CONSULTATION REPORT

Report on the public consultation regarding the Day-Ahead Balance Obligation of BRPs

December 17th 2020

Place for the TABLE OF CONTENTS

Contents

1. Introduction

Elia organized a public consultation from 22th September 2020 to 20th October 2020 regarding Day-Ahead Balance Obligation (hereafter DA Balance Obligation) of BRPs.

The note submitted for consultation had been presented and discussed informally with the market parties during the Working Group Balancing of 24th of September 2020. A high level feedback of the reactions received as well as a description of the implementation plan have been discussed in Working Group Balancing of 23th of November.

The purpose of this report is to consolidate the feedback received from the public consultation, while at the same time reflecting Elia's position on these reactions.

2. Feedback received

In response to the public consultation, Elia received the following non-confidential replies from the following parties:

1) EFET
2) EPEX SPOT
3) FEBEG
4) Febeliec
5) RWE

In its study Elia recommends to gradually relax the current DA Balance Obligation imposed to the BRPs in the BRP contract.

All responses received haven been appended to this report. The non-confidential reactions, together with this consultation report, will be made available on Elia's website.

3. Instructions for reading this document

This consultation report is structured as follows:

- Section 1 contains the introductory context,

- Section 2 gives a brief overview of the responses received,
- Section 3 contains instructions for reading this document,
- Section 4 discusses the various comments received during the public consultation and Elia's position on them,
- Section 5 discusses the next steps,
- Section 6 contains the annexes of the consultation report.

This consultation report is not a 'stand-alone' document, but should be read together with the proposal submitted for consultation, the reactions received from the market participants (annexed to this document) and final proposal.

Section 4 of the document is structured as follows with additional information on the content per column below.

Subject/Article/Title	Stakeholder	Comment	Justification
A	B	C	D

A. Subject matter covered by the various responses received.
B. Stakeholder providing the comment.
C. Description of the comment received.
D. Elia's arguments as to why a comment was or was not included in the final proposal.

4. Comments received during the public consultation

4.1 General comments received during the public consultation

This section provides an overview of the general reactions and concerns of market players that Elia received to the document submitted for consultation.

SUBJECT	STAKEHOLDER	FEEDBACK RECEIVED	ELIA'S VIEW
General position towards Elia's recommendation to relax the DA balance obligation	EFET	*The European Federation of Energy Traders (EFET*) welcomes the opportunity to provide our comments to Elia consultation on its comprehensive study on the Day-ahead (DA) Balance Obligation of the Balance Responsible Parties (BRPs).* *With the adoption of the Capacity Allocation and Congestion Management Guidelines (CACM GL) in 2015, the Electricity Balancing Guideline (EB GL) in 2017, and the recast Electricity Regulation 2019/943, Europe is in a place to accelerate the integration of electricity spot markets and balancing mechanisms. In that regard, the integration of balancing mechanisms is still lagging behind that of intraday, day-ahead and forward markets. For EFET, it is not only important that balancing mechanisms across Europe become more integrated, but also that this integration is done in a way that strengthens and improves the functioning of the electricity market as a whole. In this context,* ***the absence of harmonised rules at European level around imbalance settlement and balancing responsibility*** *– which are ruled by national terms and conditions according to the EB GL –* ***does not favour the establishment of a level-playing field between BRPs, and ultimately between participants to the European energy market****. We deplore this situation and have called for true European approach to these questions[1].* ***In this sense, we welcome the***	Elia thanks all respondents for their participation to the current public consultation and for their point of view regarding the evolutions of the DA balance obligation. Elia understands that: - EFET, and RWE are fully in favor of the relaxation of the DA balance obligation as proposed by Elia. - FEBEG acknowledges that the relaxation of the DA balance obligation might have some positive effects but is if of the opinion that its advantages are not sufficiently demonstrated. - Finally, Febeliec is strongly opposed to any relaxation of the DA Balance Obligation as it fears a deterioration of the System Imbalance while acknowledges its theoretical merits. First of all Elia wished to clarify that the scope of the study is the analysis of the DA Balance obligation and not the RT balance

		approach taken by Elia to look into these questions from a broader angle than a pure national one, and to have studied various designs applied in other Member States in order to make proposals for the Belgian system**.* *In the absence of a mandate or a will to harmonise balancing responsibility rules at European level,* ***we see this approach as conducive of positive change through the adoption of best practice. Turning to the Elia proposal to remove the obligation to submit balanced nominations in day-ahead (DA), we support this initiative as a significant improvement to market functioning on the one hand, and to intraday (ID) market liquidity on the other hand. [1] See EFET response to the ACER consultation on the TSOs methodology for imbalance settlement harmonisation	obligation. In this regard, Elia takes no position on that point in the current report. Regarding the *demonstration* of the benefits that would be brought by the relaxation of the AD balance obligation, Elia reminds, that the study aims first at assessing whether the current DA balancing obligation is relevant (as foreseen by the EBGL) and, if not, to propose evolutions. Elia's first conclusion is that the current DA balance obligation is not justified and should evolve, not that the relaxation of the DA balance obligation will bring advantages. Indeed this obligation is not strictly necessary: ⇨ there is no legal obligation to impose DA balance to BRPs (the EBGL describes it as an option *"where relevant")*; ⇨ Elia's operational security analyses are based on only one part of the nominations (namely production schedules, remaining production margin and imports/exports) and can be executed without balanced nominations, ⇨ the RT imbalance price is a powerful (even sufficient) incentive for BRPs to avoid being imbalanced in the wrong direction. On the contrary the study even identifies some disadvantages of the DA Balance Obligation as: ⇨ It creates a non-level playing field between traders and physical BRPs, but also between BRPs active on the Belgian market and BRPs active on other EU markets as mentioned by EPEX SPOT and EFET;
	EPEX SPOT	*EPEX SPOT welcomes the opportunity to participate in the consultation on the day-ahead balance obligation of the Balance Responsible Parties (BRPs) by Elia.* *The European Power Exchange EPEX SPOT SE and its affiliates operate physical short-term electricity markets in Central Western Europe, Great Britain and Nordic countries. On our markets, we bring together different market participants and allow them to react in short notice for example to updated forecasts for renewables and to adapt their consumption and production pattern to a reliable price signal.* *EPEX SPOT* ***concurs with the analysis that the day-ahead balance obligation currently imposed upon market participants active in Belgium has been hindering their ability to trade efficiently in the European Multi-Regional Coupling day-ahead auction. Indeed, with the increasing role of renewable energy sources in the Belgian electricity mix, lifting such constraint on market participants is key.*** *EPEX SPOT identifies room for improvement of the Belgian market design and is eager to contribute as a Spot Power Exchange and Nominated Electricity Market Operator in Belgium.*	

	FEBEG	*Overall,* ***while a relaxation of the DA Balance Obligation could indeed have some positive effects****, FEBEG is of the opinion that – due to the lack of convincing arguments –* ***the advantages of removing the day-ahead balance obligation are not sufficiently demonstrated****.* *However,* ***if it is deemed useful to "relax" the DA balance obligation****, FEBEG calls Elia for* ***a very prudent approach*** *for the relaxation of the day-ahead balance obligation* ***as too rapid changes could negatively impact the market functioning****. FEBEG thus asks Elia to work in close cooperation with FEBEG members to ensure a close follow up and a proper implementation of envisaged changes, based on a* ***careful stepwise approach****.* *As a general remark, FEBEG supports all initiatives that improve the market functioning, and this at the* *different timeframes under consideration. All measures which strive towards simplification, and which can improve the liquidity of the market should indeed be envisaged and are favourable.* *[…]* *While, as referred to in the report, the DA Balance Obligation, in its current form, might have an impact on the liquidity of the ID market and be a barrier for entry for new market participants, the arguments for forward in title 7 of the report do not clearly demonstrate that it is necessary to modify the day ahead balancing obligation.*	⇨ It can incentivize physical BRPs, who face issues to balance their portfolio in DA during tense situations, to provide <u>biased data</u> in order to avoid contractual sanctions linked to the DA balance obligation; ⇨ It <u>hinders some market improvements</u> that could be bought by BRPs taking DA open positions such as price convergence of the DA and ID prices. The proposal for relaxation of the DA Balance Obligation comes later on in the study and is the result of a comparative analysis where all possible kind of evolutions where analyzed. All respondents agree that the relaxation of the DA balance obligation <u>could</u> have benefic effects (at least in theory). However, some of them (Febeliec, FEBEG) are not convinced that the (full) relaxation of the DA balance obligation <u>will</u> bring effective benefits as those are not demonstrated. Febeliec even fears that the relaxation of the DA Balance obligation would have negative effects on the way BRPs balance their portfolio with as consequence an increase of the reserved balancing capacity. Elia agrees with the fact that all potential benefits observed with the virtual bidding in the US markets won't per se be observed directly after the relaxation of the DA balance obligation. Elia reminds that, as specified in section 10.2.3 of her study, the proposed relaxation of the DA balance obligation <u>enables</u> some market improvements that could be brought by BRPs such as price convergence between DA and ID markets and increase of
	Febeliec	*Febeliec is* ***unpleasantly surprised by the proposal by Elia to suppress the day-ahead balancing obligation for BRPs****, as the* ***reasoning of Elia according to Febeliec has some major flaws and is not robust*** *as it boils down to betting on a positive evolution of all related parameters (including in particular liquidity evolutions).*	

		***While Febeliec theoretically understands that the real intrinsic value of electricity is only determined in real time upon delivery, and as such the underlying idea of the proposal has some theoretical merits**, it is clear that the Belgian electricity system does not start from scratch and is also interconnected with other markets. **Undermining** one of the fundamentals of the current system, **the balancing obligation of BRPs** (even though the real time balancing obligation would still at this point be maintained) **could result in** a domino effect which would cascade through a lot of other adjacent domains, as it could ultimately result **in a situation where Elia has to contract ever more backup capacity**, at an increasing cost for grid users through tariffs, to ensure that the system can remain balanced in real time if BRPs would no longer be able to solve the balancing of their portfolio.* *Amongst others, **Febeliec is greatly concerned by the fact that this evolution could have an impact on the day-ahead market and reference price**, which is being used to a very wide extent in contracts, beyond the scopes of merely the trades that are directly conducted on the day ahead market. At this point, the day ahead market is the **only** market where parties have to divulge their demand and supply positions via a central platform at a set point in time where matching occurs without an identified counterparty, thus ensuring that market power effects are nullified as much as possible (especially in an ever more interconnected European market). The forward markets are mainly there for parties to hedge their costs and revenues, while the intraday market is a continuous and bilateral market, where no central clearing of all supply and demand is done at some point. **As such, the day ahead market remains fundamental to ensure a correct price signal and as a result, it would be very imprudent and unwise to jeopardize even the slightest bit this role unless ironclad guarantees can be given that any market model modifications will not have very large ramification** (especially in markets with high market concentration). Febeliec also wants to point out that in September 2020, during the period of this*	market liquidity. Those improvements depend first on the behaviour of the BRPs, which cannot be perfectly predicted. Indeed, if BRPs deem that the Intraday market liquidity is currently too poor, they will probably not use the possibility to take open positions at the end of the Day-ahead market. Therefore, the benefits made possible by the relaxation of the Day-ahead market might be limited in a first stage and increase progressively, once the increased penetration of renewables and demand flexibility will have made the Belgian Intra-day market more dynamic. However, with regard to the potential *domino effect* Febeliec refers to, the removal of the Day-ahead market obligation should not deteriorate the situation either: as BRPs still have to be balanced in RT and are exposed to the RT imbalance tariffs in ID (, their arbitrage decisions will take into account the possibilities they have to close their DA open position in ID. Besides that, as already expressed, the DA balance obligation is not a strong incentive. Indeed the benchmark showed that the isolated effect of DA Balance obligation compared to the RT Imbalance price is negligible. Finally, Elia reminds that, already today BRPs can implicitelly take open positions in ID they have to close before the RT in order to respect their RT balance obligation. Elia also reminds that despite this implicit freedom in ID, the global RT imbalance of BRPs has been continuously improved the last years. Relaxing the DA balance obligation provides more possibilities for BRPs to optimize their portfolio across different timeframes but does not undermine the BRPs responsibility.

		consultation, in several Member States prices in the day-ahead and balancing timeframe have risen to significant levels because of mismatches between predictions in (intermittent) generation and demand. ***Febeliec is not convinced that the proposed approach by Elia will prevent such evolutions, now and even more so in the future****. Moreover,* ***while Febeliec appreciates the remarks from Elia on the importance of the imbalance price*** *and the strengthening of this signal, which Febeliec has always supported,* ***this does not justify to abolish an additional security element that is allowed explicitly by European legislation****. Last but certainly not least, and even if Elia seems to be very confident about the positive effect of the abolition of the day-ahead balancing obligation (which Febeliec doubts, based on the wording often applied by Elia and further elaborated upon below),* ***Febeliec sees little or no benefits for electricity consumers*** *and thus no reasons why the cost impact (both in positive and negative sense) would be passed through to grid users.. In any case,* ***the European legislation allows clearly to maintain the day ahead balancing obligation when relevant and Febeliec strongly considers this to still be in the case for Belgium****.*	Elia does not agree with the critics regarding the accuracy and robustness of her analysis. This study was conducted taking into account stakeholders views through interviews, analysing legal aspects and operational assents (in Belgium and in other markets and finally comparing <u>all</u> kind of possible evolutions. More particularly: ▪ The potential impact of the relaxation of the DA balance obligation on the balancing reserves, has been evoked in section 6.7.4 and analysed in section 10.2.2 of the study. In those sections Elia explains why a relaxation of the DA Balance Obligation should not cause any deterioration of the system. Besides that, in order to address the concerns of some stakeholders, mitigation measures (section 10.1). ▪ On the representativeness of the DA price: o Elia reminds that the current DA price is most of the time the result of market coupling between the Belgian market and neighbouring markets where BRPs have no obligation to be balanced in DA. o Besides, with the growing penetration of renewables and decentralised flexibility, variations after the DA timeslot will increase. Hence the "photo taken in DA" would become less and less representative of the final system conditions; The DA balance obligation, with the discontinuity that it creates between the DA & ID markets enforces that phenome-
	RWE	*RWE Supply and Trading GmbH very much welcomes the opportunity to respond to the public consultation organised by Elia on the removal of the day-ahead balance obligation of BRPs.* *In principle,* ***we welcome Elia's initiative*** *as one of the pillars of development for the Belgian electricity market and thus* ***support the removal of the day-ahead balance obligation for BRPs****.*	

			non as market parties are not allowed to anticipate potential variations of the ID timeframe. o Finally, Elia demonstrated in detail in section 10.2.3.1 and 6.7.3 of her study why the DA price signal could even better reflect the real system conditions than with a DA balance obligation in place. ▪ The Cost Benefit Analysis described in section 10.2 explicitly lists all impacts for the entire system and described that the costs induced by the recommended evolution are extremely low.

4.2 Specific comments received during the public consultation

SUBJECT	STAKEHOLDER	FEEDBACK RECEIVED	ELIA'S VIEW
RT Imbalance Price	EPEX SPOT	***Incentives for BRPs to be balanced before real time*** *EPEX SPOT shares Elia's position that the imbalance price should strongly incentivize BRPs to be balanced in real time. On that topic EPEX SPOT would like to point out that the current imbalance price formula is not coupled to the intraday market price as it can be the case for neighbouring countries. We share the conclusion that at the moment the imbalance price signal is sending a strong signal to BRPs to be balanced in real time. However, arbitrage between the imbalance price and the market prices is hindered at the moment by the low liquidity of 15min products on the Belgian Intraday market and this could evolve in the coming months. Indeed, we expect the liquidity of 15min products on the Intraday market to increase in the coming months through the introduction of 15min product in XBID (continuous cross-border trading) as well as the recent launch of a local intraday auction with 15min products. This could increase arbitrage opportunities between the intraday market and the imbalance price and weaken the incentive for market players to be balanced. Therefore EPEX SPOT recommends as a way forward to closely monitor the evolution of the 15min intraday market and assess whether linking the imbalance price to the intraday market price could increase the robustness of the imbalance price signal.*	All respondents agree with the fact that the Imbalance tariff is a strong financial incentive for BRPs to avoid imbalances that do not help the zone in real time. Elia reminds that the structure if the Imbalance tariff and more generally the RT Balance obligation are out of scope of the present study. In this regard, Elia takes not of EPEX SPOT's concern regarding the potential impact of a more liquid ID market on the incentivizing role of the Imbalance tariff and thanks EPEX SPOT for its suggestion to monitor the efficiency of the Imbalance tariffs. Nevertheless Elia is not convinced of the interest to link the Imbalance tariff to the ID prices. First of all the increasing liquidity in the ID market should not increase ID prices, on the contrary. Besides that, one of the strengths of the Imbalance tariff that discourages risky arbitrages between ID and RT is the fact that the Imbalance tariff represents the situations of the system during the running quarter-hour and is therefore not 100% predicable. It is indeed important that Imbalance prices can reach high levels in order to encourage BRPs to balance their portfolio before the RT. But linking the Imbalance price to ID prices (with for instance a "floor") would

	FEBEG	*In title 2.5. of the report Elia clearly shows that the quality of the average ACE and System Imbalance has increased until 2015, followed by a stabilization, and this despite the increased penetration of renewables. Elia rightfully concludes that the quality of BRPs balancing actions in the current balancing process can therefore be deemed as satisfactory. Besides, the improvement of the System Imbalance after the introduction of the 'single marginal' imbalance tariff tends to confirm the important role that a strong financial incentive plays in order to avoid imbalances that do not help the zone in real time.*	make the imbalance price more predictable, not always representative of the RT situation which would even induce wrong signals in RT. For example, if there is a risk of negative imbalance and therefore of high Imbalance prices, BRPs should hedge themselves in ID and DA and hence increase ID and DA prices to avoid being short in RT. This behavior is desirable as the market solves the issue before any action by the TSO (through activation of balancing means).

	Febeliec	• *Febeliec, as already described, strongly encourages a strong imbalance tariff signal, yet wonders whether this signal would be on its own self-sufficient to ensure that all BRPs at all times are compliant with their real-time balancing obligation. Febeliec is most gravely concerned that by abolishing the day-ahead balancing obligation and the related information flow, Elia will be betting on the imbalance price and imbalance markets to solve all issues that could not be solved by the BRPs in the intraday timeframe. While in a first period this could still be true, as parties have not yet fully adapted their bidding behaviour to the new situation, Febeliec is worried that this could over time lead to massive speculative bids ("bets") from BRPs towards real-time, which could then ultimately lead to a need for higher balancing reserve capacity, at a cost detrimental to consumers, or even in the worst case to a system collapse in case Elia due to the very limited timeframe could no longer find sufficient flexibility (e.g. too late to spin up slow start flexibility). Febeliec also wants to point out that even though the imbalance tariff has already been a single pricing system with an accelerator since many years, not all BRPs have always been as judicious in their respect of their balancing obligations, which could even be further aggravated by the proposed abolition.* • *As stated above, Febeliec does not understand why Elia opposes the day-ahead balancing obligation with the strengthening of the imbalance price signal. For Febeliec, both can (and currently are) complementary and reinforce the stability of the day-ahead price signal (instead of weakening it as Elia seems to postulate), and in any case both do not counteract each other (which would otherwise already have been addressed by Elia in the past, as the combination is already applied since 2002). Febeliec can also only observe*	But if in RT the zone appears finally to be slightly long, an artificially high Imbalance price (because linked to the ID prices) would incentivize BRPs to push towards the wrong direction and would not help the zone. As mentioned by several respondents, the Imbalance tariffs applied to BRPs since 2012 (and its recent and future evolutions) ensure a robust incentive for BRPs to be balanced or help the zone (by avoiding imbalances in the wrong direction). Elia does not believe that abolishing the DA balance obligation will reduce incentives for BRPs to balance their portfolio in RT (or help the zone). Neither does Elia oppose the DA balance obligation to the RT imbalance. The study shows that the RT Imbalance price is a powerful incentive for BRPs to be balanced (or help the zone) and that the effect of the DA balance legal obligation is negligible compared to it. Indeed it has been observed in neighboring countries that: • a contractual balance obligation coupled to inefficient RT imbalance tariffs can bring imbalances on the other hand, while • an efficient RT imbalance price alone, with no additional formal obligation relative to the DA balance, works efficiently. As explained in section 10.2.2 of the study, Elia does not expect the relaxation of the Day-ahead balance obligation to cause any deterioration of the System Imbalance of the Belgian zone. Indeed, since BRPs still have the obligation and strong financial incentive to be balanced in real time (or help the zone under some conditions), it can be expected that the

		that despite the increased focus on strengthening the imbalance price signal (again, which Febeliec does not oppose), Elia still contracts large balancing reserves; Febeliec does not see how the abolishment of the day ahead balancing obligation could reduce this volume, and rather even expects this volume to increase over time if (perceived) imbalance risk would start rising due to increased uncertainty on BRPs being capable to balance their portfolios in real time. In any case, Febeliec does not understand how allowing BRPs to ask a derogation from the day ahead balancing during tense situations could provide an advantage for the system, or even "might increase the validity and accuracy of the security analysis performed by Elia".	greatest part of the open positions taken in Day-ahead will be hedged before the last gate of the Intraday market. Besides, the indicators that Elia will publish will allow BRPs to better assess their behavior and correct eventual wrong bets. The only risky situation would be a massive wrong anticipation of the next day conditions by the BRPs, combined with a poor liquidity of the Intraday market. However it is very unlikely that BRPs take large open positions in Day-ahead when tense situations and poor Intraday liquidity are expected, since the financial risk taken by the BRPs would be too important. Furthermore, in order to keep this last risk under control while taking the time to confirm those assumptions, the proposed implementation plan foresees a trial period with a partial (and gradually increasing) relaxation of the DA balance obligation. Elia agrees with the fact that, even, in the current system with strong Imbalance prices, there is always a part of the BRPs that is imbalanced in the wrong direction. Elia reminds that BRPs imbalanced in the wrong direction are paying (potentially high) imbalance costs; Those high bills constitute lessons learned and an incentive for them to (learn to), reduce their imbalance exposure. Elia reminds that, as illustrated by figure 9 of the study, the <u>global</u> imbalance of BRPs and their <u>global</u> ability to react to unforeseen events has been continuously improved (as the level of SI has been reduced and stabilized over the years, while the level of NRV was also reduced, and this despite an increased penetration of renewables).

			Finally, Elia does not announce that the abolishment of the DA balance obligation will reduce the volume of contracted reserves. However, as stated in several answers of this consultation report and in the study, the relaxation of the DA balance obligation allows market parties to optimize their portfolio across the DA and ID timeframe and to anticipate the ID conditions. A right anticipation of the ID conditions could bring benefits for the system such as price convergence, reduction of market power abuse and increase of liquidity, as observed in the US. Relaxing the DA balance obligation does not constitute a derogation for BRPs to balance their portfolio, as at the end of the day they are all exposed to RT imbalance prices. The relaxation of the DA balance obligation allows them to anticipate the ID conditions of the system, and to take appropriate measures in DA. For instance, BRPs anticipating adequacy issues in ID could take long positions in DA and hence help the system. Since they are exposed to imbalance prices, their decision to take an open position in DA would take into account their ability to close this open position in ID.

Reactive Balancing	Febeliec	*On reactive balancing, Febeliec is not opposed to this approach, yet is surprised that this is taken as an argument to abolish the day ahead balancing obligation as trader BRPs cannot participate to reactive balancing as they do not have physical assets in Belgium which would allow them to return to a balanced position on request of the TSO. Febeliec considers this argumentation upside down and rather sees this as an incentive for those trader BRPs to acquire physical assets in Belgium which would allow them to conduct reactive balancing. Moreover, as trader BRPs are allowed to trade energy until 5 minutes before delivery (gate closure time), Febeliec wonders how much system gains could be made in comparison to the increased risk and cost perspective.*	Elia does not fully understand Febeliec's remark. The reactive balancing is described in section 2 of the study (description of the as is situation) and in section 5 (benchmark) in order to provide an accurate description and comparison of the different systems. Elia does not use the conditions for reactive balancing described in the BRP contract as an argument to abolish the DA balance obligation. The fact that reactive balancing is implicitly possible only for BRPs with physical (and flexible) assets is not an argumentation but a fact: the BRP contract clearly stipulates that a BRP may voluntarily deviate from his RT balance in order to help the zone at the conditions that he is able resorb that imbalance instantaneously if needed. On the contrary, Elia takes no position in this study regarding any evolution of the RT balance obligation the RT balance obligation is out of scope of this study.

European Benchmark	FEBEG	*In particular the following arguments are deemed weaker:* *- Few TSO's make us of a day-ahead balance obligation: Other countries have balancing systems that function well without a day-ahead balancing obligation while Belgium has a well-functioning balancing system with a day-ahead balancing obligation. What is the argument that necessitates a modification of the Belgian day-ahead balancing obligation?*	The EBGL does not foresee the DA balance obligation as a must but rather as a possibility for TSOs to impose it *if relevant*. The first purpose of the study was to identify whether the DA balance obligation is relevant. The findings of the prospective phase summed up in chapter 7 of the study showed <u>that the relevance and the necessity of this DA balance obligation is questionable</u>. The fact that other EU countries with relatively similar systems work properly without DA balance obligation indicates that this later is not per se always necessary for the efficient functioning of a system. The purpose of the benchmark was not to copy past the neighboring systems but to gather information and eventual lessons learned on how neighboring TSOs with similar system to ours apply (or not) the possibility provided by the EBGL. Besides that, the benchmark showed that the DA balance obligation seems to have a very limited (even negligible) effect for BRPs to be balanced compared to the incentive provided by the RT Imbalance tariff. Indeed situations with balance obligation no DA coupled to a too low Imbalance tariff led to RT imbalances (as in Germany) while other systems (such as the Dutch one) with an Imbalance tariff comparable to ours (a single marginal price) function well. Elia does not understand Febeliec's remark on the number of countries that have been examined. Some comparison must
	FEBELIEC	*On the benchmark with other countries, Febeliec is disappointed that no quantitative analysis was included on the impact of the abolishment of the day ahead balancing obligation. A reference is for example made to the abolishment in the Netherlands, without however any volume nor cost impact analysis. Febeliec also reads that Germany applies a balancing obligation in day-ahead, with imbalances only allowed (to a certain extent) in the intraday timeframe. Febeliec also sees that the benchmark exercise seems to be very limited to only a handful countries (4) and wonders what the situation is in a larger population. Benchmarks as the one conducted by Elia in this framework can also provide other conclusions, as the abolishment of the single balancing price mechanism in Belgium (several countries in the scope of Elia's analysis apply a dual price scheme) or the abolishment of the intraday market (as the United States do not have such a market), both of which Febeliec would find a retrogradation of the current Belgian system, yet could also have been concluded from Elia's analysis.*	

			be possible with the benchmarked countries. A benchmark with countries with central dispatch for instance or with islands would be less relevant. Elia reminds that two additional systems (CAISO and PJM) were also analysed because the virtual bidding mechanism (which is similar in terms of effects to the removal of the DA balance obligation). Still Elia has been very careful on what was comparable and transposable from the US to the Belgian system. Finally, Elia takes note of Febeliec's request for a quantified feedback relative to the removal of the DA balance obligation in the Netherlands. Elia added therefore in the study the evolution of the SI trends before and after the removal of the DA Balance Obligation in the Netherlands; No impact of the relaxation of the DA balance obligation on the P99 of the SI has been observed.
Virtual BIdding	Febeliec	*On the benefits of virtual bidding, Febeliec has no strong position, yet is nevertheless surprised that the proposal is based on the situation in the US, although no intraday market exists there which exactly allows parties to cover their positions in Europe based on better closer to real time information and thus wonders whether Elia would then plead for the abolishment of the intraday market to allow for a system that copies the US experience.* *Moreover, Febeliec is also surprised as virtual bidding seems to create a potential for manipulation of day ahead prices, which thus requires additional controls and mitigation measures, leading potentially to a situation where the day ahead balancing obligation would be abolished a.o. because it would according to Elia be too difficult to monitor the correctness in order to allow a.o. virtual bidding which would then yet again require new checks and monitoring on virtual bids, as the ISOs in the US had to implement. Febeliec*	• The virtual bidding mechanism presents some similarities with the DA balance obligation as it explicitly allows market players (and particularly traders) to make financial arbitrage between the DA and following (in the US RT) market. Therefore it was worth analysing it in order to examine in detail the benefits and the risks of this mechanism in the US markets as well as its transposability to the Belgian market. • Elia does not suggest to copy paste the US virtual bidding system. On the contrary, Elia clearly explains that those markets are radically different and describes through +/-

		does also not see what would be the added value for consumers, while it sees new potential risks and costs increases. Elia states that virtual bidding "might" help addressing several limitations of the current Belgian balancing mechanisms (although it remains unclear which ones), although this could also constitute in the creation of a potentially new risk as Elia states the it is non-trivial to define the virtual bidding mechanism in the European context.	10 pages (section 6.7) how to carefully interpret the observations in the US and to transpose the virtual bid to for a European market with the following questions: ⇨ what would be the equivalent of this mechanism in the Belgian market with the relaxation of the DA balance obligation, ⇨ which of the benefits but also the risks of the virtual bidding in the US could (or not) apply to the EU context, as well as ⇨ which US mitigation measures are relevant and could be used in EU. • Elia does not propose to abandon the DA balance obligation because it is difficult to monitor it. Elia rather explains in section 8.1.1 that a reinforced control of the DA balance obligation would never be perfect. Therefore the option of increasing the controls would remain very similar to current DA balance obligation, in terms criteria of comparison for the possible evolution. The proposal to adapt the current DA balance obligation is due to the different disadvantages it represents (non-level playing field, incentive to provide wrong information and barrier hampering market players to bring some market improvements) and the fact that it is not strictly necessary. • The risks of price manipulation of the virtual bidding in the US markets Febeliec refers to are relevant for the US markets but not applicable in the EU context as explained in section 6.7.4. The only "remaining risk" is the massive wrong bet of market parties which is deemed low and for

			which Elia proposes mitigation measures described in section 10.1.
Relevance of the DA balance obligations for the security analyses performed by Elia	EFET	*As explained in the Elia report, DA balancing requirements are not fundamentally needed to manage the system from a TSO viewpoint and are impossible to be properly monitored. Besides, given the increasing volatility of power generation (intermittent production) and demand (pick up of demand response), DA forecasts are far less reliable than when this obligation was put into the Belgian grid code in 2002. This means that the quality of information may not be ideal on the one hand, but also that the position of BRPs is more likely to change between D-1 14:00 and real time (i.e. 10 to 34 hours later).*	The fact that removing the obligation is expected to have no negative impact on the security analysis, questions here again the necessity of this DA Balance Obligation. • Elia receives from BRPs nominations relative to physical injections (corresponding today to generation schedules for CIPU units), nominations relative to physical offtakes and nominations relative to commercial trades with other BRPs. Among those nominations, <u>only the nominations relative to injections (production units) and relative to commercial trades are updated in ID</u>. • The security analysis performed by Elia with Nominations are the Adequacy checks and Congestion analysis described in section 1.1. 1) <u>The adequacy check uses one hand the generation schedules provided by BRPs, the remaining margin on each production unit</u> (contracted and non-contracted energy bids) and compares that to the Elia's load-forecast. <u>Those analyses are started after the closure of the DA market and are monitored/updated in ID</u> in order to have the more accurate vision of the situation. Note that TSOs such as RTE perform similar adequacy checks while there is no DA balance obligation in France. The effect of a relaxation of the
	FEBEG	*- The day-ahead security analysis don't need balanced nominations to work properly: Removing the day-ahead balancing obligation will have no or little impact on the security analysis.* *The fact that removing the obligation is expected to have no negative impact on the security analysis, is not really an argument justifying the removal of the day-ahead balancing obligation.* *More details should be given on the manner the day-ahead security analysis is performed and with which data input, to make sure there would be no loss of data (quality) in the absence of day-ahead balance obligation.*	

			DA balance obligation on the adequacy check performed by Elia is analysed in section 6.7.2.3 *Impact on adequacy checks. This section states that the relaxation of the DA balance obligation could lead to DA production schedules of a better quality (closer to reality), and that those would in any case become more and more accurate during the ID timeframe as BRPs have to close their position for the RT.* 2) The congestion analysis use production schedules and import/export nominations. Congestion analysis are performed by Elia (and CORESO) during different time windows: in D-2 (when there is no nomination yet submitted by BRPs), just after the DA nomination process and in ID (when only the production schedules and commercial trades schedules can be updated). Here again the impact of the relaxation of the DA balance obligation on the congestion analyses performed by Elia is addressed and described in section *6.7.2.2 Impact on security analysis performed by Elia.* More particularly the relaxation of the DA balance obligation can lead, in case of good anticipation by the BRPs of the conditions of the next say, to a physical dispatch of the production units (communicated to Elia at the end of the Day-ahead timeframe) that will be closer to the Real-time situation. Besides that, in the

			worst-case scenario of massive wrong anticipation of the next day conditions by the BRPs, the generation schedules received in Day-ahead might be overestimated or underestimated. However, this situation will be corrected in the security analyses performed in Intraday, when the virtual trades are progressively hedged to reach balance in Real-time
Quality of information submitted by BRPs to Elia with the current DA Balance Obligation	EFET	*Therefore, we support turning the obligation to be balanced in DA to a simple notification of physical schedules without concern whether a market participant's commercial position is balance or not in DA (regardless whether the market participant is an asset owner or not) at the earliest occasion. This would both ensure that TSOs receive accurate information for planning purposes in a timely manner, and remove a considerable restriction on the free formation of prices.*	This observation comes directly from interviewed market parties. Indeed today, if a BRP does not provide balanced nominations in DA, he is exposed a contractual sanction. More particularly he has no access to the ID market during a certain period. This obligation incentivize BRPs to hide eventual difficulties to be balanced in DA to avoid the associated sanctions. As already explained, Elia uses mainly production schedules and import/export schedules for the security analyses but also considers other nominations submitted by BRPs for contextual analysis. Situations where BRPs declare that they are balanced while they are not (by ex. by declaring overestimated production or underestimated load) would, in the first case, provide wrong production schedules for the security analysis performed by Elia, and, in the second case, provide load indications that are not coherent with Elia's load forecast. This later might create confusion. This makes the information received by BRPs either not trustworthy (as not always correct) or confusing (as not coherent
	FEBEG	*- The current day-ahead obligation could jeopardize the quality of the information communicated to Elia in day-ahead :* *This argument is also not very convincing: the day-ahead obligation 'could' jeopardize the quality of the information, whereas this 'might' be an important information for Elia. To really justify the removal of the day-ahead balance obligation Elia should perform a more thorough analysis to back up these assumptions.* *While there is a risk that some market players could in theory provide incorrect data to fulfil their obligation, Elia should ensure that the data of the adequacy check and congestion management are not compromised.*	
	Febeliec	*While Febeliec could theoretically understand that the day-ahead balancing obligation could push certain BRPs to wilfully provide incorrect balanced nominations, Febeliec does not understand how this could "jeopardize the quality of the information" for Elia as Elia does not only use this information for its*	

		security assessments. However, Febeliec cannot understand how abolishing a source of information, even if not always flawless (issues which could and should be addressed by other means, including better controls), would lead to better security assessments.	with Elia's forecasts) and leading to a more complex decision process for Elia regarding the actions to be taken. This questions again the efficiency and relevance of the DA balance obligation (as it can lead to wrong info). Finally, Elia does not recommend abolishing the nominations but on the contrary maintaining the current process (with the same detail of information) while stopping applying sanctions when the sum of all nominations is not equal to zero. This would stop the incentive for BRPs to "hide" imbalances and would therefore allow them to provide information that is more accurate. Elia also reminds that sections 6.7.2.2 to 6.7.2.4 provide a detailed analysis of the full effects of the Relaxation of the DA Balance Obligation on the security analysis.
The current DA balance obligation introduces a non-level playing field	EFET	*We also support the comments made by market participants that the DA balancing requirement may put traders without physical assets at a disadvantage compared to asset owners, as the latter may be in a position to tweak forecasted physical positions.* *In summary, it appears that the DA balancing requirement does not respond to a necessity in terms of system operation, may not provide information that is relevant for system management in real time, and may even create competitive disadvantages for certain market participants. A removal of this requirement would be a welcome simplification to market functioning.*	This non level-playing field was observed and mentioned by interviewed parties. Besides that it is also the reason why Tennet adapted the Dutch BRP contract. EFET agrees with the restoration of the Level Playing field while FEGEG is not convinced of its necessity. Elia does not fully understand FEBEG's reasoning: should the fact that physical BRPs are exposed to imbalances coming from load/renewable forecast errors in their portfolio imply that

	FEBEG	*- The current day-ahead obligation introduces a non-level playing field* *Elia argues that the removal of the day-ahead obligation restores the level playing field between Physical BRP's and Trader BRP's: the justification is that the day-ahead obligation could be circumvented by the Physical BRP's and not by Trader BRP's. FEBEG acknowledges this argument, but wants to point out that this approach is a bit one-sighted as Physical BRP's – contrary to Trader BRP's – are also not able to perfectly balance their position due to forecast uncertainties – which is increasing with the growing share of renewables – in their portfolios and have, hence, a higher risk to be exposed to imbalances prices than Trader BRP's. So, FEBEG is not convinced that the removal of the day-ahead obligation restores the level playing field between Physical BRP's and Trader BRP's.*	only they should benefit from the option to arbitrate between DA and ID? After all, all BRPs are exposed to the same imbalance price per MWh of imbalance. On the contrary, Elia believes that if more parties (physical BRPs and trader) take positions in DA based on assumptions they make on the conditions of the next day, the global net error (of all BRPs) due to wrong anticipations of the next day conditions (such as forecast errors) could be reduced.
The current DA Balance Obligation puts up barriers to spot market improvements	EFET	*Improvement of intraday market liquidity:* *We also agree with Elia that the DA Balance Obligation has an impact on the liquidity of the ID market and may be a barrier for entry for new market participants. As highlighted in our recent paper on intraday market design[2], DA balancing requirements are an impediment to the free optimization by market participants of their full portfolio across all timeframes until the gate closure of the intraday market as well as across borders. As ID markets grow and are expected to continue doing so, portfolio optimisation until intraday gate closure time will become more and more relevant.* [2] *See **Towards an efficient intraday market design in electricity- EFET position paper***	Based on feedback of some interviewees on one hand and experience observed in CAISO and PJM with the virtual bidding mechanism on the other hand, Elia identified the following possible improvements of the electricity market (which were observed in the US markets) that would be facilitated by the relaxation of the DA balance obligation: ⇨ A **better price convergence between DA and ID price**s. Indeed, the current DA balance obligation creates a discontinuity between the DA market and the ID market and their respective prices. For example: BRPs that expect high wind production in ID (and therefore potentially low ID prices) are obliged to buy all the volumes to cover their load in DA at potentially
	FEGEG	*- The current day-ahead obligation puts up barriers to sport market improvements: Elia points to possible improvements in price convergences between markets, as well as liquidity, but doesn't really identify the barriers created by the balance obligation that prevent spot market improvements.*	

	Febeliec	*Febeliec <u>does not see which barriers to spot market improvements are currently created by the day-ahead balancing obligation and would like to see an exhaustive list of these barriers</u>, as well as a description of how the proposal by Elia would solve them, while also including alternative mitigating measures that could be taken (as Febeliec is opposed to any barriers to market functioning, the identification and listing of such barriers should be addressed, also with alternative options). Febeliec was in any case very surprised to read that "the day-ahead balancing obligation constitutes an important barrier to implement transaction after the closure of the day-ahead market that are valuable for the system", as Febeliec was of the impression that this was covered by the intraday market. Febeliec is also surprised to see that Elia seems to follow a logic that states that the abolishment of the day ahead balancing obligation may increase the intraday liquidity, as Febeliec does not see any link between both. The intraday market rather provides a (continuous and not centrally cleared at a specific moment) market that allows BRPs to adjust their portfolios in light of incidents occurring after day-ahead clearing, or ever better information on demand and supply as time moves forward; Febeliec does not see how the abolishment of a day ahead obligation in itself would lead to better information over time and thus an improvement of the intraday market and its liquidity, but could rather constitute an additional risk, which would have to be covered by balancing reserves, if the intraday market would not be able to cope with day ahead imbalances and it would be too late to start slow(er) start flexibility.*	higher prices. This hinders freedom for market parties to optimize their portfolio but especially prevents the possibility of back-propagation of prices. As explained and illustrated in sections 6.7.3 and 10.2.3.1 of the study, the relaxation of the DA balance obligation could allow the DA price to better reflect the situation of the next day or even the RT. ⇨ The possibility for markets parties to **optimize their portfolio across DA and ID** (as mentioned by EFET) markets in order to hedge themselves as also illustrated in the above example. ⇨ Potential **increase of liquidity** (as more energy would be cleared in DA in anticipation of what would be the situation in ID), also illustrated in section 6.7.3 and 10.2.3.2 ⇨ Possible **positive impact on reduction of market power** as BRPs compensate the strategy that could be adopted by large BRPs to influence the prices of this DAM as also illustrated in section 6.7.3 and 10.2.3.3 ⇨ But also others such as potential improvement of DA price signal, Increase of quality of DA information, and in the longer term possible Simplification of operational processes which are described in sections 10.2.3.4 to 10.2.3.6. As described in the conclusion of the section 6.7.3, most of those benefits are <u>not reached by the relaxation of a DA balance condition, but are made possible by it</u>.

			Indeed all the above-mentioned benefits strongly depend on the behavior of market participants: if market participants don't take open positions in DA because they don't expect enough liquidity in ID the market functioning will be quite similar to the situation of today. On the other hand, if the DA balance obligation is enforced the BRPs will remain limited (for some of them even blocked) to anticipate the conditions of the next day and to optimise their portfolio accordingly. This would limit the possibilities for the market to bring aforementioned benefits. Finally, the relaxation of the DA balance obligation is not the only driver that makes the listed benefits possible but is one of them. For instance, there are several ways to increase liquidity in ID markets (see further in this report). Elia believes that of them are complementary and should be followed.
Most appropriate evolution of the day-ahead balancing obligation - comparison of the possible evolutions	EPEX SPOT	*Elia assessed several blueprints going forward, namely:* • *Keeping the balance obligation in day-ahead while making some adjustments and trying to answer to some of the limitations of the current system;* • *Shifting the day-ahead obligation to the Intraday timeframe;* • *Removing any kind of balance obligation before the real time.*	Elia thanks EPEX SPOT and takes note of its comments regarding the most suitable evolution of the DA balance obligation.

		Elia's analysis revealed that fully removing any kind of balance obligation before the real time is the most suitable proposal to consider as per the indicators defined in the study. *EPEX SPOT champions Elia's proposal to fully remove any kind of balance obligation before the real time.* ***In particular EPEX SPOT agrees with the fact that the current balance obligation prevents a fair level playing field*** *between physical and trader BRPs. The removal of this obligation* ***would thus increase the liquidity in the day-ahead auction by also allowing traders to arbitrage*** *between the day-ahead market and subsequent markets.*	
	FEBEG	*On top of that, FEBEG has the following concerns as regard to the proposal:* <u>*Keeping the DA Balance Obligation with adjustments*</u> *The proposal is based on a reinforcement of the monitoring of the day-ahead balance obligation for BRPs with physical assets while having the possibility to ask a derogation from the balance obligation in tense situations. This would be allowed by setting standards for acceptable deviation between forecasted values and RT measurement (necessary condition for ensuring a level-playing-field).* • *We agree that a is a challenge, especially for dispatchable units for which the "freedom of dispatch" must be kept. Therefore, we consider this proposal is not very effective, as it does not address the issue, and thus would offer limited to no benefits, but nevertheless adds complexity to the market.* <u>*Shifting the DA Balance Obligation to the intraday*</u> *If the imbalance price reflects the real-time value of electricity, this should give the BRP enough incentive to be balanced or help the system without any obligation. Shifting the DA Balance obligation to a later timeframe (but before the*	Elia fully agrees with FEBEG regarding the disadvantages of the options "keeping the DA balance obligation with adjustments" and "shifting the DA balance obligation to the ID". The comparative analysis of section 9 showed that those were not the most efficient or benefic evolutions. Therefore they were not maintained. This being said, Elia does not agree with FEBEG's on the lack of convincing arguments/demonstrated advantages for the proposed evolution. Let us remind the main conclusions of the study in a nutshell: - The relevance and efficiency of the DA balance obligation are not demonstrated (not necessary for security analyses, not mandatory by EBGL and not used by several TSOs, limited added value in addition of the efficient RT imbalance tariff). - The DA balance obligation even brings some disadvantages: some BRPs may provide un-exact information to hide DA imbalances, while it represents a non-level playing field between physical BRPs pure traders. - On the other hand, some market improvements could be facilitated by relaxing this obligation such as price convergence, reduction of market power, increase of trades and therefore liquidity (which were observed in the US). As explained in section 6.7.3 he study, the actual benefits that can be achieved with the relaxation of the DA balance obliga-

		BAL timeframe) could be an interesting intermediate step but does not solve the level-playing-field issue and would diminish the value of the ID market during the hours that have to be balanced. • *On top of this, such an important change would require massive investments and implementation, therefore this proposal seems not feasible, at least not in the short term.* <u>*Removing the DA Balance Obligation while keeping the DA nomination process and the RT balance obligation unchanged*</u> *Overall, while a relaxation of the DA Balance Obligation could indeed have some positive effects, FEBEG is of the opinion that – due to the lack of convincing arguments – the advantages of removing the day-ahead balance obligation are not sufficiently demonstrated.*	tion will strongly depend on the behavior of the BRPs and cannot therefore be demonstrated. For instance, as stated by FEBEG in another comment if the BRPs consider that the liquidity of the Intraday market is most of the time too poor to allow them hedging their position before the Real-time, they probably won't take the risk to place virtual bids and take open positions at the end of the DAM. In this case, the relaxation of the Day-ahead balance obligation won't bring any significant change with respect to the current situation. However, Elia does not expect this evolutions to have negative effects. Nevertheless, order to reassure fears of some stakeholders Elia proposes a phased implementation coupled to a trial period.
	Febeliec	*On Elia's comparison of the possible evolutions of the day ahead balancing obligation, Febeliec continues to wonder from which perspective this analysis is conducted: from the perspective of the TSO and its operations, the BRPs and their trading opportunities or the system perspective and the related risks and costs. Based on the document, Febeliec believes that it is for the most part the first, to a certain extent the second but rarely the last element, which then leads to a very skewed outcome of the analysis with only winners and never a loser, unless of course everything goes wrong and stars do not always perfectly align, in which case the system and society could have to carry a very large burden.*	Elia does not agree with Febeliec's remark on the perspective of the analysis: Elia performed a comparative analysis of <u>all</u> potential evolutions using <u>objective criteria</u>. The criteria used to compare the different options are the following (described in section 9.1 of the study): - Market Efficiency (possibilities for price convergence, increase of liquidity…) - Information Quality for Elia (linked to security analysis) - Competition conditions (level playing field) - Potential risk on SI (Febeliec's main concern) - Implementation efforts - Robustness of evolution (how future proof is the evolution) While the criteria "implementation efforts" indeed imply mainly Elia and the BRPs the other criteria are relevant for the entire system and therefore for the costs for the final consumer.

Cost Benefit Analysis	Febeliec	• *While Febeliec appreciates that Elia has to look into the feasibility, benefits and risks of each option, the analysis does hardly provide any quantitative element and most certainly does not provide any financial impact analysis. According to Febeliec, a such important change to the framework should at least be accompanied by a full cost-benefit analysis (including thus a cost impact from a system perspective and overall backup requirements and related costs and not only from the viewpoint of Elia and BRPs, mostly also only reflecting on operational costs and not system impact), especially also in light of the very important amount that is involved in the discretionary incentive of the regulator that is linked to this study.* • *On the performed cost-benefit analysis, Febeliec is surprised to see that the analysis performed by Elia does not provide any monetary quantification of costs or benefits and only refers to an analysis without any underlying data on the impact on reserves based on a context where "it can be expected that the greatest part of the open positions taken in day ahead will be hedged before the last gate of the intraday market" and that "the errors of anticipation made by the BRPs in day ahead will most of the time not impact the real time system imbalance" while "it is very unlikely that BRPs take large open positions". Febeliec strongly insists that a more profound analysis is conducted, exactly taking into account situations where the above would not be correct and BRPs would not be able to hedge their portfolios, as such situation would exactly describe the cost side of a correct CBA. On the three cases of the MOG II System Integration Study, Febeliec refers to its comments on that consultation and wants to stress that it is still not accepting a situation where the best case scenario is considering BRPs only covering 65% of their balancing obligation for offshore wind farms. Especially in light of increasing offshore installed capacity in combination with the proposal to drop the day-ahead balancing obligation, this could rapidly lead to a situation where multiple BRPs "bet" in the wrong*	Elia doesn't agree at all with Febeliec's comments: The impacts of the proposed evolution (Relaxation of the DA balance obligation) are described in detail in section 10.2: ⇨ the <u>implementation impacts</u> would be extremely limited (as we maintain all existing information exchanges and we simply first increase and then remove the trigger for sanctions in case of DA imbalance), ⇨ the operational impacts would be close to zero (even zero for BRPs willing to continue working as today) the proposed evolution would even allow additional simplifications of the BRP's nomination process in the future. ⇨ with regard to system impacts, the effect on the SI could be negative in case of *massive wrong bets by the* players, which Elia considers very unlikely thanks to the financial incentive that represent the Imbalance tariffs. Nevertheless, Elia analysed and simulated a *worst case scenario* concluding that the impact of the relaxation of the DA balance obligation on the balancing capacity needs would be negligible. This scenario was consistent with the scenarios carried out by Elia in the framework of the "MOGII System Integration Study. Regarding Febeliec's comments on the choice of the scenarios in the aforementioned study Elia refers to its answers provided in the framework of the corresponding public consultation.

		direction, thus resulting in hundreds of MWs of imbalances, while it might be too late to solve this issue with slow start (generation and load) units, while this ultimately also could result in Elia increasing considerably its contracted reserves in order to cope with the increased uncertainty. • *In general, Febeliec wants to remark on the study by Elia that it lacks almost completely any quantitative analysis, especially also in monetary terms, and consists to a very large extent of benefits that "may", "might", "in theory", "suggests", "depending on the behaviour of BRPs", "could", "potentially", "under conditions", … lead to a better (?) situation for (certain) BRPs by allowing them to "bet" on the (in)correctness of the forecasts in the day ahead timeframe based on their (superior?) forecasting models that would allow them to increase their profitability and (eventually) push out lesser performing BRPs from the market. However, Febeliec is very concerned as all (non-guaranteed nor quantified) benefits would be for (a limited subset of) BRPs, while all risks (up to a blackout in case all BRPs massively bet all together in the wrong direction, even despite imbalance tariff incentives, a risk also mentioned by Elia yet (too easily?!) discarded according to Febeliec) would be for grid users (a.o. through additional balancing reserves), including also the shorter term situation where certain less performing BRPs would struggle and disappear, potentially with very large impacts on the system and the costs for grid users, as could be seen in the recent past after the bankruptcy of a BRP. Elia seems to count particularly on the correct anticipation by (virtual) traders for this new proposal to work, yet bases its argumentation on the fact that forecasts are currently not well enough to allow BRPs to be able to balance their portfolio correctly in day ahead (with the potential of trading on a very liquid and deep day ahead market to balance their portfolio). Febeliec is surprised that Elia, which is normally extremely risk averse, seems here to be willing to take a risk on betting that BRPs will not massive bet all together in the wrong*	⇨ Since the implementation, operational and system impacts are very limited, so are the costs. Note that the above-mentioned criteria (implementation and operational efforts, as well as impact son the SI) were also explicitly taken into account in the comparative analysis of the various possible developments. In terms of potential benefits, the study has repeatedly reminds that these are highly dependent on the actions of market participants and are therefore impossible to quantify. Indeed, all the potential benefits are not attained per se with the relaxation of a DA balance condition, but are enabled by it. Indeed: if market participants don't take open positions in DA because they don't expect enough liquidity in ID the market functioning will be quite similar to the situation of today.

		direction which could lead to catastrophic results, and wonders whether such approach is warranted and the result of the fact that the incentives for Elia and its shareholders in this are not sufficiently aligned with those of the grid users that have to cover the costs in case of such wrong bet. After all, the Belgian electricity system is not a casino with gambling parties, where in the long run only the house wins.	
Implementation plan	EFET	*In terms of implementation timeline, <u>we do not see a specific need to have a stepwise approach to this rather simple reform</u>. <u>However</u>, should this be a condition for acceptance of the reform by all parties, we see the step of "<u>authorised balancing deviations in DA" proposed by Elia as an acceptable way forward</u>. These new authorised deviations <u>should then be set large enough</u> to see the actual effects of the reform. <u>Return on experience</u> on this intermediate step should be done rapidly (<u>within one year</u>) to allow the reform to progress to the next step.*	Elia thanks market parties for their questions and constructive suggestions on the implementation plan. As requested by many parties, Elia will add more precisions in the implementation plan. The proposed implementation plan will be composed of 3 steps (of 6 months each); during each step a maximum DA open position proportional to the portfolio of each BRP will be authorised. This maximum thresholds will be respectively equal to 25%, 50% and then 100% of the size of the portfolio of each BRP. The BRP-portfolio size will be calculated as the maximum of daily "physical offtakes + sales" observed during a period of 12 months. In order to simplify the process the different thresholds per BRP will be defined before the first step and could be adapted on request in case the size of the portfolio sensibly changed. At the end of each step, Elia will assess the impact of the partial relaxation on the system. In case no negative impact has been observed Elia will proceed to the next step and increase the maximum authorised DA open position. Otherwise Elia might propose to either <u>return back</u> or to extend the trial period of the running step.
	FEBEG	*However, if it is deemed useful to "relax" the DA balance obligation, <u>FEBEG calls Elia for a very prudent approach for the relaxation of the day-ahead balance obligation</u> as too rapid changes could negatively impact the market functioning. FEBEG thus asks Elia to work in close cooperation with FEBEG members to ensure <u>a close follow up and a proper implementation of envisaged changes, based on a careful stepwise approach</u>.* *In general, if deemed useful, the <u>prudent gradual removal of the DA Balance Obligation could be envisaged</u> under the following circumstances:* *1) An important <u>condition "sine qua non" is that intermediate steps are foreseen in the implementation</u>. The idea of Intermediate steps towards the relaxation of the DA balancing obligation seems a pragmatic one and also seems crucial for assessing the impact of such a change on notably the imbalance market. However, the proposal made in the note by Elia (intermediate max*	

		open position as a % of offtakes + sales over the last 12 months) still lacks clarity: *• How would this percentage be determined?* *• How long will the intermediate step be trialled (6 month, 1 year, 2 years?)* *• What about more than one intermediate step towards a full relaxation (e.g. each month 10%)* *• How would this threshold be applied to trader BRP as they have no offtake/injection?* *It would also be useful to analyse the implementation plan put in place by Tennet when they abandoned the DA Balance Obligation.[note: a specific answer to this question has been provided earlier in this consultation report in the section "EU benchmark"]* *2) The possibility to return to a previous situation instead of moving forward. This could be needed if market circumstances demonstrate that the benefits of dropping the DA obligation do not materialise or issues related to higher system imbalances, peaks in imbalance prices, market access/competition are raised.* *3) Data Quality issues need to be addressed:* *a) Adequacy Checks. Generation schedules for CIPU units and on/off schedules will have to be provided to Elia. However, the other elements needed for a sound adequacy check might not be complete with the absence of DA balance obligation. This is not clear how Elia intends to cover that risk.* *b) Congestion Management. For that purpose, only the schedules and the load forecasts (+ the forecasted XB flows) have to be communicated. The schedules are provided and the forecasted XB flows are known by Elia, but we wonder how the load will be assessed by Elia without a DA balance obligation.*	In addition Elia answers to the following punctual remarks regarding the implementation plan: - Elia takes note and agrees with FEBEG's conditions 1) and 2). As suggested by FEBEG, this implementation plan is indeed inspired by progressive relaxations adopted in other systems. More particularly, CAISO considered a progressive increase of virtual bids in % of MW installed capacity or MW load by node (eight months with a maximum of 10%, 4 months with a maximum of 50% and full removal of any limit after 12 months. - As regard to the 3rd point raised by FEBEG, Elia refers to its previous answers on that topic in this report. - Elia takes note of FEBEG's request in point 4) and will foresee such a measure during the implementation. - Regarding FEBEG's point 5), as described in section 10.2.2 Elia does not expect any impact on the system Imbalance. Nevertheless Elia foresees a monitoring of the System Imbalance during the phased test period in order to confirm its assumptions. The exact indicators that will be used to assess and validate the results of the test period will be discussed with market parties in the framework of the amendment of the T&C BRP. - Elia also fully agrees with FEBEG on the fact that relaxing the DA balance obligation won't mean that

		4) <u>The need to keep receiving (bilateral/confidential) information on the portfolio balance</u>. Currently, BRPs are receiving a signal from Elia should their portfolio not be (sufficiently) balanced in DA. We would like to keep this service as this is a valuable one, even if this would just be read as an information and not as request to action from Elia. *5) Elia <u>should keep an eye open for a risk of higher System Imbalance</u> due to forecast errors by some BRPs and their potential open position in DA, in order to tackle possible issues:* *• Risk for a higher need for Rx (cfr. Rx dimensioning), hence higher cost for the society?* *• Risk of more extreme imbalance prices (plus consideration of the potential scarcity pricing component)* *Despite this specific issue raised, we do <u>wish to clarify that removing the DA Balance Obligation does not imply that BRPs will be unbalanced in DA. BRPs will constantly assess the risk to keep an open position at the end of the DA market. Entering the ID market with an open position means that this should be closed prior the balancing timeframe so that the BRP respects the RT balance obligation (of means</u>.* *6) <u>Transparency is essential</u>:* [see separate comment and answer on that point bellow] *7) <u>A well functioning market clearly essential throughout the whole process</u>.* [see separate comment and answer on that point bellow]	BRPs will simply *postpone* their internal optimization and balancing process to the ID timeframe. To provide an example, if the possibilities to close open DA positions in ID are deemed poor BRPs will balance their portfolio mainly in DA and even take "conservative" open positions in DA to limit their risk. Elia is of the meaning that the relaxation of the DA balance obligations will provide more freedom to BRPs to optimize the way they organize their portfolio and balance it on the markets (DA of ID) depending on the opportunities they would identify. - Points 6) and 7) of FEBEGs reaction are addressed in separate section in this document together with other comments on transparency and on ID liquidity. - Elia understands RWE's request for a stable and predictable implementation framework as well as the request to allow enough time for market parties before relaxing the DA balance obligation. Elia proposes to start the 1st step of the trial period in Q4 2021, just at the beginning of the winter period. This will allow enough time for market parties to prepare to the changes while maximizing the test conditions. Note that as explained in the study, Market parties willing to continue working as they currently do and who do not intend to take open positions in Day-ahead, should not be impacted at all as the existing nomination process is maintained. Finally Elia proposed to include the detailed steps, thresholds as
	Febeliec	• *In the proposal of Elia, presumably <u>the only element to which Febeliec could agree is</u> that if the decision were to be to abolish the day-ahead balancing obligation, which Febeliec would not find a good evolution, it would indeed be of the <u>utmost importance to apply a</u>*	

		<u>stepwise approach, in order to ensure that no permanent and irrecuperable damage is done</u>. Febeliec would strongly urge Elia to provide much more <u>clarity on such intermediate period, both in timing as in scope</u> (e.g. Elia describes categories of BRPs for which a different regime would apply, without specifying what such regime should be; for Febeliec, this should be part of the study, also in light of the quite sizable discretionary incentive that is linked to this study).	well as conditions to proceed from one step to the next one will be described in the T&C BRP that will be submitted to the CREG after public consultation in 2021.
	RWE	*We are however concerned about the de-facto implementation of a position limit where Elia will implement a step-wise removal of the balance obligation. Furthermore, we are also concerned that Elia has not defined a <u>specific time horizon to outline when the trial run / position limit will be applied</u>.* *We would also like to highlight that current customer contracts are priced based on the current regulatory framework and that any changes within the liquid tenor of such contracts will lead to increased risks for market participants. <u>Elia should therefore not implement any changes in a rushed manner but wait until 2022</u>, allowing market participants to analyse the effects and price their contracts accordingly, based on a <u>stable and predictable regulatory framework</u>.*	
Transparency and indicators Elia recommends to publish	FEBEG	*In general, if deemed useful, the prudent gradual removal of the DA Balance Obligation could be envisaged under the following circumstances:* *[…]* *6) <u>Transparency is essential</u>: new indicators published by Elia should be thoroughly prepared, with great attention and studied in detail. An aggregated view (per Qh) of the open positions, as proposed by Elia, is a valuable indicator. <u>A better indicator would be the aggregation of the long and the short positions separately as this would provide more precise information to the market.</u>*	Elia thanks the respondents for their questions and suggestions regarding the publication of the DA indicators. As described in section 10.1.2, Elia recommends the publication at the end of the DA nomination process of <u>two</u> indicators representing respectively the <u>aggregation</u> of all long DA positions and the sum of all short DA positions. This would allow parties to have a better view of the global imbalance of all BRPs in DA in order to optimize their portfolio in ID.

	Febeliec	*Febeliec takes note that Elia suggest to publish new indicators in case the abolition would be accepted, including the total open position by the BRPs as well as their individual position. Febeliec would like to point out that already for years it has requested Elia to publish an indicator related to the performance of BRPs with respect to their (real-time) balancing obligation in order to provide grid users with transparency on the individual performance of BRPS (a.o. relevant in their selection of a supplier and BRP combo, to ensure that they are not unduly exposed to imbalance prices), which has never been taken up by Elia, while Febeliec understands now that publishing new indicators does not seem to be any issue for Elia. In any case, if the day ahead balancing obligation were to be abolished at all, it would be of the utmost importance to have a check on what capacity would not be offered in the day ahead market, in order to ensure that no capacity hoarding would be conducted (especially in a market with very high market concentration) under the pretence that this capacity would be reserved to ensure real time balancing in case liquidity in the intraday market would be insufficient (thus creating a cascade of unwanted effects in a self-fulfilling prophecy which would severely undermine market functioning).*	Elia clarifies that it is not foreseen to publish the individual DA position of each BRP as this is confidential and sensitive information. Besides, Elia does not agree with Febeliec's comment on the capacity hoarding. - Elia does not believe that capacity hoarding is prevented by the DA balance obligation. Even with the current DA balance obligation a market party could "hoard" capacity and avoid bidding it on the DA market while perfectly respecting the DA balance obligation (by overestimating his load nominations and/or underestimate his eventual wind-production nominations). Elia reminds that capacity hoarding for market manipulation purposes is prohibited by art. 5 of the REMIT1 legislation and monitored by the GREG conform ACER's recommendations. - On the contrary, the study illustrates in in section 6.7.3 and 10.2.3.2 that DA balance obligation might even discourage capacity hoarding.

[1] https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:326:0001:0016:en:PDF

Other improvements of the ID market such as ID capacity calculation	FEBEG	*In general, if deemed useful, the prudent gradual removal of the DA Balance Obligation could be envisaged under the following circumstances:* *7) <u>A well-functioning market clearly essential throughout the whole process</u>. Market Participants <u>can only take advantage of the Elia proposal to remove the DA balancing obligation if a well-functioning (XB) ID market</u> is implemented. Therefore, we would like to recall the following points:* *• <u>XB capacities should be reassessed</u> in towards the ID time frame with an improved and more systematic increase/decrease process (cfr. EFET paper on ID market).* *• Given the current divergent evolution of MTU in the ID market (30min on BE-FR and 15min on BE-NL and BE-DE), a <u>cross-product matching mechanism should be</u> put in place as soon as possible. And this is even truer with the potential evolution covered in this consultation. Currently, market participants must choose on what shared-order-book they will put their bid. This ex-ante choice is de facto leading to market inefficiencies.* *• The <u>future XB pan-EU ID auction, for which we recall our scepticism, should suspend</u> the continuous ID market as shortly as possible. Regulation tells 10minutes and this should be respected (cfr. 40min / 60min currently considered)*	- Elia fully agrees with the need expressed by market to have a well-functioning ID market, as it is also key for Elia as TSO to facilitate the balancing of the grid. Several improvements have taken place or will take place in the near future: o ID auctions have been developed by one of the active NEMO in Belgium o ALEGrO interconnector with Germany will be made directly available for ID exchange, and not only DA as often done for other interconnectors o The project to implement ID capacity calculation process in Core is starting, which will provide a structurally better solution than the current solution. The go-live is expected one year after the DA go-live. This means a start of recalculation in ID timeframe currently expected in February 2023. Regarding Febeliec's more specific question on that topic, Elia recalls that the decision to drop the developments in the CWE context has been taken jointly, and acknowledged also by the NRAs. The results obtained in the experimentation were indeed uneven, and on average roughly on par with the current approach. The main issue was related to enablers that were not present, in particular updated grid models of sufficient quality to allow proper computation. Elia is confident that the legally binding character of the aforementioned deadline will ensure the right level of commitment by the different parties
	Febeliec	*Elia often refers to the increasing importance of the intraday timeframe. While Febeliec does not deny this evolution, it would like to see how the liquidity (in all dimensions) of the intraday timeframe compares to the day-ahead timeframe, in order to ensure that this market would indeed allow BRPs to cover their future imbalanced day ahead portfolios after the abolishment of the day ahead balancing obligation. Also, if <u>the intraday market were to solve all these issues and thus be or become very important to the systems, Febeliec would like to know a.o. why TSOs still do not perform a</u>*	

		recalculation of cross-border capacities in the intraday timeframe (currently there is only an at best second best alternative being applied, with no guaranteed outcome), as this would clearly be an element that could contribute to intraday liquidity, before dropping day-ahead balancing obligations and counting on the intraday timeframe to allow to solve all issues by the BRPs. Febeliec would expect that such measures would be completed before contemplating abolishing the day ahead balancing obligation.	o 15- and 30-minute granularity products will be made available for cross-border exchanges as from December 2020. This is expected to have a major positive effect thanks to the possibility to tap into the very liquid German ID market. Next year, the gate closure time will be brought closer to real time. Besides, Cross-product matching functionality is currently under design stage in SIDC. Elia is a firm supporter of this development and is very attentive that the right level or priority is given to it. o The wish to suspend the continuous ID market as shortly as possible to allow for ID auction is well taken into account in the design of the solution. Here also Elia advocates simple solutions, with the appropriate level of centralization, because they are structurally better than to shorten communication timing instead of relying on each individual parties' efforts. - Elia believes that the aforementioned items testify of its high and continuous commitment to the improvement of the ID market. - Seeing the many past and future improvements (listed here above), Elia believes that the point in time has come where the market parties are best placed to identify which opportunities will be available for them in the intraday timeframe, and to decide to which extend position could be left open in the DA timeframe, instead of imposing a strict rule. Indeed this rule is also oddly playing against the development of the liquidity of the ID market, while it is set
	RWE	*Elia should not expect that this measure will significantly increase liquidity in the intra-day market alone. After all it will be market participants themselves that need to bring liquidity into the market and not the TSO. Elia should only ensure that the Intraday market functions properly - also at cross-border level, by e.g. enhancing cross-border capacity calculation in intraday.*	

			as a requirement from Febeliec perspective to remove the rule. This is forming in itself a chicken and egg problem. - As already specified in other answers to this consultation, Elia agrees with RWE, that the lifting of this rule will not be the single most important driver to enhance the liquidity of the intraday market, but still see this as one of the driver.
Simplifications of Nominations processes	FEBEG	*As a general remark, FEBEG supports all initiatives that improve the market functioning, and this at the different timeframes under consideration. All measures which strive towards simplification, and which can improve the liquidity of the market should indeed be envisaged and are favourable.*	- Elia takes note of EBEG's wish to strive simplification. Elia believes that the removal of the Day-ahead balance obligation opens the way to a possible future simplification of the Day-ahead nomination process (e.g. allowing the BRPs to nominate in a more aggregated manner or even fully removing some components of the nominations…).

5. Next steps

On the basis of the reactions received from market players and its views, as set out in this consultation report, Elia finalized its study on Day-Ahead Balance Obligation of the Balance responsible Parties. This final note together with the consultation report and all received responses are submitted to the CREG. After submission to the CREG, the non-confidential version of the study and the consultation report are be published on Elias website.

As a next step Elia will submit a proposal for an amendment of the Terms and Conditions BRP to the CREG after public consultation. The implementation plan, the characteristics of each step of the trial period and the conditions to proceed from one step to the next one will be described that will be described in those T&Cs.

6. Attachments

The non - confidential reactions Elia received to the document submitted for consultation:

1) FEBEG
2) Febeliec
3) EPEX SPOT
4) EFET
5) RWE

Contact

Elia Consultations
Consultations@elia.be

Elia System Operator SA/NV
Boulevard de l'Empereur 20 | Keizerslaan 20 | 1000 Brussels | Belgium