Feedback in response to the public consultation on the modification of the alpha parameter

In this reaction, Belgian Offshore Platform responds to the public consultation on the modification of the alpha parameter and restoring the residual balance of individual access responsible parties as launched by Elia on 3rd of December 2021.

BOP remains at disposal for further questions and clarifications when deemed necessary.

Position on the modification of the alfa parameter

BOP supports a swift response of Elia to modify the alpha parameter in the short term in an attempt to address the rising imbalance costs as observed during the last couple of months, as it is in the interest of society to keep the balancing costs under control, to avoid energy price increases.

The modification as proposed in the document under consultation, with some improvements as suggested in the comments below, is a good step in the right direction, but considered by BOP as only a first step in a long-term solution towards a more performant flexibility market.

In the longer term, the alfa parameter should be revisited and rediscussed in a profound way for several reasons:

1. to make sure the design is optimally fitted for the purpose, i.e. providing the right incentives to BRPs to better balance their portfolios. If however, due to other (more structural) concerns in the flexibility market, BRPs are technically not capable of perfectly balancing their portfolio, the alfa component merely serves as a financial punishment, rather than an incentive. In the end, any cost resulting from a suboptimal balancing market design will be translate into a cost for the consumer;
2. to create a more stable design, including elements that go beyond the imbalance price, that can last for many years. A proper working balancing and flexibility market will be crucial to integrate large amounts of renewable capacity and to facilitate a successful energy transition in general. Short term and temporary modifications are not helpful in creating a stable market environment. Long term visibility and stability are however essential to attract investments in flexibility and improve the balancing means in the market. The academic literature is not supportive of administrative price-adders, and on the contrary argues for a harmonised real-time price;
3. to better justify the effectiveness of the alfa-parameter with a profound analysis. Although we appreciate all the work done by Elia in a very short time period, the analysis and impact assessment justifying the current recalibration is rather limited to support the usefulness of the alfa-parameter for the long run.

Suggestion for improving the recalibration

BOP suggests to extend the analysis and justification of the modification of the alfa parameter based on the *difference* between the spot prices and the imbalance prices, and not the imbalance price as a stand-alone parameter, as it is a better proxy for the imbalance cost and it corrects for the impact of external factor like gas prices and CO2 prices[1].

Imbalance price vs imbalance cost vs imbalance invoice

In the analyses supporting the modification, the total value of the alfa parameter is assessed for a large period of 2020 (11M€) and compared to the same period in 2021 (19.2M€). Elia considers this total value as measure for the impact of the alfa parameter on the imbalance cost. The proposal for the alfa parameter modification introduces a calibration parameter CP to match the total value of both periods: 10.1M€ in 2020 and 12.2M€ in 2021 after recalibration.

In this respect, it is important to distinguish the imbalance cost for a BRP from an imbalance invoice sent to the BRP:

- the **imbalance price** is the amount of EUR/MWh a BRP must pay or receive for its imbalance volume.
- The **imbalance invoice** is the amount the BRP needs to pay to Elia as a result of an imbalance volume and the corresponding imbalance price. It is the difference in the volume produced in real-time vs. the forecasted volume, multiplied by the imbalance price, and is a result of an imperfect forecast.
- The **imbalance cost** on the other hand is the difference between the revenue in day-ahead with a perfect forecast (of the volume) and the revenue in real-time. A positive imbalance invoice (i.e. payment from BRP to Elia), does not necessarily mean a positive imbalance cost (i.e. the BRP made a loss because of its imperfect forecast).

Elia is using the imbalance invoice in its analyses. But to gain better insights in the effectiveness of the alfa-parameter, and ultimately integrate the right incentives to the BRPs in the design, the analyses should include the imbalance cost to the BRPs.

A good proxy for the imbalance cost is the difference between the spot prices (DA and/or ID) and the imbalance price, as this parameter is commonly used in the market. We urge Elia to include this imbalance cost parameter in the analysis that needs to support the short term modification of the alfa-component and tuning of the calibration parameter, as it will better match with commercial practices that will not change overnight. This introduces a better correlation between the alfa parameter and the balancing market dynamics of today.

Furthermore, it does not reduce the incentive to the BRPs to continuously improve their position between day-ahead and real-time, as the alfa parameter still functions as an adder to the imbalance price. In the long term revision, it can be further investigated how the common commercial practices can be improved and adopted to further enhance the performance of the balancing market.

[1] An imbalance price of 250 EUR/MWh is high when day-ahead prices for that timeframe were 50 EUR/MWh, but low when they were 300 EUR/MWh.

Recalibration based on a comparison between 2020 and 2021

The recalibration is purely based on a comparison between 2020 and 2021. A correction factor is introduced to make sure that the imbalance cost (actually it is the imbalance invoice) in 2021 is limited to the imbalance cost of 2020.

What justifies this choice?

Correction for external factors

The current analysis only provides data on the level of the imbalance price in €/MWh. The market context in 2020 and 2021 is however significantly different with rising energy and CO_2 prices, which are reflected in the imbalance bids and thus the imbalance price.

To analyse the effectiveness and suitability of the alfa-parameter it is important that these external factors are neutralized before qualitative conclusions can be made. This can be done by using the same proxy for the imbalance cost to the BRPs, i.e. the difference between the spot prices and the imbalance prices.