

Public consultation on a proposal for amendment to Elia's LFC block operational agreement

24 March 2023

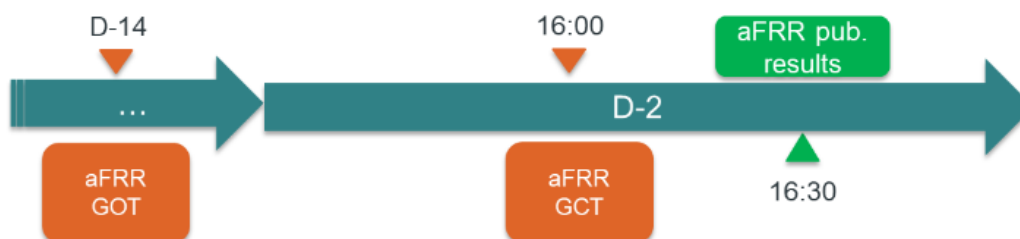
Executive summary

Centrica thanks Elia for the opportunity to provide comments to the amended LFC block operational agreement. We recognise the significant effort from Elia to develop a new dimensioning methodology and would like to share the following comments:

- We welcome Elia's commitment to implementing a dynamic methodology for the calculation of aFRR needs.
- We appreciate the details provided on the new FRR dimensioning process and seek further clarification on the timeline.
- We strongly suggest accelerating the transition towards the dynamic dimensioning and remain of the view that the current reduction of aFRR procurement volumes should be subject to an impact assessment.

Centrica kindly ask Elia to provide further clarification on the process timeline

We would like to seek clarification from Elia regarding the timing of the FRR dimensioning process. While both the explanatory note and workshop slides indicate that the results of aFRR and mFRR needs, as well as the aFRR and upward mFRR balancing capacity for the next day, will be published before 7 AM D-1 on Elia's website, we find it incompatible with the existing terms and conditions. The current T&C BSP aFRR states that Elia procures each aFRR capacity product for day D by running one capacity auction in D-2 for all CCTUs of day D, with a gate closure time scheduled at 4 PM D-2. We kindly request Elia to provide an updated timeline including the new FRR dimensioning process as well as the capacity auction process to avoid any confusion and ensure transparency in the procurement process.





Centrica strongly suggests accelerating the transition towards the dynamic methodology

We strongly encourage Elia to speed up the transition towards a dynamic methodology, which was initially planned to go live on February 1, 2022. Beyond the delay, we note with regret that Elia proposes to maintain a fixed and reduced aFRR procurement volume for over two years, even though this was presented as a temporary measure (July 2022 - October 2024).

Centrica remains of the view that an analysis should be performed to assess the impact of this volume reduction. We believe this is a way to demonstrate accountability, transparency and a commitment to evidence-based decision making. As highlighted during the June 2022 consultation and the Working Group Balancing in December 2022, the decision to reduce aFRR procurement volumes from 145 to 117 MW was not supported by a proper ex-ante cost-benefit analysis. Despite repeated requests from various market parties, to this date no ex-post impact assessment has been presented on the volume reduction. Centrica agrees with Elia that isolating the effect of the volume reduction on procurement costs is not a straightforward exercise, since various parameters influence costs and simulating auction costs for higher procurement volumes is challenging. We however believe that an overall impact assessment comparing the situation before and after the volume reduction should be conducted, taking into account all other factors. This can provide useful information about the effectiveness of the measure, or detect unintended consequences such as negative impacts on stakeholders, market conditions or European balancing projects.

In the absence of such an assessment, it cannot be excluded that the volume reduction actually had an adverse effect on procurement and activation costs, market liquidity as well as system imbalance quality, which has deteriorated in 2022 as noted by Elia. Furthermore, it cannot be established that lower aFRR procurement volumes have effectively led to less capacity being procured from DPsu such as CCGTs, which was amongst the stated objectives.

We therefore urge Elia to accelerate the introduction of the dynamic dimensioning methodology, which will enable a more efficient and cost-effective procurement process, ultimately benefiting all market parties. This is justified by the absence of a clear rationale for keeping a fixed aFRR procurement volume of 117 MW and the numerous benefits of the new methodology identified by Elia, which include a more stable system reliability during challenging conditions.