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Elia System Operator
Boulevard de l'Empereur 20
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Brussels, 7th of June 2022

<u>Subject: Answer to public consultation on proposal for amendment to Elia's LFC block operational agreement</u>

Dear Sir or Madam,

Flexcity would like to thank Elia for giving us the opportunity to participate in the formal consultation. We would like to express our strong concerns on how the proposed amendment of the LFC Block Operational Agreement will negatively affect the well-functioning of the Belgian reserve market.

Flexcity has always aimed to provide as much liquidity as possible to new services, be it mFRR Standard, the Capacity Remuneration Mechanism or the aFRR product. Up till now, this has always been a success, thanks to a good cooperation between the market participants, Elia and the CREG. Providing this liquidity has always come with a great effort, both for Flexcity, who did substantial R&D and commercial investments, and for the flex providers, who have and are doing significant investments in order to participate and prequalify for these new services. Flexcity would like to emphasise that an update of the aFRR contracted volumes is a precedent with a very negative effect on the well-functioning of the Belgian reserve market for the following six reasons:

1. Updating the aFRR contracted volumes in such short notice, deviating from the procedures of a yearly revision, has **a strong precedential value and will negatively impact investment appetite** for flex providers and aggregators to participate in new grid services. Especially given the regulatory uncertainty hanging over the aFRR product in the past 2 years with:
    a. the 3 month delay of the opening of the market
    b. the immediate change of the capacity design several weeks after opening the market
    c. the unilateral introduction of the Cap Adjusted Variable
    d. the unforeseen capacity auction update in May 2022
    e. the uncertainty on the go live of PICASSO in September 2022.
2. It will give **an adverse sign to the market of a decreasing flexibility need**, which might negatively impact the potential to onboard new flexibility in short and long term. This would give a sign to the market that decision makers do not believe the energy transition and role of demand response. By doing so, the door has been opened for accepting unstable market design and regulatory uncertainty.
3. It will **negatively impact Belgian grid security** as it would become even more dependent on the grid situation in neighbouring countries through taking into account IGCC import and export .
4. The current capacity market has been discussed very intensively and consulted with all market parties. It was decided as a well balanced compromise, strongly depending on the certain market conditions like sufficient supply and demand. **Fundamentally altering one of the cornerstones may lead to questioning and revising the whole market design.**
5. This decision completely undermines the technical assessments that have been made by Elia to calculate the volume of reserves required. The value of the so-called "Dossier Volume" with the corresponding assessment of secure operation of our grid has implicitly been reduced to an irrelevant exercise.
6. Decreased volume will lead to less deep activation merit orders and a **higher activation frequency** for end-of-merit order assets . Given the high operational impact of activations on these assets, as they are embedded in a whole industrial ecosystem where electricity production is often a by-product,

increasing the activation frequency might reduce the volumes these assets might offer. Flexcity is currently experiencing problems of this sort for big industrial CHPs.

Flexcity remains available to further clarify any of the above points and will, through the consultations, also remain an active participant in the ongoing discussions to further improve the aFRR product.

Kind regards,

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