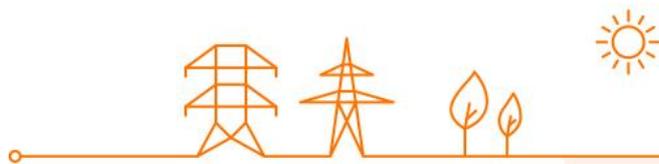


Consultation note concerning the phase-out of the mFRR Flex capacity product.

October 1, 2021



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Introduction

On 17th of June 2020, all TSO received the ACER Decision No 11/2020 on the Methodology for a list of Standard Products for Balancing Capacity for frequency restoration reserves and replacement reserves.

ACER provided, in annex of its decision, the methodology for a list of standard products for balancing capacity for frequency restoration reserves and replacement reserves in accordance with Article 25(2) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing.

The application and implementation of the standard products for balancing capacity methodology is mandatory for all TSOs that intend to use standard balancing capacity products for frequency restoration reserves and replacement reserves or to exchange balancing capacity.

Pursuant to Article 228 §3 of the Federal Grid Code and considering the ACER decision No 11/2020 on the methodology for a list of standard products for balancing capacity (hereafter referred to as the “Methodology for Standard Product for Balancing Capacity”), the document for consultation is a modification proposed by Elia regarding the mFRR capacity products procured by Elia for the Elia LFC block.

This Consultation Note assesses the mFRR capacity products to be procured by Elia for each period of 4 hours of the next day according to Article 25 and Article 26 of EBGL.

General provision

For the purposes of this Consultation Note, the terms used have the meaning of the definitions included in Article 3 of the SOGL and in Article 2 of the EBGL. All references to other legislation is explicitly defined. All articles without explicit reference to other legislation concern articles in this LFC Means.

mFRR Capacity products

1. mFRR Flex Capacity Product

In the current mFRR capacity design, Elia may contract two mFRR capacity products for the Elia LFC block, these products are defined in the LFC Means as followed

1. “mFRR Standard” is defined as the mFRR Capacity Product characterized by an unlimited activation time and no neutralization time, as specified in the Terms and Conditions for balancing service providers for manual Frequency Restoration Reserve (mFRR), hereafter referred to as “T&C BSP mFRR”.
2. “mFRR Flex” is defined as the mFRR Capacity Product characterized by a limited activation time and a neutralization time between two successive activations, as specified in the T&C BSP mFRR.

In particular, the mFRR Flex capacity product can be procured by Elia for one or more blocks of 4 hours (Capacity Contracting Time Unit) in addition to the minimum mFRR Standard volume (set at 640MW in the current LFC Means methodology). The quantity of mFRR Flex to be contracted each day will depend on the results of the daily mFRR needs based on the dynamic dimensioning methodology specified in the LFCBOA.

The particular characteristic of mFRR Flex capacity product is the neutralization period of 8 hours between the starts of 2 activations. Moreover, due to the specificities of the two mFRR capacity products, Elia applies separate merit orders for the balancing energy bids, first a merit order of mFRR Standard and mFRR non-contracted is run and then Elia launches a 2nd merit order with mFRR Flex.

mFRR Flex capacity product was introduced on 1st January 2017 as the successor of R3DP, as part of the roadmap initially presented during the Working Group Balancing on 17 March 2016. Along the years, Elia regularly assessed the mFRR capacity product mix looking at the needs of the system, the participation of market parties in mFRR balancing market and offering a more enduring solution with regards to the European regulations.

In 2018, Elia did a *study on the evolution towards a daily procurement of mFRR*¹ and, among other thing, analyzed the possible evolution towards a Standard mFRR balancing capacity product. Elia recommended in that report that moving to a unique standard mFRR balancing capacity product (instead of keeping the two products mFRR Standard and mFRR Flex) was the way forward. Such a change was however only possible in case certain conditions are met (e.g. daily procurement) and in case a sufficient long transition period is foreseen for the current mFRR Flex (upwards mFRR) providers to reorganize their portfolio of flexibility. In the meantime, the conditions presented in that report were implemented.

¹ <https://www.elia.be/-/media/project/elia/elia-site/electricity-market-and-system---document-library/balancing---balancing-services-and-bsp/2018/2018-study-report-on-the-evolution-towards-a-daily-procurement-of-mfrr.pdf?la=en>

The following year, in its *design note mFRR 2020*² published in March 2019, Elia announced that it will gradually reduce the relative share of mFRR flex which needs to be procured and therefore provide the right incentive to market parties to evolve towards the long term standard mFRR balancing capacity product.

On 7th of December 2020, a first workshop was organized on the new mFRR design in line with European regulation and the creation of the European mFRR energy market. During the workshop, Elia communicated to the stakeholders that “mFRR Flex” capacity product is not in line with the definition of an mFRR Standard Capacity Product. Therefore, Elia has planned to phase out the mFRR Flex product. The phase out of the product is expected to be complete before the entry into force of the new mFRR design.

During the Working Group Balancing on 15th of September 2021, Elia presented its analysis of the mFRR capacity products and its way forward concerning the phase-out of the mFRR Flex capacity product.

2. Standard products for balancing capacity

In the Methodology for Standard Products for Balancing Capacity of 17th of June 2020, ACER has defined the implementation timeline as 18 months after publication of its decision. Therefore, all TSOs must implement the Methodology for Standard Products for Balancing Capacity by 17 December 2021.

This implies that from then onwards balancing capacity products that do not fit the definition of a standard product will be regarded as specific products, for which regulatory approval is needed.

Following article 5(4)(d) and article 10 of EBGL, a TSO must request regulatory approval for specific mFRR capacity products, after a public consultation of at least 1 month.

Contrary to the mFRR Standard product, the mFRR Flex product in the current mFRR design would be categorized as a “specific product” as of 17 December 2021 in accordance with the Methodology for Standard Product for Balancing Capacity.

3. Specific products for balancing capacity

EBGL Article 26 defines the requirements for the specific product for balancing energy and balancing capacity.

According to EBGL Article 26, a TSO may develop a proposal for defining and using specific products by adding a demonstration that standard products are not sufficient to ensure operational security and to maintain the system balance efficiently or a demonstration that some balancing resources cannot participate in the balancing market through standard products.

² https://www.elia.be/-/media/project/elia/elia-site/electricity-market-and-system---document-library/balancing---balancing-services-and-bsp/2019/2019-design-note-mfrr-2020_version-01032019.pdf?la=en

Unless Elia demonstrates that the conditions are met to maintain the mFRR Flex capacity product as a specific product in the Elia LFC block, the mFRR Flex product has to be phased out.

4. Analysis of liquidity and operational security

Elia regularly monitors the balancing market liquidity especially when there are important market evolutions.

In the year 2020, changes in the calculation of the FRR means have taken place by setting first the minimum mFRR standard volume at 490MW from February 4th 2020 onwards and with an additional increase of the minimum mFRR standard volume which was fixed at 640MW from July 1st 2020.

Since February 2020, more than 550MW of volume was tested for prequalification for mFRR Standard. The market has made the shift from mFRR Flex product to the mFRR product in response to the above-mentioned increase in threshold.

On 7th of January 2021, the positive sharing capacity included in calculation of the FRR means is increased from 50 MW to 250 MW, as consequence the mFRR capacity needs decrease by 200 MW.

The recent changes in the dimensioning of mFRR needs are summarized in the table below:

Periods	Changes in minimum volume of mFRR Standard	Changes in reserve sharing
4/2/2020 - 30/6/2020	490 MW	50 MW
1/7/2020 - 6/1/2021	640 MW	
7/1/2021 - now		250 MW

Table 1 change in the dimensioning of mFRR needs

The evolution of offered volumes of mFRR Standard (“STD” in the graph) and mFRR FLEX is presented in the below figure 1.

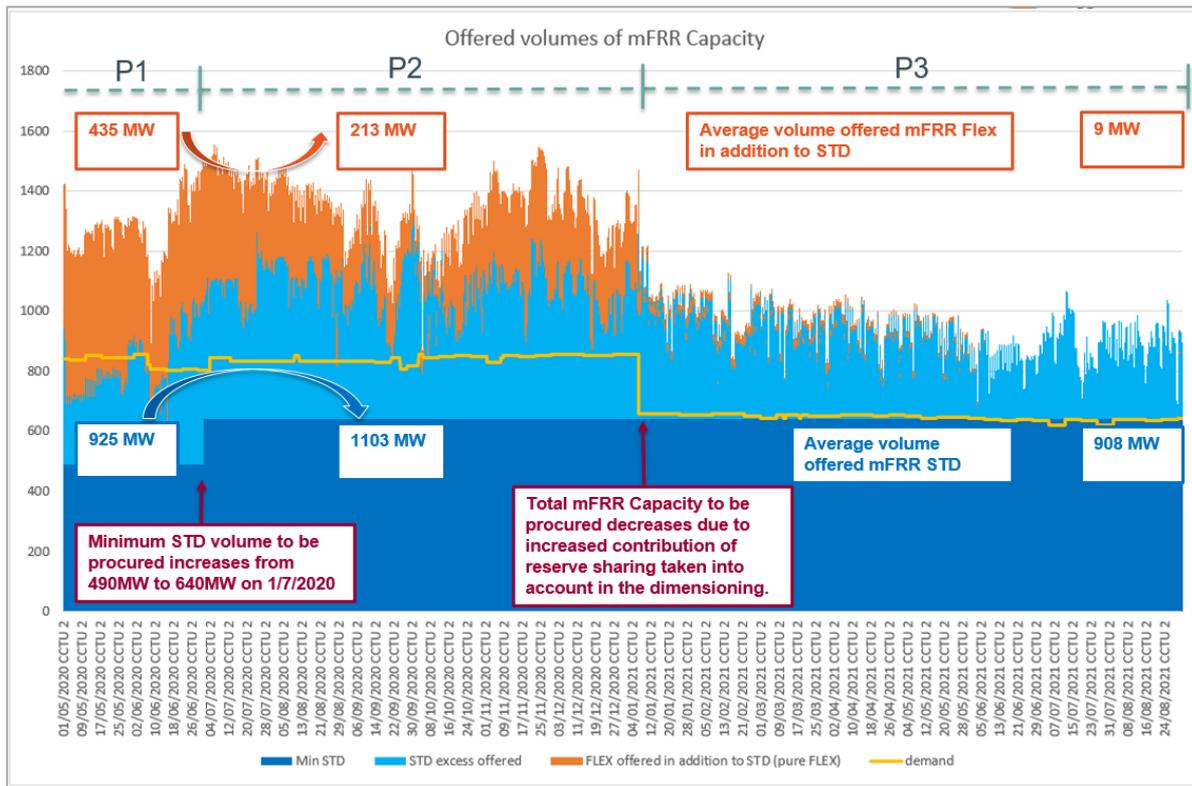


Figure 1 Offered volumes of mFRR Capacity

This graph shows the following information:

- the minimum volume to be procured by Elia as mFRR Standard capacity (dark blue)
- the offered volumes of mFRR Standard capacity in addition to the minimum volume to be procured as mFRR Standard capacity (light blue)
- the offered volumes of mFRR Flex capacity in addition to the mFRR Standard capacity (orange)
- the average offered volumes per capacity product and per period (see time interval of period below), are set on the graph as well (figures for mFRR Flex are in orange and figures for mFRR Standard are in blue).
 - Period 1 (P1): 04/02/2020-30/06/2020
 - Period 2 (P2): 01/07/2020-06/01/2021
 - Period 3 (P3): 07/01/2021-31/08/2021

It can be seen on the figure 1 that the important changes in the dimensioning of mFRR needs were followed by market evolutions. First, the increase of minimum volume of mFRR Standard in July 2020, was followed by an additional offered volume of the same product by about 180MW in average. On the contrary, for the same period in 2020, the mFRR Flex product decreased by about 200MW in average showing the shift from one mFRR product to the other.

The second important change in the calculation of the balancing means was the increase of reserve sharing of 200MW. This triggered another adaptation in the balancing market where offered volume in mFRR standard stabilized in average to 900MW. Such decrease in the offered capacity can be explained by the reduction in contracted volumes; the BSP

expecting that some (more expensive) flexibility would not be selected may decide to not participate to the auction on a daily basis. On the other hand, the offered volume for mFRR Flex dropped with a remaining volume of 9MW in average. The part of the mFRR Flex volume in the capacity auction becomes relatively marginal.

The evolution of the offered volume of mFRR Flex is illustrated in the below graph.

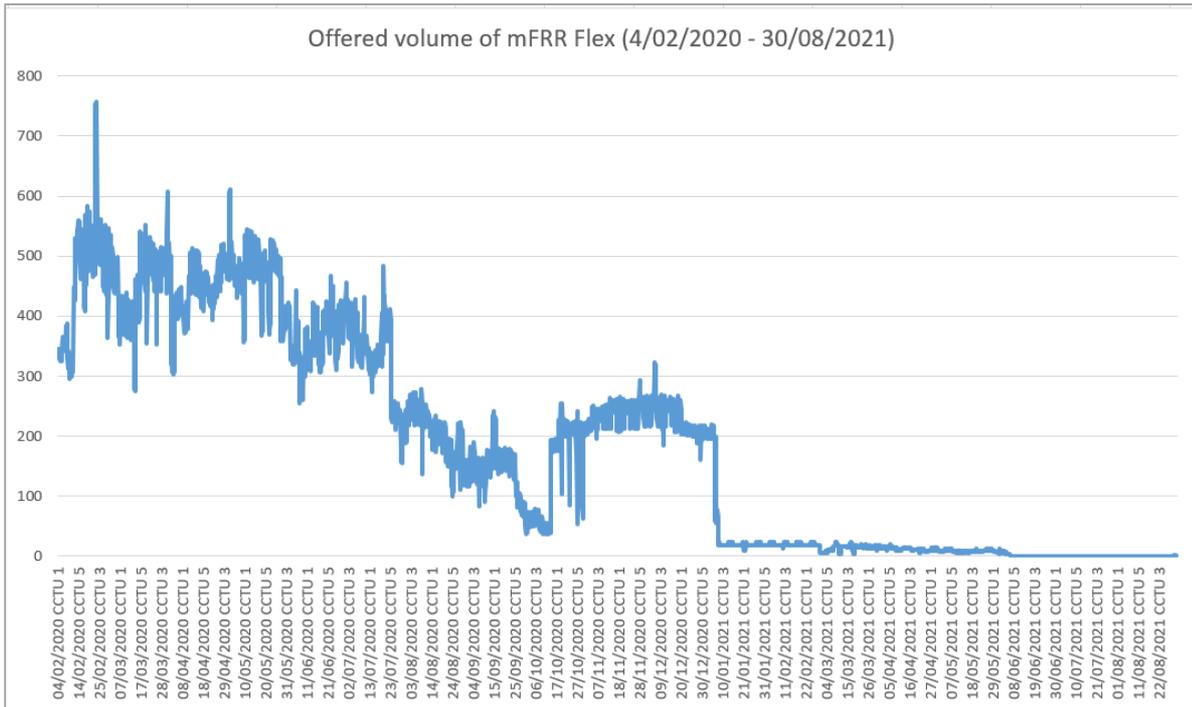


Figure 2 Evolution of volume of mFRR Flex

In first semester of 2020, the offered mFRR Flex volume was in average of 400 MW. With the different adaptations of the dimensioning of mFRR needs for the Elia LFC block, it can be seen on the total period till August 2021 that the offered mFRR Flex decreased.

From 7/1/2021 till end of August 2021, depending on the calculation of mFRR means of the day, a maximum of 17 MW of mFRR capacity could have been procured by Elia as mFRR Flex. In this period there was a constant decrease of the mFRR Flex in the mFRR capacity due to market adaption. From June 7th till August 30th, no mFRR Flex capacity was procured. For the period of 8 months, it represents 9MW in average till end of August.

In the last 1,5 years, the market seems to have adapted towards the focus on mFRR Standard and currently the mFRR capacity market seems sufficiently liquid to cover current and future mFRR needs. Contribution of pure mFRR Flex capacity, about 72 MW were prequalified as mFRR Flex product only, is relatively marginal and further conversion of mFRR Flex into mFRR Standard product is ongoing. When sufficient time is given to adaptation, market can reach the European target of using mFRR Standard product as defined in EBGL.

Regarding the margin of mFRR standard, about 200MW in average has been available this year above the volumes procured, even more standard volumes were offered before the decrease in contracted volumes in January 2021. Today the risk of a structural lack of liquidity in mFRR capacity auction seems low when looking at prequalified volumes.

Considering the very small volume of mFRR Flex which can be contracted, it is likely that a part of mFRR Flex volume would leave the mFRR market even if the product mFRR Flex is maintained. It is therefore not sure that mFRR Flex volume would be actually offered when really needed for the Elia LFC block if only a few MW of mFRR Flex is contracted for several months.

Taken into account the analysis of the market liquidity, Elia concludes that sufficient liquidity should be available as mFRR Standard. Furthermore, the actual contribution of mFRR Flex volume if the product is maintained is highly uncertain

Next to that, in terms of quality and use in operation, the mFRR Flex product is inferior to the mFRR Standard product (due to neutralization time) as it implies that Elia will not have the full dimensioned capacity available after deactivation of mFRR Flex.

5. BSP participation in the Belgian balancing market

Certain delivery points in the balancing market may require a neutralization time, it means a non-activation period after an mFRR activation followed by a deactivation.

The current mFRR Flex capacity product facilitates the direct participation of such delivery points to the balancing capacity market. Currently, BSPs offering mFRR Flex are remunerated for capacity while being protected against activation during neutralization time, without the need to compensate for the delivery point's potential unavailability themselves.

Alternative options are already available for BSPs willing to use delivery points with a neutralization time:

- This type of balancing energy can be provided as non-contracted mFRR
- This type of balancing energy can be provided as contracted mFRR as part of an mFRR Standard product. The BSP must then ensure that during the neutralization time the contracted mFRR can be delivered on other delivery points within its portfolio.

In conclusion, the mFRR Flex capacity product is not a pre-requisite for BSPs having delivery points with a neutralization time to participate on the Belgian mFRR balancing market.

6. Phase-out of mFRR flex

Elia concludes that the EBGL criteria of article 26 to justify the use of mFRR Flex as a specific capacity product in the Elia LFC block are not met as it could not be demonstrated that:

- standard products are not sufficient to ensure operational security and to maintain the system balance efficiently
- some balancing resources cannot participate in the balancing market through standard products
- the use of specific products is minimized subject to economic efficiency

In addition, as it was identified in 2016 already and repeated on several occasions since then, the phase-out of mFRR Flex product should allow to:

- Ensure availability of the energy when needed, in line with FRR dimensioning methodology.
- Simplify the rules and technical implementation of the new mFRR product for European mFRR platform.
- Avoid market distortions, lack of transparency and operational complexity resulting from the coexistence of several merit orders.

Conclusion

In line with above analysis with regard to the phase-out of the mFRR Flex product considering the implementation of the Methodology for Standard Products for Balancing Capacity, Elia proposes an amendment to the LFC means to implement the phase-out of the mFRR Flex product.

As a first step, the LFC Means is adapted in a way that no mFRR Flex volume will be procured by Elia anymore. To achieve this first step, Elia proposes changes to article 2(4) and article 6(4) of the LFC Means in order to remove the mFRR Flex capacity product from the balancing product to be procured by Elia. In a second step, the T&C mFRR will be adapted to finally phase out the mFRR Flex capacity product.

The new version of the LFC Means will enter into force on December 16, 2021, the date of calculation of the balancing capacity for December 17, 2021, after being approved by the national regulatory authority, i.e. the CREG.

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