

Subject: FEBEG comments on ELIA's consultation on the review of the alpha parameter
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FEBEG thanks ELIA for having the opportunity to react to ELIA's public consultation on the modification of the alpha parameter in the tariff for maintaining and restoring the residual balance of individual access responsible parties¹.
The inputs and suggestions of FEBEG are not confidential.

Preliminary Remarks

FEBEG thanks ELIA for having organized two ad-hoc meeting following the concerns raised by different market parties regarding the worrying increase of the balancing costs. During the first meeting of 11 October, FEBEG has raised its concerns regarding the balancing costs and its doubts regarding the added value of the alpha-component.

FEBEG therefore proposed a two-step approach:

- to perform a thorough analysis of the costs and benefits of the alpha component;
- to set the alpha component at '0' - pending this analysis - to limit the detrimental impact on the current balancing costs.

With this consultation we understand that ELIA is trying to address the immediate concern of lowering imbalance costs by review of the alpha component which was presented in the second workshop of 13 December.

We appreciate the workshops organized by ELIA and stress the need of a good and transparent collaboration between ELIA and the market parties to address their concerns in the current context of very high imbalance prices.

Finally, while the consultation period for the present proposal is rather short, we consider that this shorter period is fully justified considering the significant impact of the high imbalance prices on the market and the sense of urgency expressed by different market parties (amongst which FEBEG) for addressing the issue.

¹ https://www.elia.be/fr/consultations-publiques/20211202_public-consultation-on-the-modification-of-the-alpha-parameter

Added value of the alpha component is not demonstrated

Ultimately, FEBEG remains of the opinion that the alpha component should be removed when its added value cannot be clearly demonstrated. At this moment, a cost-benefit-analysis demonstrating the added value of the alpha component is lacking.

Indeed, the overall objective should be to design a balancing mechanism that allows to – to the benefit of the end consumer – maintain the balance of the system at the lowest cost. Simply “shifting” a cost within the energy market (in this case, towards the BRP) does not reduce the cost, because in the end the overall system-costs are born by the consumers. A cost-benefit-analysis potentially demonstrating the added value of the alpha component should therefore clearly illustrate the following:

Effectiveness of the measure

FEBEG seriously doubts the effectiveness of the alpha component. Indeed, we consider the alpha component to be simply a financial transfer from BRP’s to ELIA without bringing a lot of advantages to the system as the BRP’s have little means to react on moments of structural imbalances:

- the alpha component results in a leak of liquidity and unreasonably high intraday prices on moments of structural imbalances;
- the obligation to offer CIPU units to the mFRR product – in the future in an even more firm way – does not allow BRPs to optimally react against the alpha component;
- technical and operational constraints on assets do not always allow for a fast and adequate reaction;
- the discrepancy between the income from marginal mFRR price and imbalance price including the alpha component could have additional perverse effects such as higher mFRR capacity prices and lower liquidity from free mFRR bids from non-CIPU units;
- the alpha component did not initiate any major change in the BRP behaviour and did not lead to investments in flexibility. Several more important factors discourage the BRPs – notwithstanding the alpha component – to investment in flexibility:
 - o the uncertainty and market risk;
 - o complexity of the legal and regulatory framework, and product designs;
 - o the cannibalization effect as an investment in a flexible asset could jeopardize the profitability;
 - o the technical and operational constraints of certain technologies;
 - o the instability of the legal and regulatory framework (design of the products, European harmonization, new interconnections (NEMO, Alegro, ...))
 - o uncertainty on the evolution of balancing prices with the PICASSO and MARI projects which is aggravated through the various derogations for many TSOs, delaying the full implementation of EBGL;
 - o huge efforts that are required to develop portfolio of demand response (complexity, operational and administrative burden, reluctance at customers side, not always strong business case resulting in low profitability, ...);
 - o ...

The first analyses of ELIA backing the proposal for modification of the alpha component are confirming this view:

- the impact of the alpha component on the behaviour of the BRP's cannot be isolated: changing behaviour of BRP's might be induced by other drivers such as increased flexibility means, higher activation prices, bigger share of renewables, better forecasting, etc.
- at high imbalance price (e.g. > 400 EUR/MWh) further price increase doesn't trigger additional flexibility but just becomes a cost which ultimately be passed on to the end consumer.

To the contrary, FEBEG rather sees the alpha component as a huge entry barrier to new market players, which should be a concern for the regulators as it endangers the competitiveness of the overall Belgian market over the long run. Moreover, FEBEG notes that several important BRPs/suppliers have left the Belgian market in the period.

Last but not least, as already mentioned several times, the alpha component is a deterrent to the development of competitive PPAs, which is an essential element for further increasing renewables in Belgium. In the underneath overview the additional imbalance cost in EUR/MW is given per technology. The numbers are based on the DA forecast and production numbers from the ELIA website.

Proportionality of the measure

A proper cost-benefit-analysis should also demonstrate that the cost of the measure leads to an overall reduction of the balancing cost for the end consumer. In other words, the additional risks/costs for the BRP's should be lower than the risk/cost reduction for ELIA.

For the abovementioned reasons, FEBEG remains of the opinion that the added value is not demonstrated and therefore regrets that the alpha component is not removed or put at '0', pending additional analyses or considerations that would demonstrate the added value of the alpha component.

On the proposal to recalibrate the alpha component

FEBEG confirms the figures on the overall impact of the alpha component as presented by ELIA during the 2 workshops on the imbalance costs:

- on average, the alpha component represents 25% of the imbalance costs;
- the cost of the alpha component has increased from 1.9 million euros in 2019 to 19.2 million euros in 2021 (YTD);
- the impact of the recalibration of the parameters means a delta of ~7 million euros if applied in 2021 (YTD).

FEBEG appreciates the efforts of ELIA to come up on a short notice with a proposal to recalibrate the alpha component and thanks ELIA for proposing a quick implementation timeline for the entry into force of the recalibration parameter with 01/02/2022 as go-live date.

As the proposed recalibration of the parameters has a positive impact on the BRP's balancing cost, it is absolutely necessary to implement it as soon as possible: the recalibration removes the costs for which it is already clearly demonstrated that they have no incentivizing effect on the behaviour of the BRP's.

FEBEG welcomes the debate initiated by ELIA on the future evolution of the imbalance price

FEBEG welcomes and supports the initiatives of ELIA to organize a debate and in-depth reflections on the future of the imbalance price anticipating future market evolutions. FEBEG is also convinced of the need of this debate and is willing to contribute to developing a view on such evolution of the imbalance price.

In this context, FEBEG would already like to draw the attention of ELIA to two important elements. FEBEG would like to invite ELIA to take these concerns into account in its reflections on the future of the imbalance price.

FEBEG is concerned about the risks linked to arbitrary set imbalance prices

Ideally, the imbalance price reflects as much as possible the real value of energy. An arbitrary set imbalance price – based on administratively set components – might create some undesired effects, such as:

Distortion of the price signal

Indeed, article 44.1(b) Electricity Balancing Guideline (EBGL) states that the imbalance settlement price should reflect the 'real time value of energy'. The real time value of energy naturally takes account of the risk of scarcity. Therefore, if properly set according to the EBGL principles, the imbalance settlement price mechanism should *de facto* provide an adequate price in situations of scarcity. As a result, adding an

administrative component would be distortive since it would reduce the ability of imbalance prices to effectively reflect the real time value of the energy and would jeopardize the proper signaling function of an efficient imbalance settlement price. It would create counter-incentives and thus trigger inefficient behavior by BRPs.

Distortion of the level playing field between countries

In addition, since the imbalance settlement harmonization proposal recently proposed by ENTSO-E did not provide any harmonized methodology for such an administrative scarcity component, FEBEG is concerned to see national uncoordinated adders to be developed. The EBGL foresees an integrated balancing market. Implementing such administrative component in a non-coordinated way would lead to different imbalance price behavior with similar imbalance volumes in the different control areas. This would be a threat to level playing field in the European electricity markets.

Contradictory to measures to reduce the occurrence of price spikes

The Pricing Proposal currently under consultation by ENTSO-E introduces the new concept of a Balancing Energy Pricing Period (BEPP). One of the objectives to introduce the BEPP is to reduce the occurrence of price spikes. FEBEG questions why on the one hand measures are being formulated to suppress the real-time value of energy, while on the other hand ‘incentivizing components’ such as the alpha component are necessary to artificially increase the imbalance settlement price. It would be more efficient, more market-based and more transparent to avoid all such artificial interventions into the balancing prices and instead allow the market to function properly.

FEBEG emphasizes the importance of a stable imbalance price design

Investments in flexibility means require a favourable investment climate. To create such a climate, several conditions need to be fulfilled. A stable and foreseeable regulatory framework is in this respect a ‘condition sine qua non’: therefore, FEBEG urges for a stable imbalance price design reflecting as much as possible real-time value of energy in the market.

An imbalance price which needs to serve other objectives than just reflecting the value of energy in the market risks to have to be adjusted frequently in function of the objectives to be met and risks to become very complex as unintended side-effects need to be managed, which is already the case with the alpha component. The addition of adders obviously creates additional administrative burdens as it will require further tweaking: these adaptations triggers long and difficult discussions on the identification and the magnitude of the parameter to be changed. This results in complexity, uncertainty and changing market circumstances which will discourage – rather than encourage investments – in flexibility means.

Conclusion

1. FEBEG remains of the opinion that the alpha component should be removed when its added value cannot be demonstrated. As the need for this incentive is not clearly demonstrated at this moment and in the current market design, it should be put at '0'.
2. FEBEG nevertheless appreciates the efforts of ELIA to quickly adapt the alpha component in order to reduce its overall impact on the BRPs given the currently difficult market circumstances. As such, FEBEG accepts ELIA's proposal for the recalibration of the alpha parameter as short term solution.
3. FEBEG is looking forward to and is willing to contribute to the in-depth reflections on the future evolution of the imbalance price in 2022 and beyond. This is a very important topic for FEBEG and further discussions should start from basic market principles such as stated above. These are key elements to enable and foster a well-functioning reactive balancing system.