

Proposal for the exemption from the obligation to procure upward and downward balancing capacity for aFRR separately in accordance with Article 32 (3) of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing

[04/10/2021]

Elia, taking into account the following,

Whereas

- 1) This document is the proposal for the exemption of Elia Transmission Belgium (hereinafter referred to as "Elia") from the obligation to procure upward and downward balancing capacity for frequency restoration reserves with automatic activation (hereafter "aFRR") separately. This Proposal is hereinafter referred to as the "Proposal".
- 2) Article 32(3) of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing (hereafter "EBGL") stipulates: *"The procurement of upward and downward balancing capacity for at least the frequency restoration reserves and the replacement reserves shall be carried out separately. Each TSO may submit a proposal to the relevant regulatory authority in accordance with Article 59 of Directive 2019/944 requesting the exemption to this requirement [...]"*
- 3) Article 1 of EBGL states, among others, that procurement rules for balancing capacity for frequency restoration reserves are laid down in the EBGL.
- 4) Article 6(9) of Regulation (EU) 2019/943 of the European Parliament and of the Council stipulates: *"The procurement of upward balancing capacity and downward balancing capacity shall be carried out separately, unless the regulatory authority approves a derogation from this principle on the basis that this would result in higher economic efficiency as demonstrated by an evaluation performed by the transmission system operator."*
- 5) Elia currently does not procure jointly upward and downward balancing capacity for mFRR and as a result, this Proposal concerns only aFRR.
- 6) Pursuant to the Terms and Conditions for balancing service providers for automatic Frequency Restoration Reserve approved by the CREG on the 22nd of April 2021 (hereafter referred to as the "current design"), Elia currently procures balancing capacity for aFRR in two separate auctions. In one of those auctions, both symmetric aFRR bids (upward and downward balancing capacity offered in the same bid) and asymmetric aFRR bids are allowed.
- 7) The design is currently in the process of being adapted. In the design expected to be implemented in the second quarter of 2022 (hereafter referred to as the "future design"), symmetric aFRR capacity bids will still be allowed.
- 8) Pursuant to Article 5(4) of EBGL, the exemption included in this Proposal requires approval by each regulatory authority of each concerned Member State on a case-by-case basis.
- 9) Article 10(1) of EBGL stipulates: *"TSOs responsible for submitting proposals for terms and conditions or methodologies or their amendments in accordance with this Regulation shall consult stakeholders, including the relevant authorities of each Member State, on the draft proposals for terms and conditions or methodologies and other implementing measures for a period of not less than one month"*.
- 10) Article 10(5) of EBGL stipulates that *"At least the proposals pursuant to points (a), (b), (c), (d), (e), (f), (g) and (i) of Article 5(4) shall be subject to public consultation in each concerned Member State."*
- 11) In article 10(6) of EBGL, it is provided that *"TSOs responsible for the proposal for terms and conditions or methodologies shall duly consider the views of stakeholders resulting from the*

consultations undertaken in accordance with paragraphs 2 to 5, prior to its submission for regulatory approval. In all cases, a sound justification for including or not including the views resulting from the consultation shall be provided together with the submission and published in a timely manner before or simultaneously with the publication of the proposal for terms and conditions or methodologies".

- 12) Article 65(2) of EBGL stipulates that *"For Articles [...] 32 [...], this Regulation shall apply from one year after entry into force of this Regulation.*
- 13) An exemption from the obligation to procure upward and downward balancing capacity for aFRR separately in accordance with Art. 32(3) of EBGL has been granted by the CREG in its decision B1879 of 18 December 2018 and is valid until 15 December 2021.
- 14) This proposal has been developed in the continuity of above mentioned decision, taking into account the evolution of the aFRR capacity market and the interactions that have taken place with market parties and CREG during the review of the aFRR capacity design since the entry into force of the T&C BSP aFRR on the 30th of September 2020.
- 15) This Proposal contributes to the objectives of EBGL as stated in Article 3(1)(b), Article 3(1)(e) and Article 3(1)(f) of EBGL. The impact on these objectives is explained in Article 3(2) and Article 3(3) of this Proposal as they are directly related to the explicit requirements of the Article 32(3) of EBGL.

SUBMITS THE FOLLOWING PROPOSAL FOR THE EXEMPTION FROM THE OBLIGATION TO PROCURE UPWARD AND DOWRWARD BALANCING CAPACITY FOR AFRR SEPARATELY IN ACCORDANCE WITH Art. 32(3) of EBGL TO CREG.

Article 1 - Subject matter and scope

1. In both the current and the future design, symmetric aFRR capacity bids are allowed.
2. Article 32(3) of EBGL and Article 6(9) of Regulation 2019/943 provide that the procurement of upward and downward balancing capacity for at least the frequency restoration reserves and the replacement reserves shall be carried out separately. According to Article 32(3) of EBGL, the proposal for exemption shall include:
 - a) specification of the time period during which the exemption would apply;
 - b) specification of the volume of balancing capacity for which the exemption would apply;
 - c) analysis of the impact of such an exemption on the participation of balancing resources pursuant to Article 25(6)(b) ;
 - d) justification for the exemption demonstrating that such an exemption would lead to higher economic efficiency.
3. Each TSO may submit a proposal to the relevant regulatory authority in accordance with Article 59 of Directive 2019/944 requesting the exemption to this requirement.
4. The proposal is compliant with the requirement of the Article 32(3) of EBGL. The period during which the exemption applies pursuant to Article 32(3)(a) of EBGL is mentioned in Article 3(4) of this Proposal. The volume of balancing capacity for which the exemption applies pursuant to Article 32(3)(b) of EBGL is mentioned in Article 3(1) of this Proposal. The analysis of the impact of the exemption pursuant to Article 32(3)(c) of EBGL is developed in Article 3(2) of this Proposal. The justification demonstrating that the exemption leads to higher economic efficiency pursuant to Article 32(3)(d) of EBGL is given in Article 3(3) of this Proposal.

Article 2 - Definitions and interpretations

1. For the purposes of this Proposal, the terms used in this document shall have the meaning of the definitions included in EBGL and COMMISSION REGULATION (EU) 2017/1485 establishing a guideline on electricity transmission system operation.
2. In addition, in this Proposal, the following definition shall apply:

"Must run costs" are the additional short-term costs incurred and calculated on the contractual period, to bring assets not planned to be dispatched for day-ahead or intraday markets for economic reasons to the generation level required for providing aFRR.
3. In this document:
 - (a) headings are inserted for convenience only and do not affect the interpretation of this Proposal; and
 - (b) any reference to legislation, regulation, directive, order, instrument, code or any other enactment shall include any modification, extension or re-enactment of it then in force.

Article 3 – Exemption from the obligation to procure upward and downward balancing capacity for aFRR separately

1. Elia proposes an exemption from a separate procurement of upward and downward balancing capacity for the entire volume of balancing capacity for aFRR procured.
2. The impact of this Proposal on the participation to the aFRR procurement of demand facility owners, third parties, owners of power generating facilities from renewable energy sources or owners of storage will be limited for the following reasons:
 - (a) The balancing service providers that are not able to provide symmetric bids for upward and downward balancing capacity have the option to provide separate bids for upward and downward balancing capacity.
 - (b) Both the current and the future design allow to procure the full volume solely with asymmetric bids.
3. This Proposal for exemption will lead to higher economic efficiency in aFRR procurement. The reason is that a separate procurement of upward and downward aFRR may prevent the assets with must run costs to distribute efficiently their must run costs in their upward and downward bids. This may result in inefficient selection of the bids and higher procurement costs. As long as assets with must run costs are unavoidably selected in the aFRR capacity market¹ and that those must run costs are reflected in the aFRR capacity bids, a symmetric procurement will lead to a higher economic efficiency, at least for the short term until the market further evolves.
4. Elia proposes that the exemption from a separate procurement of upward and downward balancing capacity for aFRR applies until 15 December 2024.
 - (a) This duration will allow adapting the necessary technical and market requirements listed in Article 3(2)(b) which will make effective and efficient the participation of new providers, and to have a sufficient period to observe the evolution of the aFRR market and the avoidability of assets that may face must run costs.
 - (b) Elia shall re-evaluate the need for the exemption at the latest 18 months before the end of the exemption, possibly leading to a new proposal for exemption. The re-evaluation shall be based on the dependency of the aFRR capacity market on assets which have must-run costs and which would not be running when not selected in the aFRR capacity market.

¹ Newly prequalified units since end of September 2020 are assumed to have no must-run costs. Elia estimates that, at the end of August 2021, the volumes of capacity bids which are offered in a stable way thanks to those units amount to 3MW in the upward direction and 17MW in the downward direction. The remaining capacity is to be offered based on units that have must-run costs, indicating that the aFRR capacity market is still strongly dependent on those units.