

Task Force Implementation of Strategic Reserve

Task Force – February 8, 2018

Meeting Agenda

- ❑ **Status Ministerial Decree on Volume Decision**
- ❑ **Status decision of the CREG on the Functioning Rules**
- ❑ **Results Elia's Public Consultation on the Procedure for Constitution**
- ❑ **Proposal on modification of the Administrative Imbalance Tariff**



Status Ministerial Decree on SR Volume for Winter 2018/19

Ministerial Decree – entered into force on 15/01/2018

- Ministerial Decree was recently published on website FOD Economie.
- It holds an instruction for Elia to constitute a strategic reserve:
 - For a volume of 500 MW;
 - For a period of one year (as from 1 November 2018).
- The volume can be changed by the Minister until at the latest 1 September 2018:

Art. 3. In afwijking van artikel 2, kan de netbeheerder ten laatste op 1 september 2018 de toestemming krijgen vanwege de minister en bij wege van ministerieel besluit om, op basis van een geactualiseerde analyse van de netbeheerder en/of advies van de Algemene Directie Energie en rekening houdende met de verkregen offertes in het raam van de opgestarte procedure ten gevolge van dit besluit, het vereiste volume van de strategische reserve vastgelegd overeenkomstig artikel 2 aan te passen in functie van de waargenomen situatie.

Art. 3. Par dérogation à l'article 2, le gestionnaire du réseau pourra au plus tard le 1^{er} septembre 2018 être autorisé par le ministre et par voie d'arrêté ministériel, sur base d'une analyse mise à jour du gestionnaire du réseau et/ou l'avis de la Direction générale de l'Energie et compte tenu des offres reçues dans le cadre de la procédure initiée suite au présent arrêté, à adapter le niveau requis de la réserve stratégique fixé conformément à l'article 2 en fonction de la situation observée.

- Therefore, the contract awarding will only take place once this date has passed, in order to be sure that the volume is finally determined.

Status Decision of the CREG on Functioning Rules for Winter 2018/19.

Results Elia's Public Consultation on the Procedure for Constitution of 2018

Context elements

- Public consultation of PfC for SR 2018-2019 ran from 19/12/2017 to 26/01/2018
- Ministerial Decree 15th of January 2018, instructing Elia to constitute a strategic reserve of 500 MW for one winter period – keeping in mind that the volume is subject to change until 1/9/2018.
- Functioning Rules (which prevail over the PfC) in consultation by the CREG in parallel to the PfC
- **Reminder:** The consultation only concerned the PfC, thus:
 - Subjects relevant to other documents (ARP contract, Functioning Rules) were out of the scope
 - Subjects relevant to the Electricity law are also out of scope

In total 4 market parties submitted remarks (all were non-confidential)

Summary of frequent or most important questions

1. **General coherence and consistency**
2. **General remarks & Preface**
3. **Tendering schedule and Timeline 2018**
4. **Delivery Points**
5. **Stages of tendering**

Remarks & Answers by Elia

1) General coherence and consistency

- *Certain definitions were not found in one of the language versions;*
- *Certain terms were not used consistently throughout the entire text.*

→ Elia will perform a general consistency and coherence check both separately as among the three languages before the publication of the final version.

Remarks & Answers by Elia

2) General remarks & Preface (§ 1)

- *Various remarks were made on the Belgian engagements towards the European Commission;*
- *Adjustment(s) of the PfC if the adoption of the new law will impose new/other terms or conditions.*

→ Some issues were not part of the Procedure for Constitution, and therefore considered out of scope of this consultation.

→ Issues raised by the contract duration and volume have in the meantime been addressed in the Ministerial Decree, published on 15 January 2018 (500 MW for 1 year). Concerning the duration, ELIA wants to point out that due to Article 7 quarter of the Electricity law it was already possible for the Minister to instruct a constitution for only 1 year. On the other hand, the volume is subject to change up until 1/9/2018, which will be incorporated in the Procedure for Constitution.

→ Regarding issues on the lacking of legal basis for the return-to-the-market clauses, ELIA want to redirect to Chapter 5 of the Functioning Rules and to be more precise to section 5.3.

→ An extra disclaimer will be added to the Preface chapter of the PfC.

Remarks & Answers by Elia

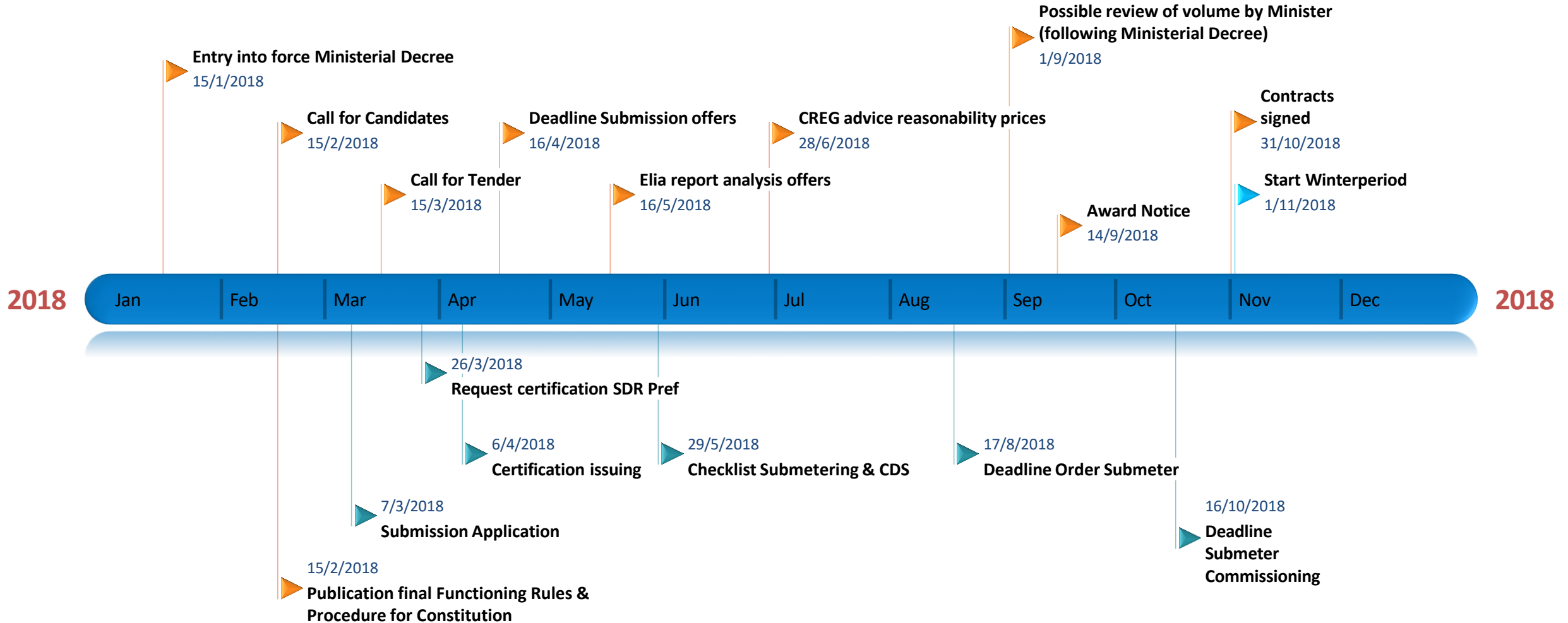
3) Tendering schedule (§ 4.1)

- *Remark on the uncertainty of the 'Award Date';*
- *Request on deviations from the current 'Tendering Schedule'.*

→The Ministerial Decree of January 15th, 2018 states that the last day for the Minister to adjust the volume either up- or downwards is 01/09/2018. ELIA has set forth 14/09/2018 as the new 'Award Date' (see also Timeline 2018).

→The requested deviations from the legal deadlines is not possible. However, seen as, (i) 01/09/2018 is the last day for the Minister to adjust the volume (stated in the Ministerial Decree of January 15th, 2018) and (ii) it will only be possible to make a definitive selection after this date, the 'Award Date' has been set by ELIA for 14/09/2018.

Timeline 2018 (15.02.2018)



* Notwithstanding the legal deadline of 31/5/2018, ELIA strives to submit its report to CREG already by 16/05/2018. As a consequence and following the legally stipulated terms, CREG would conclude its advice by 28/06/2018 (in stead of the legal deadline of 12/07/2018).

Remarks & Answers by Elia

4) Delivery Points (§ 5.1, § 5.2, § 5.3)

- *Remark on the commissioning of a submeter on time*

→ As mentioned in the PfC (see Chapter 1):

“Considering that an administrative penalty will be applied should the actual submetering commissioning not be on time, Elia will have to ask all the SDR candidates to make all necessary preparations at their own risk or, should the SDR candidates not make all such preparations, limit to certify only delivery points already equipped to do the service”

This is a consequence of the Ministerial Decree of January 15th, 2018 which states that the volume is subject to change until 1/9/2018. ELIA cannot deviate from this and therefore the award cannot be held earlier.

Remarks & Answers by Elia

5) Stages of tendering procedure (§ 7, § 7.2.2.4, § 7.3.3.2, § 7.5)

- *Modification of offers during negotiated procedure with publication organised by ELIA*
- *Stringent nature of the ‘determination of the maximum Reference Power’ table and the question if deviations from this table are still possible.*
- *Remark bidding principles for SDR candidates*
- *Award decision taken by the Minister or ELIA?*

→ Offers are conceivable to the extend permitted by public procurement rules. However, on the date on which Elia submits the report referenced in Article 7sexies, §1 of the Electricity Law, the offers should be final.

→ The table is applied to all candidates. As in the past, the metering can be adjusted for non-representative data.

→ A second obligation for the smallest offer volume will be added to the PfC. Consequently, the smallest offered volume will not only have a minimum of 1MW but also a maximum of 10MW – unless the technical impossibility is demonstrated .

→ There are two cases, if the CREG concludes the prices to be manifestly unreasonable or not.

- In the first case: Article 7sexies, § 3 of the Electricity Law clearly states that the decision is then taken by way of a Royal Decree, upon a proposal by the Ministry.
- In the second case: Article 7quinquies, §1 of the Electricity Law authorises, Elia is free to decide that the award decision is taken by Elia.

This information can also be found in the PfC section 7.5

Proposal on modification of the Administrative Imbalance Tariff for Winter 2018/19

Context for Modification of the Administrative Imbalance Price

- ❑ **An administrative imbalance price (4.500 €/MWh)** is implemented as a fixed value, set above today's Day-Ahead Market price cap of 3.000 €/MWh, to have an incentive effect :
 - ❑ Avoid “hiding” of scarcity until real-time and allow Elia to know the problem sufficiently in advance
 - ❑ Avoid undesired arbitrage
- ❑ In the Task Force of 26/09/2017, Elia presented a proposal in anticipation of ACER's proposal on day-ahead price caps based on a **'dynamic' Day Ahead Price Cap**, requiring a 'dynamic' Administrative Imbalance Price (AIP) to maintain the incentive effect. This to ensure compatibility of the Administrative Imbalance Price with a price cap increase above 3000 €/MWh.
- ❑ The Belgian commitment towards Europe requires another approach as the AIP has to be adapted towards Winter 2018/19 to a value which has to be higher as the intraday price cap , i.e. 9999,99 €/MWh (i.e. current intraday price-cap).
- ❑ At this point, it has been announced by the European Commission that the Belgian mechanism for Strategic Reserve has been approved.

For the future and in any case before launching another reserve tender, Belgium commits to increase the specific imbalance penalty in case of Structural Shortage following an economic or technical trigger (currently at 4.500 €/MWh) to above the intraday (ID) price cap (of 9.999,99 EUR/MWh) to limit market distortions.

New proposal for the Administrative Imbalance Price

It is therefore proposed to set the AIP at a fixed level of 10500 €/MWh.

- This value complies with commitment from Belgium towards Europe (higher as the current intraday price cap)
- This increases from 4500 €/MWh seriously increases the “incentive effect” wrt day-ahead and will avoid arbitrage
- This increase towards 10500 €/MWh also ensures an “incentive effect” wrt to the intra-day market
 - The absolute or relative difference with the intra-day price cap ($\Delta 500$) can be less than with day-ahead ($\Delta 1500$) as market players face a shorter time horizon to find better opportunities.
- A ‘dynamic’ AIP as initially proposed would remain non-dynamic value until 10000 € is reached.
 - Multiple triggers where day-ahead and intra-day price caps exceed 10000 €/MWh are assessed as rather unlikely
 - If day-ahead / intra-day prices caps exceed 10000 €/MWh, the economic trigger and AIP require a new assessment

Implications for the Balancing Market

- The balancing rules refer to the AIP to set upward bid caps in the balancing market. The bid cap for upward activations is therefore currently limited at 4500 €/MWh.
 - An increase of the AIP towards 10500 €/MWh will automatically increase the bid cap to 10500 €/MWh
 - In the framework of this modification, it is proposed to review / remove the bid cap
- It is proposed to allow balancing market prices rising above the AIP if reserve bids are offered and selected at a price above the AIP (if they reflect the activation cost of this asset).
 - It is proposed to implement a new bid cap of 13500€, complemented with a dynamic mechanism in which the **balancing bid cap may be increased with 1000 EUR/MWh in the event that an activation bid is selected at a value of 80 percent of the balancing market bid cap in place.**
 - ❑ Bid cap increase shall only happen after analysis and approval by CREG via its decision on the balancing rules.
 - ❑ The initial bid cap is set at 13500 €/MWh, well above some VOLL estimates , AIP, ID / DAM price caps. If a market trend demonstrates that an increase of the bid cap is needed, the mechanism will be triggered.

Proposal of modification of the bid caps in the balancing market shall be discussed in the Working Group Balancing