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Response to the public consultation regarding the proposal for recalibration of the α-parameter, used by Elia to set the imbalance price

ODE considers the proposed recalibration as a positive step towards reducing the balancing costs in the short term. The assessment that was performed by Elia clearly shows the imbalance costs have been rising in the past few years. The costs soared in 2021, causing a huge extra financial burden on the BRPs and producers of (renewable) electricity. Although it is positive that the proposed recalibration of the α-parameter is expected to reduce the costs from early 2022, the financial burden of the α-parameter as we witnessed in 2021 I,s of course, a big burden on our members. By definition, the use of price adders (like the α-parameter) disturbs the market since the imbalance price should reflect the actual scarcity that exists. As we head towards a more integrated system where our balancing market is coupled to neighbouring markets, the α-component again disturbs the market and increases the costs.

The costs and benefits of the added complexity, as well as all the risks involved, that the α-parameter brings with it, should be thoroughly examined further. A thorough cost-benefit analysis needs to be performed to properly assess:

- If the α-parameter really adds to a stronger reaction of the BRPs
- If the α-component leads to lower costs for the end-user

In other words, are the costs that Elia saves by lowering the need for reserve capacity higher than the costs that are transferred to the BRPs? One does not solve the issue by placing the costs and burdens elsewhere, it just (might) become less visible, but it does not disappear. Any additional costs for renewables, should be avoided, as this would be contradicting to the long term ambitious to move towards a very high share of renewables.

Conclusion:

The sector welcomes the constructive approach of Elia to make a compromise 'short run' proposal that is expected to lower the balancing costs in the short term. We do, however, regret that the α-parameter hasn't been brought to zero, at least until further evaluation of the costs and benefits has been performed.

Further, we want to thank Elia for their fast response to reduce the soaring costs for balancing that we have witnessed in 2021 and for involving the stakeholders in the process. We think the discussion about the use of a price adder should definitely be continued, certainly in light of the future developments regarding real-time pricing related to the consumer-centric market design. We are, obviously, against any distortion of the market signals or functioning, especially when this leads to additional burdens (costs, risks) that could slow down or hamper renewable energy expansion.

17 december 2021

Additional remark for Elia to take into consideration

On page 3 in the guiding document “20211206_Proposal-Alpha-Recalibration-nl” is mentioned:
“Voor de productie van zonne-energie (met steunmaatregelen van maximaal 450 euro/MWh) wordt aangenomen dat deze momenteel geen substantiële rol speelt bij impliciete balancering, gezien het gedecentraliseerde karakter ervan “

ELIA assumes that solar power does not play a substantial role in implicit balancing, as solar installations have a decentralized character and there is sometimes high operational support. We believe there is a high potential for solar power to participate in implicit flexibility by reducing production when prices are negative. Recent and future installations have limited to no financial hindrances for participation and for older installation with higher support levels, we will ask the Flemish government to analyze the benefits of a (partial) refund of lost operational support due to participation in flexibility. We want to add that while a lot of solar capacity is distributed, the 1248 biggest installations represent about 20% of the installed solar capacity in Flanders (862 MW out of 4214 MW), with a minimal capacity of 250 kW for these installations. We believe that if the correct market conditions are set, sector-wide participation could follow once a critical market volume is reached.