

Subject: FEBEG's reaction to the Public consultation Task Force Princess Elisabeth Zone  
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## Overall remarks

FEBEG thanks Elia for having the opportunity to react to *ELIA's Public consultation Task Force Princess Elisabeth Zone*<sup>1</sup>.

FEBEG particularly appreciates the opportunity given to the different stakeholders to ask for clarifications and provide feedback in a transparent and constructive way throughout the entire process.

The inputs and suggestions of FEBEG are not confidential.

## Connection requirements

FEBEG would like to highlight the problems and challenges resulting from the need to have a flexible contract in for the first zone. Such a flexible contract will have an impact on the project. It imposes uncertainty of income (due to uncertainty to distribute the energy), thus resulting into higher financing challenges. As already a significant amount of uncertainties are introduced for the future (see further), any additional uncertainties, should be avoided especially for the beginning of the project.

We therefore urge Elia to take steps on this matter to ensure a stable profile for the developer and ask Elia to limit the flexible access in duration as well as in volume. If for instance the Ventilus project would suffer further delays, the market parties involved should be entitled to a compensation. This commitment should be a part of the connection agreement.

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<sup>1</sup> [https://www.elia.be/en/public-consultation/20231120\\_Public-consultation-Task-Force-Princess-Elisabeth-Zone](https://www.elia.be/en/public-consultation/20231120_Public-consultation-Task-Force-Princess-Elisabeth-Zone)

## Market design (OBZ)

### Main messages:

- The effects of the uncertainty regarding the future market design should be mitigated through up-front transparency on the process, progress and decision points.
- In case of material impacts of changes to the market design, measures to mitigate these impacts should be implemented.
- Once the OBZ is implemented, there should be a clear distinction between a compensation mechanism for capacity reductions for non-market reasons and the CfD mechanism.
- Implementation of Advanced Hybrid Coupling for the OBZ should take onboard lessons learnt from Evolved Flow-Based and application of AHC in CORE that is expected in 2025.

FEBEG would like to thank Elia for the clear and extensive explanations regarding the planned market design of the Princess Elisabeth Zone. The provided examples are also appreciated as they provide further clarification for a complex topic. In general, the chapter provides a clear view of the possible options for the future market design of the PEZ, as well as the key uncertainties that still surround the subject. These uncertainties remain problematic for the correct assessment of future costs and revenues of assets within the scope of the PEZ.

FEBEG therefore urges:

- Any assessment of changes should consider the value of design and regulatory stability for investors and operators of the assets within the scope of the PEZ.
- Changes in market design are communicated sufficiently up-front and in dialogue with impacted stakeholders.
- In case of material impacts on the operation of the assets, the change are accompanied with measures aimed to mitigate these impacts.

FEBEG can generally agree with the provided 'three critical enablers' for the target market design, even though their presentation as equal requirements does not seem to give a wholly accurate picture of options and target. Therefore, FEBEG wants to include a balancing agreement with Ofgem as a fourth prerequisite before the formal creation of the Offshore Bidding Zone.

FEBEG understands that the target design for PEZ is an Off-Shore Bidding Zone (OBZ) to optimally organize and utilize the interconnectors. To achieve this goal, Elia considers that implicit coupling and Advanced Hybrid Coupling are critical requirements to ensure that the OBZ can correctly perform its intended function, as well as secondary, more technical requirements like single node operation and meshing of HVDC interconnectors. But, depending on the interconnectors that will be connected to the PEZ in the foreseeable time horizon, the fulfillment of these requirements may vary.

FEBEG therefore understands that the move from the Home Market approach to the target OBZ approach will depend on the availability of an interconnector to another bidding zone where the two main requirements of implicit coupling and Advanced Hybrid Coupling can be fulfilled. Elia currently foresees this evolution somewhere between 2030 and 2035, which may lead to a market design change while the first off-shore assets are already operational.

In this context, FEBEG would like to reiterate its position mentioned previously on the uncertainties for assets within this scope, and the need for Elia to be fully transparent on the timing and progress of the critical enablers.

As part of the discussion of the future market design, Elia assumes that the assets located in a future OBZ will enjoy support in the form of a Contract for Difference, with a specific design. This assumption is then used as fallback remuneration option when discussing design options such as curtailment or the impact of Advanced Hybrid Coupling on pricing. However, a good target market design should also provide correct and fair remuneration or reimbursement even in the absence of the CfD support mechanism. As the proposed CfD mechanism foresees the possibility for a carve-out volume, it should be assumed that part of the production will not enjoy a CfD support. Elia should therefore also assess the possible impact of design choices in the absence of a CfD support mechanism.

Moreover, the proposed CfD mechanism will be operated under a closed-envelope principle, where the total amount of support is pre-determined and limited. To avoid exhausting the CfD envelope prematurely and thus to provide more investment certainty, it should be avoided that the CfD support is applied for other purposes than providing direct price support, like congestion management or mitigating the effects of the Advanced Hybrid Coupling.

In this light, FEBEG requests that the concept of the Transmission Access Guarantee (TAG) is more seriously considered as a first line of support in case of restrictions of transmission capacity for non-market reasons. Practically, it could be used to finance a price-lifting mechanism that puts the market price of the OBZ at the level of the lowest neighboring bidding zone in case the interconnection capacity is restricted for grid reasons (either because of physical restrictions, or if AHC would lead to reductions in calculated interconnection capacity to increase flows elsewhere in the grid). That way, the impact of grid restrictions on the OBZ price is neutralized and the application of the CfD limited to what is necessary to supplement the – corrected – market price to the strike price. In addition, FEBEG would like to remind that the electricity regulation is setting obligations on system operators regarding congestion management and redispatch. The proposed CfD, which is promoted by system operators (ENTSO-E), should not be used as a way to escape from financial implications of these obligations.

The interconnection between the PEZ and the Belgian on-shore bidding zone is made through a combination of AC and DC interconnectors. For FEBEG, it is not clear from the document how in the target model the combination of both interconnection types will be reflected in the flow-based market coupling, or if it will still depend on an ex-ante allocation of flows through either of the interconnections.

Finally, while FEBEG supports the application of the Advanced Hybrid Coupling to better utilize the cross-border capacity at the border of Capacity Calculation Regions, close attention should be paid to capacity reductions due to minimal optimisations of distant electricity flows. Such reductions were observed on the Alegro interconnector due to application of Evolved Flow-Based, and eventually required the removal of restrictions for improvements below a pre-defined threshold. FEBEG asks that this experience – as well as other lessons learnt elsewhere of the application of Evolved Flow-Based and the future implementation of Advance Hybrid Coupling – is taken onboard once the OBZ based on AHC is implemented. FEBEG would also like to reiterate that in its view any capacity restrictions due to the application of AHC should in first instance be compensated through a Transmission Access Guarantee mechanism before the application of the CfD support.

## Balancing design

### General Feedback

FEBEG appreciates Elia's comprehensive document and the detailed information it provides, enabling constructive feedback. Acknowledging the substantial challenge of integrating an additional 3.5 GW of offshore capacities, we recognize that certain choices are imperative while others remain debatable at this stage.

We align with Elia's call for a vigilant and humble approach to market design choices, especially in managing balancing risks in a first-of-its-kind Offshore Balancing Zone (OBZ) with such significant installed capacity. However, we note a lack of comprehensive exploration in the document regarding the optimization of elements such as intervention, explicit reactions, and implicit reactions, and their impact on social welfare.

FEBEG understands that Elia can cope with the balancing risks of those additional 3.5 GW in multiple ways. The possibilities have been presented in the document one by one. However, FEBEG did not see how Elia made the arbitrage / found the optimum between the following elements:

- (i) **Intervention:** Impose Mitigation Measures (costs to SA – BRPs)
- (ii) **Explicit reactions:** Capacity Procurement with netting in one single LFC bloc (costs to grid users via tariffs)
- (iii) **Implicit reactions:** Design of OBZ Imbalance Price without BRP position netting (costs to BRPs)

The document tends to address the above 3 elements in a stand-alone way but does not really study how, why one element should be privileged on another one. Furthermore, we are concerned that the document does not address in a quantified way the question of how to best make use of (i), (ii) and (iii) and consequently optimize the social welfare.

We read throughout the document that the costs are to be bore by technologies originating the balancing problems. Consequently, Elia favors the implementation of mitigation measures specific to and funded by offshore wind farms as well as full exposure to OBZ imbalance price without BRP netting possibilities with onshore portfolio.

This is a change of paradigm with regards to current balancing market design which struggles for a fair level-playing field and technology-neutral rules. Can we expect that technologies being labelled as solving the balancing issues could in turn expected higher remuneration than the others?

FEBEG has consistently and will continue to advocate for an educated and correct dimensioning of the reserves (ii). We refer to the numerous position papers sent on this topic (LFC Means, LFC BOA). Elia remains accountable for the grid security and should perform this exercise correctly and create a well-functioning market.

However, we believe that points (i) and (iii) are not justified as they push back the costs of the grid security in a discriminative way to offshore parks. These costs should be at the same time socialized and minimized by applying the following:

- **(i) Interventions should be compensated by Elia** (e.g. by means of redispatching bids activations and subsequent BRP balancing perimeter correction). This will put the incentive to limit the usage at Elia and prevent BRP-SA to provision bricks of risks relying on pessimistic scenario's;
- **(iii) implicit reactions should be netted for both onshore and OBZ portfolios of a same BRP.** This will allow BRP-SA to maximize the sourcing of renewable energy delivered to its customers while preventing him to provision bricks of risks resulting on pessimistic scenarios of balancing exposures;

## Offshore Generation Profile

No specific comment

## Mitigation Measures – (i) Intervention

FEBEG acknowledges the need to introduce several mitigation measures to safeguard the grid security. However, we do not agree that those measures are not remunerated by Elia.

This creates 2 main issues:

- on the one hand it is unclear how frequent those measures will be triggered and what will be the associated costs to the BRP-SA;
- on the other hand, it does not put the incentive at the right party as it offers a free option to the TSO who will not bear the associated costs while benefiting from the operational comfort of those measures.

FEBEG believes that Elia should consider those measures as being part of the redispatching bids which are remunerated and whereby balancing perimeters are corrected. This would address the 2 issues identified above. Furthermore, we see similarities on those measures and redispatching scheme as both are meant to mitigate the risks of excess of energy at specific locations.

More specifically and not further commenting on the necessity to remunerate those measures, FEBEG wants to make the following comments:

- **High-wind speed:**

**FEBEG supports this measure.** It will contribute to the grid security and help maximizing the injections of wind.

- **Ramp rate limitations:**

**FEBEG is concerned** that it is not technology-neutral (other high ramping technologies such as BESS are not imposed this kind of limitation) and it is an intervention in or constraint to the task of the BRP to balance its position. As a matter of principle, Elia should not impose measures to specific technologies but ensure an equal treatment to all.

- **Preventive curtailment & preventive cap:**

**FEBEG is concerned** that is not technology-neutral (other assets outside OBZ are not imposed this kind of measures) and it is an intervention in or constraint to the task of the BRP to balance its position. As a matter of principle, Elia should not impose measures to specific assets but ensure an equal treatment to all.

The modalities of these curtailments on a pro-rata basis are not ok neither because it would also affect a BRP that made a good job.

The financial aspect of this curtailment raises some problems because the energy – being the forecast of the BRP-SA – will be sold on a given market at a given price. If Elia preventively curtails, it means that it imposes its own forecast to BRP-SA which will be in turn exposed to another price signal that the market it sold the energy on. FEBEG does not believe that the ID or imbalance price during those curtailments will be in BRP-SA advantage as this measure could be triggered well ahead of the period of delivery.

As a matter of principle, the risks should not be bore by BRP-SAs and Elia should not intervene in the energy management of market participants. It is not up to Elia to define which are the volumes (by modifying the forecast without perimeter correction) and against which price (curtailment will create a price spread EPEX (if energy sold on EPEX) vs ID or IP (energy to be bought back)) that a market participant will be exposed to.

The costs of the mitigation measures will be pushed to the SA-BRPs. It is uncertain what will be the occurrences of these measures. However, they will be factored in the offers and ultimately paid by the end-users. As those occurrences are unknown, it is more likely that offers will include a worst -case scenario (hence relying on overly pessimistic assumptions) and will eventually come with higher costs and a lower social welfare. FEBEG believes that remunerating those measures by means of redispatching activations will avoid this inefficiency. This way:

- market participants would be exposed to clear, transparent and non-discriminatory rules
- TSO would be incentivized to make a spare use of these measures; the incentive would be at the right place;
- end-consumer would pay only for what will be really used;
- social welfare would be maximized

### Reserve Dimensioning – (ii) Explicit Reaction

FEBEG refers to its previous on this topic. We can only remind that it is the role of Elia to define the capacity to be procured along with forecasting the non-contracted offers that will help balancing the grid.

FEBEG has consistently advocated for a much more dynamic determination of the procurement and at the time of writing this note, we can only observe that it is not the case. It makes no doubt that the high intermittent volumes resulting of the increase of offshore capacity will require a frequent and dynamic calculation. For the sake of clarity, we refer to dynamic procurement as the ultimate goal to procure what is physically requested to balance the grid. Not more not less. Variables such as FRCE quality should not be an input of the computation. Elia refers to huge challenges of integrating offshore capacity and points the predictability issues of wind productions. In this context, implementing measures detailed in the document – to cope with unpredictability – and procuring based on FRCE would not be consistent.

### Reactive Balancing – (iii) Implicit Reaction

FEPEG is deeply concerned that on the one hand the procurement of contracted capacity can be netted between onshore and offshore zones; and on the other hand, BRPs having portfolio's in both zones are not allowed to net their positions. This decision is perceived as unfair, nor justified by legal basis and economically suboptimal for market participants who will ultimately pass through this burden to end-users.

Allowing BRP-SA to make onshore and offshore portfolios netting will be beneficial as they will maximize the sourcing of renewable energy delivered to their customers while preventing them to provision bricks of risks. Fewer netting possibilities means higher balancing risks which in the end will be passed through the final consumer. This would be punitive and further seen as extra penalties to the offshore parks.