

Subject: Public consultation on Elia's study on pay-as-bid vs. pay-as-cleared remuneration for mFRR & aFRR capacity  
 Date: 1 October 2020  
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FEBEG thanks ELIA for having the opportunity to answer ELIA's Public consultation on the study on pay-as-bid vs. pay-as-cleared remuneration for mFRR & aFRR capacity<sup>1</sup>. Please find hereafter the comments of FEBEG in the framework of this consultation. The comments and suggestions of FEBEG are not confidential.

## Introduction

FEBEG would like to thank Elia for having the opportunity to react to this note and welcomes this analysis of the pay-as-bid vs. pay-as-cleared as the document shows in a structured and detailed way the pro's and con's of both options.

Also, the approach is pragmatic as it compares the theory versus the desirability (short-term & mid-term) of implementing Pay-as-Cleared. It is also much appreciated that Elia addresses the availability of the business and implementation teams as these are a critical factor to take into account and as market parties have been very busy in the previous months considering the different go-lives ahead of us.

## General comments on executive summary

All in all, **FEBEG is very much aligned on the conclusions shared in the document. Pay-as-cleared clearly shows advantages** and is advisable for many good reasons explained in the analysis. We agree that pay-as-cleared **results in a fair remuneration for all market participants, as it guarantees equal remuneration for satisfying the same requirements** (offering the same product). FEBEG therefore does support Pay-as-cleared as the target for Balancing markets.

**However, we have listed some elements which explain why in practice, a fast shift towards pay-as-cleared would be very challenging in the short-term:**

First, pay-as-bid seems to work well since the beginning of daily procurement and **there is no sufficient data or months of experience on daily procurement to make conclusions on the added value** pay-as-cleared would bring **in the short and medium term**. Therefore, some further statistical analysis of capacity bids and offered volumes should still be done (e.g. descriptive analysis of historical marginal prices, correlation between offered volumes and DA/ ID market tightness – using EPEX DA as a proxy for instance). One should not forget that the behavior of market parties can still change a lot in the upcoming winter months.

<sup>1</sup> [https://www.elia.be/en/public-consultation/20200901\\_public-consultation-on-the-study-on-pay-as-bid-vs-pay-as-cleared](https://www.elia.be/en/public-consultation/20200901_public-consultation-on-the-study-on-pay-as-bid-vs-pay-as-cleared)

Also from an IT point of view, the impacts of stepping from pay-as-bid to pay-as-cleared needs to be identified and discussed with market parties sufficiently in advance. The level of prioritization will also depend on other project go-lives. **FEBEG would like to remind that market parties are facing busy times with multiple go-live and Elia's question on prioritization is a very valid one.** In addition, the existence of R3 Flex product and aFRR all CCTU auction in D-2 are still pending issues to move to Pay-as-Cleared – for which the advantages of removing them should be weighed against possible disadvantages. Finally, it is not straightforward to assume that moving to Pay-as-Cleared would result in a big increase in new participants right away, as the balancing market is relatively complicated (compared to, for example, the energy markets).

## Answers to specific questions

*1/ Do you agree that despite the possible positive impact of paid-as-cleared remuneration, the current paid-as bid remuneration has its merits given the current market dynamics, and that the data at this stage do not yet clearly support the integration of paid-as-cleared remuneration for FRR capacity?*

FEBEG fully agrees with this statement. A step towards Pay-as-Cleared needs to rely on sufficient experience and enough data. Daily procurement was introduced 8 months ago and the market has not yet experienced it for the entire winter months although this is a period that historically presented tight events for the grid. FEBEG believes that a data set of one year is a strict minimum but a set of 2 years would even be better. Further explanation are provided below.

*2/ Do you agree with the specific designs proposed for aFRR and mFRR in terms of how a paid-as-cleared remuneration would be determined and applied, if decided to do so?*

FEBEG supports the proposed design for mFRR.

aFRR design seems very consistent and FEBEG believes that several months of aFRR daily procurement will be needed to fully advocate such a design.

*3/ How important is a design change for FRR capacity towards paid-as-cleared remuneration for you? How should Elia prioritize this change compared to other design changes?*

FEBEG does not think a move to Pay-as-Cleared is neither essential nor urgent in the short to medium term. Pay-as-Cleared would potentially save time in the capacity bidding process. However, it seems that market parties are still in the learning curve of daily procurement. Also, daily procurement required some process automation that is either partially or fully implemented. A move to Pay-as-Cleared would again trigger new processes to be implemented. A cost-benefit analysis including the following elements is necessary: simulated reserve costs decrease, time saved on bidding through Pay-as-Cleared capacity remuneration, workload of updating BSP contracts, IT impact on both TSO & BSP's, costs to implement new automated processes, impact of delaying other TSO project (if applicable).

*4/ Based on your above feedback on priorities and taking into consideration the possible workload impact on your side, when should these changes be implemented? The next major design changes are foreseen for the FRR energy markets (in the frameworks of the European FRR energy platforms created in the PICASSO/MARI projects): should the redesign of the FRR capacity remuneration be implemented sooner, at the same time, or later?*

Either at the same time or later. Go-live date would depend on the existence of cross-border capacity exchange with surrounding countries, having at least one but preferably two years of relevant data on daily procurement, having clear conclusions of a cost-benefits analysis advocating for Pay-as-Cleared mechanism.

## Some extra remarks

**Dimensioning out of scope:** FEBEG appreciates that the decision to move Pay-as-Cleared is not dependent on the dimensioning exercise (this was not clearly mentioned in the document at least). The reserve dimensioning – meant to identify the amount of MW’s needed to balance the grid at any time – is a dynamic exercise rather in the short-term to mid-term horizon while the decision to move to Pay-as-Cleared needs to be considered in the long-term. Therefore, both questions need to be fully disconnected to each other.

**Pay-as-Bid complexity:** FEBEG agrees that a Pay-as-Cleared system is less complicated but, one should not exaggerate the complexity of the Pay-as-Bid system. In principle, any technology should offer a bid price that corresponds to its opportunity costs plus a margin. On the other hand, it is indeed more complex to use a pricing strategy which is based on the assessment of the marginal technology selected price, even when this could be considered as opportunistic behavior, one cannot exclude such a strategy. Additionally, in a daily auctioning system, one can expect that operators that are participating on a daily basis in these markets are highly qualified and are fully equipped to absorb the complexity of the market.

**Pay-as-Cleared would trigger new entrant:** While a Pay-as-Cleared system would simplify at least one component, there have already been incentives to offer new capacities and/or see new entrants in the past. Nevertheless, the balancing market remains complicated and new entrants will still need a good understanding of the market before entering the market. FEBEG considers that conditions to attract new flexibilities are already existing today. Here, one can think about attractive capacity prices, 4-hours blocs that do not require technology being baseload available, product for slow-starting units, mFRR non-contracted offer, etc.

**What would be a representative set of data?** FEBEG thinks that the decision to move to Pay-as-Cleared should rely on a data set of 2 years or even more. This way, any outlier data would be part of a larger set of data and could be excluded. We would also see the occurrences of price spikes on several winters and not only one. For instance, one cannot extrapolate what happened on one winter to the next winter. And pressure on prices will depend on how tight markets are. This tightness will depend on market fundamentals and this can vary a lot from one year to the other.

**Market transparency and publication:** FEBEG wants also to highlight the fact that Elia strived to publish as many data as possible so that market parties have enough information to price capacity bids. Especially while benchmarking data provided by some surrounding countries. In that sense, implementing Pay-as-Cleared would ease the capacity bidding computation. However, BSP active with the current Pay-as-Bid mechanism already have a lot of information and to our opinion, do not suffer of a lack of market transparency.

**IT impact not yet identified:** Market parties are lacking the input needed to assess the efforts of implementing Pay-as-Cleared mechanism. Performing a cost-benefits analysis is consequently not possible as we speak.