POSITION

Subject: FEBEG's position regarding the public consultation on the T&C BSP mFRR & Balancing Rules

Date: 25 August 2023

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Introduction

FEBEG thanks ELIA for the opportunity to give its inputs to ELIA's *Public consultation on the T&C BSP mFRR in the framework of the MARI project as well as on the Balancing Rules in the framework of the MARI and PICASSO projects and of the transfer towards the T&C BRP of the provisions regarding the imbalance tariff* [1].

FEBEG appreciates the workshops and presentations provided by ELIA to the stakeholders, and its members actively participated in these engagements and gave honest feedbacks throughout the process, both during the workshops and in bilateral exchanges with ELIA.

This document serves as a summary of FEBEG's comments and proposals regarding the T&C BSP mFRR and the Balancing Rules and is not confidential.

General summary

Despite some elements that are still worrying to FEBEG members, we would like to thank ELIA for its open approach to propose a consistent market design despite the rigid constraints embedded in the MARI framework at European level. Some aspects of the design, as proposed by ELIA, are the result of long and fruitful discussions with the stakeholders and we are therefore convinced that it will benefit the market in general and the liquidity of the mFRR market in particular.

Except for the stringent penalty regime, we consider the proposed design to be an acceptable compromise, compared to the current situation. Of course, joining a European platform is a game changer and FEBEG can understand that this was a very challenging project for ELIA.

As a final general comment, FEBEG regrets that MARI and iCAROS were handled by different teams at ELIA side. This created some consistency issues between both designs as well as difficulties throughout the presentations to make remarks (one team pointing to the other and vice-versa) and we believe a transversal team would have been easier.

[1] https://www.elia.be/en/public-consultation/20230705_public-consultation-on-the-tandc-bsp-mfrr-in-the-framework-of-the-mari

Remuneration

FEBEG recognizes that the price formulas put forth by ELIA are aligned with the concept of remuneration based on marginal bid prices, a principle that FEBEG can endorse as a crucial and integral aspect of market design. However, we consider the balancing perimeter correction (as per Art II.11.10 with block approach) to no longer be appropriate since ELIA is pushing to have a decorrelation of the CBMP and the imbalance price when the Belgian system imbalance is in the opposite direction compared to the rest of the EU system imbalance.

Regarding the correction of the balancing perimeter, FEBEG maintains as key principle that a proper activation should not result in any financial exposure (and penalties as described in next section). Concretely, FEBEG requests that ELIA changes the design to ensure that for an upward mFRR energy bid, the settlement of each quarter-hour of ramping should be the maximum value between the imbalance price and $CBMP_{up,SA,DA}$, while for downward RD, the settlement of ramps should be the minimum value between the imbalance price and $CBMP_{down,SA,DA}$.

Penalties, controls and availability tests

Controls

In general, FEBEG can understand that ELIA applies activation control because it allows to update bids closer to delivery (25') and in some cases even after GCT. In this regard, FEBEG wants to thank ELIA for the efforts made to facilitate BSPs to modify mFRR energy bid volumes after Gate Closure Time (GCT) for a set of valid reasons. However, FEBEG wants to raise the attention that it is not always possible to offer perfectly accurate mFRR energy bids.

Wind parks production highly depends on effective wind speed. Offering accurate energy bids (and schedules accordingly) requires perfect weather forecasts which is not possible. For wind assets we continuously deviate from the program, even if we renominate new schedules/programs based on the lastest intraday forecasts. This implies that the volume of flexibility offered for mFRR may decrease in real time if we produce less than expected. **A rigid activation control is in this case unfortunate as BSPs do not have the means to be more accurate and suffer from an obligation from the Federal Grid Code to offer the entire flexibility. Being charged large penalties is therefore regretful and we consider it to be too strict and unfair towards the BSPs**.

Furthermore, applying a rigid activation control with Full Activation Time of 12.5' and mFRR still being a manual activation will likely be at the expense of the market liquidity. One can only ask BSPs to offer what they can reasonably expect to deliver without running the risks of stringent penalties.

FEBEG already mentioned to ELIA that the misalignment of GCT in T&C Scheduling Agent (45' before RT) and T&C mFRR (25' before GCT) can lead to inaccuracies in the control of activations and consequently to unjustified penalties. Art II.10.15 invites BSPs to update their baseline by sending a new update of the schedule. For the avoidance of doubt, this new update (of the bid and the schedules) should be used in the control of activations (if any), and it is up to ELIA to decide how to use it in the context of iCAROS (T&C Scheduling Agent). We appreciate this, but we like to stress that by no means it should lead to penalties under iCAROS.

A strict activation control with tolerance can only exist under 2 conditions: (i) the ability to update energy bids after GCT and (ii) the absence of a stringent penalty regime (will be further elaborated below).

Annex 12.F on combo activation with allocation of the energy firstly to RD and to mFRR afterwards seems unjustified. Actually a combo activation in the same direction indicates that the grid is effectively long/short, and that the reason for activation is not restricted to a given location. RD should be remunerated at the CBMP in this case as the issue is broader than the electrical zone and is activated for balancing purposes. In such a case, the proposed activation control in Annex 12.F would become acceptable. This would avoid the incentive to activate RD instead of mFRR.

Penalties

FEBEG members cannot recall ELIA ever presenting a report or analysis demonstrating incorrect performance of mFRR energy bids by BSPs. Therefore, the introduction of penalties appears unjustified, opportunistic, and lacks a proper justification. FEBEG insists that ELIA provide a transparent and comprehensive analysis to support the need for penalties.

The inclusion of penalties is likely to prompt BSPs to include provisions for penalties in the pricing of energy bids, therefore, the total costs will increase for all market parties.

FEBEG proposes countermeasures to balance ELIA's harsh penalty scheme, although these proposals should not be interpreted as an implicit agreement on the existence of penalties. FEBEG suggests that penalties should only be applicable in cases where there is an incentive for the BSPs to not execute the activation, such as when there is an opportunity for the BSP to profit from the imbalance price. In situations where not executing the activation request already penalizes the BSP due to imbalance exposure, adding a financial penalty (via the Penalty Factor) would be unnecessary and result in double penalization. The mere removal of benefits when the deviation occurs in favour of the SA would take away all possible incentive to not deliver the RD bid.

FEBEG finds the proposed Penalty Factor of 25% applied to mFRR energy bids to be very excessive, it also lacks justification and has never been demonstrated to be necessary by ELIA.

FEBEG asks that both the Penalty Factors and tolerance bands should be implemented as parameters in the Terms and Conditions (T&C), allowing ELIA the flexibility to calibrate them only after thorough analysis has indicated and demonstrated clear needs. As a matter of principle, they should be set at to 0% at go-live date and until the moment ELIA managed to demonstrate it would be essential to increase them (on a data set of 12 months at least) if no other alternative measure is possible.

Finally, we would like to reiterate that the penalties applied on the availability tests (in Annex 11) are very punitive and somehow disproportionate compared to the income a BSP can make. Furthermore, it is lacking continuity. Failing 2 availability tests out of 100 activations per year is not the same as failing 2 tests out of 3 activations per year. **FEBEG asks ELIA to recalibrate this penalty formula**. In this sense we welcome the foreseen workshops, and we will actively participate in the discussions.

Tests

The availability tests (Art II.13.2) could be executed and published in a more transparent way. For instance, units often activated and performing well throughout the year should not be tested in the same manner as units being seldomly/never activated. It does not provide learning and it creates useless emissions (for thermal means). FEBEG asks ELIA that the trigger to launch an availability test should follow a transparent and published methodology.

In addition, FEBEG regrets that the prequalification tests (Annex 6) are not properly adapted to cope with technologies with a profile. A random trigger on a 24-hour period does not help those profiled technologies (wind, solar, BESS,…) and it is at the expense of market liquidity.

Operations

Energy bidding

As a first remark and despite the fact that it is not written explicitly in the T&C's mFRR, FEBEG would like to thank ELIA for the facilitation on the energy bidding, the introduction of bidding characteristics[2] will help increasing the market liquidity and the bidding by BSP. There have been countless workshops where ELIA listened to the feedback of stakeholders and presented very useful information. FEBEG has the following remarks on the energy bidding:

- Art II.10.6 does not include the bid characteristic 'Maximum Energy Limits' (MEL) which is needed for certain technologies;
- The bid characteristic 'Parent-child' forces the parent to be cheaper than the child. Note that thermal units will often have an indivisible P_{min} (parent) that is more expensive than the capacity between P_{min} and P_{max} (child). We understand it is a requirement enforced by MARI but still want to make the remark that it will lead to strange pricing effects.
- Annex 9.A.2 suggests that a DP_{su} must be offered in divisible bid if the daily schedule is greater or equal to P_{min}. FEBEG wants to mention that some assets cannot run at all below P_{min} and hence, will need to submit indivisible downward bids in such a case. Similarly, FEBEG disagrees with the sentence 'only non-started DP_{SU} can be included in (partially) indivisible mFRR Energy Bids'. In many cases, only a stop (indivisible) bid can be offered because it is technically not possible to deliver the energy bid if requested partially by ELIA. By no means, this annex 9.A.2 forcing BSP to submit divisible bids should lead to penalties while indivisibility is necessary in the situations explained above.
- In annex 9.E.1, ELIA elaborates on the baseline updates after GCT. This seems to be a parallel process alongside (but not impacting) the schedule updates requested in T&C Scheduling Agent. Obviously, FEBEG members did not test yet this functionality neither can they comment on its user-friendliness. We draw ELIA's attention to the fact that this process must avoid yielding unwarranted penalties in the framework of T&C Scheduling Agent. In normal circumstances, a baseline update triggers the submission of a new schedule which should be accepted by ELIA as the last ID schedule of SA.

FEBEG wants again to remind that the ability to modify bids after GCT is a cornerstone of the design and makes it consistent. Indeed, ELIA counts on energy bids that are accurate (and pays Energy Requested), pushes to have a reactive balancing model and is pushing to implement a penalty factor even on non-contracted bids. That BSPs are incentivized to provide up to date information and have the ability to modify bids after GCT is a logical consequence of this market design.

[2] MAT and MEL which highly needed and Neutralization time

We are still struggling with the understanding of netted upward activation in annex 12.A? Netted does not seem to be defined.

Formulas in Annex 12.C and 12.D are highly complex and hard to implement. Settlement tolerance should be foreseen for the early days post go-live. Examples of settlement files using those use cases would be highly appreciated.

Obligations

Art II.10.28 ELIA has the ability to designate scheduled activations as "unavailable" in order to retain an adequate number of direct activations. This should prevent requiring the BSP to provide both scheduled activations (SA) and direct activations (DA) for non-contracted bids. The applicable conditions should be reviewed.

Art II.18.10 mFRR energy bids can be activated for RD purposes. In such a case they should be remunerated according to the provisions explained in annex 13**B.** For the sake of consistency, if ELIA activates during the same QH a direct mFRR energy bids in the upward direction, the remuneration of the energy bid activated for RD purposes should be the following: Max (Energy bid price; $MP_{SA,qh}$; $MP_{DA,qh}$)

The obligation to offer mFRR energy bids does not specify which activation type. Given that (i) ELIA clearly mentioned during the WS that scheduled activations would be used in a large majority of the cases and (ii) that direct activations overlap on 2 QHs leading ELIA to consequently set some mFRR bids as unavailable (at the expense of market liquidity), FEBEG considers that the obligation to offer should only cover scheduled activation type (and not SA+DA).

FEBEG regrets that pooling DP_{su} on contracted energy bids is not authorized. This undermines the level playing field with DP_{pg}. We believe that the criteria should be the size of the DP irrespective of its technology. For instance, each delivery point – no matter if it is DP_{su} or DP_{su} – may be pooled if smaller than 25 MW.

While nothing can be done in the frame of the T&C mFRR, FEBEG wants to reiterate that the move to a FAT of 12.5 min will lead to less capacity offered in general.

CRI and mFRR energy bids filtering

FEBEG members appreciate the commitments made by ELIA to limit as much as possible any situation where FRR energy bids would be filtered out. We also want to remind that FRR bids filtering is the result of congestions on the grid and this falls under the prerogative of the TSO. Pushing back the cost of those congestions to the BSPs is not putting the incentive at the right party because BSPs cannot do much (or anything) about congestions.

In this context, we are eager to read tangible elements regarding the monitoring, reporting, and transparency of the amount of bids filtered out (in terms of MWh and Euros). Additionally, we attach great importance to any initiatives aimed at reducing the necessity for such filtering. (e.g. more frequent CRI updates, receive schedules from large industrial customers, etc). FEBEG considers an action plan is necessary to reduce such occurrences, along with a feedback loop to adjust criteria in cases where CRI is misused. **Eventually, if the occurrences of filtering are too frequent, ELIA should reconsider remunerating the BSP for the missed opportunity**.

We also refer to the consultation relating to the improvement for data used in the prediction of congestions where FEBEG provided an extensive feedback.

Art II.10.24 invites BSP to reallocate mFRR contracted energy bids on a best efforts basis in case of medium or high CRI. It is worth noting that ELIA should also be encouraged to make their best efforts in restricting the utilization of high and medium CRI.

Balancing Rules

FEBEG takes note that several consultations are taking place at the same moment. We propose to address the points concerning the imbalance calculation (which is obviously a very important topic for FEBEG) in its reaction to the BRP contract consultation. This seems the most relevant approach as the large majority of the elements FEBEG wants to react on are moved to the BRP contract. ELIA should certainly not consider absence of comments on the formula as an implicit approval by FEBEG of the ELIA proposals or approach regarding the imbalance price formula.

Art 10. Tackles the filtering of balancing bids. FEBEG wants to share that in case of medium CRI with a cap (upward or downward), balancing rules consider allocating the remaining capacity in priority to aFRR energy bids and then to mFRR. FEBEG believes that the remaining capacity (hence the bids not filtered out) should be allocated to the cheapest FRR energy bids (hence a cheap mFRR bid should have priority on a more expensive aFRR one).

The trigger to launch the activation of mFRR energy bids is not detailed in the balancing rules. FEBEG believes that mFRR energy bids – certainly the cheap ones – should be activated before a part of the (more expensive) available aFRR energy bids, especially since aFRR is

increasingly delivered by technologies with high activation prices while much cheaper mFRR energy bids are available. Activating those aFRR bids before mFRR comes with a cost to the market which will eventually be passed through the end consumer. FEBEG asks ELIA to give more transparency on the definition of mFRR demand for both activation types and also to present the most cost-efficient activation methodology.

Art 17 & 18 deals with the Publication along with the reporting and monitoring. FEBEG expects the inclusion of paragraphs addressing the CRI related requests as specified earlier in this document.

Conclusions

FEBEG really appreciates the close collaboration with stakeholders and the tangible evolutions in the mFRR design. However, FEBEG believes that certain unresolved issues, as indicated earlier in the text, require comprehensive analysis and should be carefully incorporated or revised within the T&C mFRR.
Primarily we think that the proposed penalty scheme is too punitive and leading in some cases to double penalisation.
In addition, we expect more transparency on the occurrences of CRI filtering.

An appropriate design is absolutely key for balancing the grid and will create the best possible playing field for BSPs. This will come to the benefits of the market liquidity and ultimately to the final end-user.