	Elia acknowledges FEBEG's concerns, but remarks that despite the very high prices observed in October, the CREG has not concluded to any market abuse. In addition, Elia refers to the previous consultation report. *All non-awarded volume of the "all CCTU" auction needs to be offered to the "per CCTU" auction in order to ensure the well-functioning of the volume repartition rules between "all CCTU" and "per CCTU" auctions as described in annex 7.F of the T&C BSP aFRR. The well-functioning of the volume repartition can only be guaranteed if sufficient volume with a bid price below the reference price participates in the "per CCTU" auction. In order to enhance the probability of a sufficient volume in the "per CCTU" auction, the obligation to offer non-*

	awarded volume of the "all CCTU" auction to the "per CCTU" auction was included in the design.

11.5. Volume allocation rules

Febeg feedback	Elia response
FEBEG recommends Elia to take into consideration the modification of 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).	• Elia has investigated the impact of FEBEG's proposal on the evolutions of the volumes allocated to the D-1 auction. It would be efficient in guaranteeing that the volumes allocated to the D-1 auction decrease when the cost of this auction is very high. However, investigations have also shown that those volumes might increase even faster than with the current volume allocation formula. This is not a problem as such, except in market configurations where the volume allocated to D-1 increases much quicker than the development of the liquidity adapted to this auction, leading to a high risk of extreme prices and an inefficient price formation when the CCGT units are out of the money. This will be further discussed with the stakeholders when addressing the new proposal. • Elia agrees with Febeg's comment on technologies that fall under DP_{SU} but are more suited for the per-CCTU auction and refers to its answer in §9. • Applying a rule for volume change on week/weekend basis has been considered in the design, but was eventually not implemented. The reason is that it would add an additional layer of complexity (consideration of public holidays, etc.) and that averaging over a significant amount of days would lead to look 2 to 3 weeks back for the weekends, which might not be representative of the market conditions.

11.6. Intermediate all-CCTU auction in D-1

RAP-Green and SRIW feedback	Elia response
Intermediate step between current step 1 and step 2, "step 2a", held together with the per-CCTU auction in D-	The proposal of RAP-Green and SRIW is not fully clear to Elia. In particular, if the volume allocated to the per-

1 but for 24 hour blocks, and by gradual volume allocation from step 1 to such step 2a.	CCTU auction remains unchanged, we would expect insufficient volumes in that auction, as: • Units counting on the per-CCTU auction do not necessarily bid for all CCTUs • Units with fixed costs would tend to prefer bidding in the all-CCTU auction Elia is however open to discuss the proposal more in detail with RAP-Green and SRIW.

11.7. Introduction of a cost cap

Febeliec feedback	Elia response
Febeliec insists that amongst the mitigating measures that need to be taken in the required modification of the faulty design is an overall cost cap or at least the guarantee that certain costs (e.g. start-stop costs) are only attributed once and not for every MW through a correction factor in the process (as Febeliec already insisted during the discussions on the design of the new aFRR auction mechanism, yet was not taken on board).	Elia understands Febeliec's remark and agrees that the design needs to mitigate the risk of paying start-up costs for every MW.

11.8. Fallback process when per-CCTU prices are too high

Febeg feedback	Elia response
If the "per CCTU" auction would not clear, a 24 hour block auction could be organized to supply missing volumes on several blocks.	The application of a fallback process seems reasonable if the design of the normal process does not allow to exclude the risk of very high prices in the per-CCTU auction. Elia will consider it in its new proposal. In order for the measure to be as cost-effective as possible, Elia would consider a design avoiding overdelivery in this specific fallback situation.
CBS feedback 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}.	
Next Kraftwerke feedback Currently it seems to be the best solution to us that in case prices in step 2 exceed a to be defined maximum and therefore several blocks of step 2 do not fully clear, the 24h step 1 auction will be repeated for the highest volume that is missing in one of the blocks that was not fully cleared. This would of course mean that Elia sources some overcapacity. This capacity would however be sourced at prices that are not extreme and in case the event will be rare. Furthermore, the volume of step 2 would then normally decrease due to the high price event. This adaptation seems for us to be the only possibility to keep the design of Elia and the competition between step 1 and step 2	

11.9. Suggestions of improvements of current proposal

Next Kraftwerke feedback	Elia response
We consider the improvement explained in 3.3.1 as fundamental. If it would not be taken into account, Elia would lock out flexible volume present or to be built in Belgium from the aFRR market without reason. Even if 3.3.1 is integrated, Elia would still need to apply a combination of improvements suggested in 3.3.2 to 3.3.3 and possible other improvements to work out a solution that is at least acceptable.	Elia appreciates the proposals from Next Kraftwerke, which aim at mitigating the negative impact for the small unit of the volume cap, should this volume cap be kept. Regarding 3.3.1, Elia refers to its answer in §9. Regarding 3.3.2, Elia understands the reasoning behind Next Kraftwerke's proposal. However, it entails a high level of complexity and could lead to systematically remunerate bids in step 2 at a much higher price.

⇨ The proposals are argumented and developed more in detail, with additional numbered examples, in Next Kraftwerke's full response

3.3.1 All newly prequalified volume needs to be considered

All new volume that is prequalified after 6/11 needs to be considered no matter whether it the prequalified plants are CIPU or non-CIPU units.

Otherwise, Elia would exclude existing or to be built smaller CIPU plants (that do not join the pool of a current CIPU bidder) from the possibility to be selected at fair prices as their volume is not taken into account in step 2 cap.

3.3.2 Mark-up price for step 2 by indexation of step 1

As explained before, the prices bid by step 1 units in step 2 do not reflect the true costs for the product as costs are already covered with the awarded volume in step 1 (including a margin).

The true costs can however be retrieved by looking at the bid prices of the first Megawatts of the BSPs with awarded volume in step 1 for the respective upward or downward product. Even though this would not be in line with the idea of putting step 1 and step 2 in full competition, it would at least guarantee that step 2 units receive a fair price for the service offered. In the full merit order daily product as requested by the European Commission this would be the price to be expected.

For the increase or decrease of volumes the bid price and not the paid price is considered (under the new rule it can in any case not increase above the prequalified volume).

3.3.3 Cap larger than the prequalified volume and building up of credit

- The step 2 cap that Elia proposes shall be changed into a multiple of all new prequalified aFRR volumes (CIPU and Non-CIPU) after 6/11
- The cap should be combined with a new minimum volume in step 2, replacing the current 10 MW
- Additionally, a credit can be built up: If the prices of step 2 are "low" and would trigger an increase beyond the cap (as it would be in the current design), this increase would not increase the

Regarding 3.3.3, Elia is of the opinion that, according to the announcements made by new entrants regarding the volumes of assets that will be prequalified in the coming months, this set of rules could lead to high volumes allocated to the per-CCTU auction, without measures to mitigate the risk of high prices. In addition, the credit system would make the volume split rule less reactive to market situation and could lead to long period with high prices and no decrease in volumes, aggravating the issue that we are trying to mitigate.

As a general answer on the suggestions from Next Kraftwerke, Elia is preparing a proposal for a next amendment of the T&C BSP aFRR. Elia is of the opinion that it's preferable to move to this new proposal without intermediate modification of the rules around the volume cap, as the related complexity is high and could delay the discussion and implementation of an alternative that is expected to deliver higher benefits.

volume of step 2 beyond the cap but should be noted as credit. If the market dynamics would later demand a decrease in step 2 auction volume, this decrease will then first be taken from the credit before it decreases the step 2 auction volume.	