



Answer to the Consultation

“Modification of the α parameter in the tariff for maintaining and restoring the residual balance of individual access responsible parties”

Next Kraftwerke would like to thank Elia to actively re-evaluate the use of the alpha parameter in the imbalance price, and for the opportunity to share our position on this subject.

1. Our position: Rejection of the proposal

We appreciate the drafting of the annex document that the alpha parameter brings substantial benefits to Elia in terms of a more reliable system, but we do not think that this document serves as proof that the alpha parameter has the desired beneficial impact.

We rather think that no additional alpha parameter is needed to stimulate the BRPs to balance their portfolio. In particular, the alpha factor increases the cost of renewable portfolios which can not be desired considering that the goal is to achieve even larger shares of renewables in the future.

Next Kraftwerke therefore rejects the current proposal. Next Kraftwerke proposes the complete abolishment of the alpha parameter - at least for the period of increased electricity and imbalance prices.

2. Background

In a good functioning system, flexibility is continuously traded back & forth to balance portfolios in the Day-Ahead (DA) market, the Intraday (ID)-market and finally by responding to the imbalance price. In our opinion the alpha parameter creates a distortion in this balance, since flexibility could be reluctant to offer their flexibility to the DA and ID market if they can benefit from postponing the flexibility decision to real-time being strongly incentivized by the alpha parameter. This leads to an inefficient use of flexibility, allocated to speculation on the imbalance price, rather than an enabler for larger shares of to-be-balanced renewables in the system.

This hurts renewable energy traders, who are paying the bill of this parameter (i) through a less liquid intraday-market (where alpha-based premiums can also be factored in) to timely balance their portfolio and (ii) through correlation of the system imbalance and forecasting errors on renewable power production.

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Next to this, the alpha parameter disconnects the imbalance prices from reserve power energy prices. As a reaction in “reactive balancing” is awarded the alpha parameter, revenues in the imbalance market artificially exceed reserve power activation revenues, systematically favoring imbalance speculation over nominating flexibility as reserve power Energy Bids.

This disconnection conflicts directly with the goals of increasing the liquidity in the Belgian reserve power markets, and more efficient reserve power markets.

Concerning the argumentation brought forward to justify the alpha factor it is important to note that

- an increasing reaction during periods with an alpha factor does not prove the positive impact of the alpha factor but can equally just show that flexibility that might be activated earlier is withheld for the period of the alpha factor.
- an increasing reaction in reactive balancing that is supposed to be triggered by the alpha factor might equally be taken away from other earlier markets, in particular from the intraday market.
- an increasing reaction in reactive balancing might be from flexibility that is not offered on the reserve power market, because the activation price income is higher with the alpha factor.

3. Final Note

The imbalance ‘market’ is a great lever for managing the system imbalance. This does however not mean that it is desirable to maximize this leverage, in any way. The alpha parameter distorts the efficient allocation of flexibility in market as it artificially increases the cost of flexibility for all players in all markets, and limits liquidity growth in the Intraday Market, contracted reserve power, and (non-contracted) Reserve Energy.

The complete removal of the alpha parameter will reduce portfolio management costs throughout the energy market and therefore also directly reduce electricity sourcing costs for all consumers.

Belgium in particular struggles with structural imbalance resulting from the hourly day market products and low liquidity on the intraday market. We therefore think that more effort to improve both these markets has a significant higher value than an alpha factor that rather shifts flexibility from one market to another.