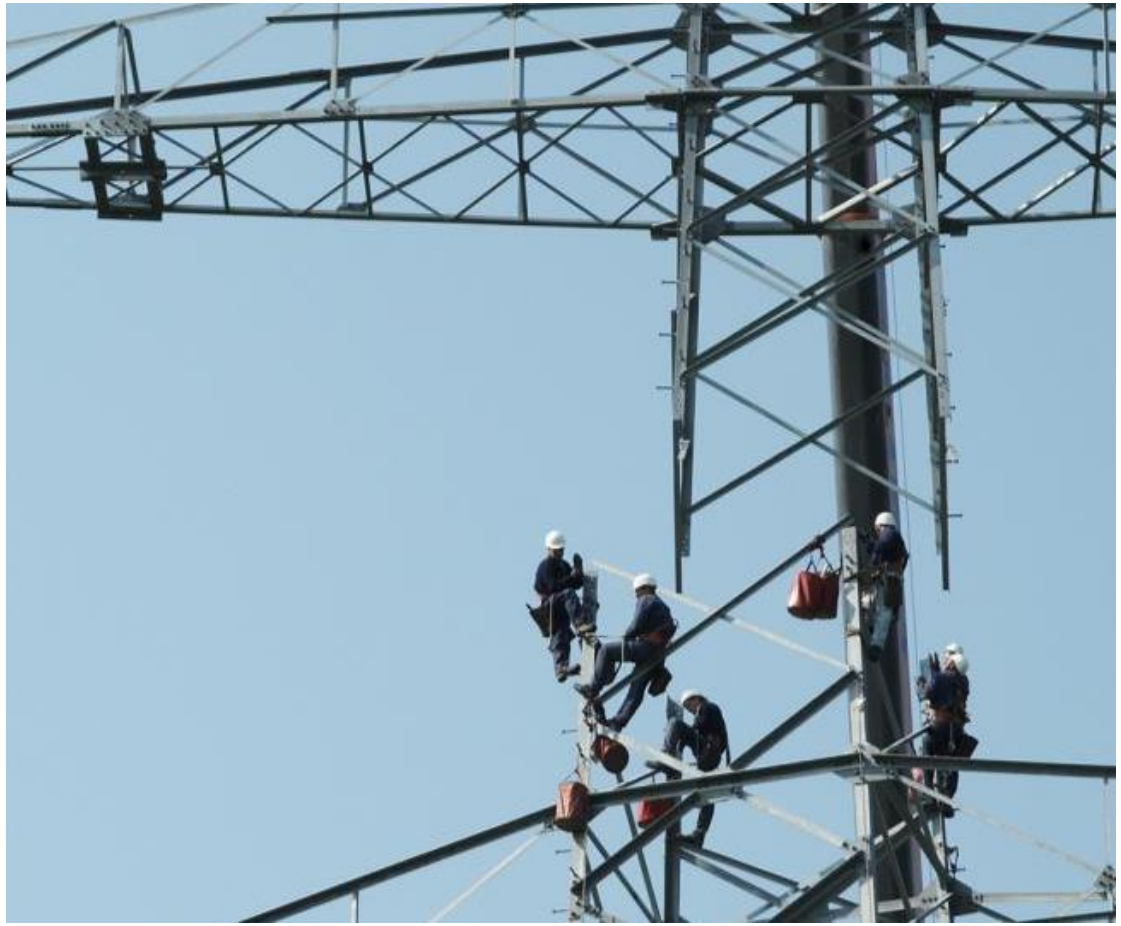
Task Force Implementation of Strategic Reserve

September 19th , 2019

Meeting Agenda

- Presentation on Macro Demand Forecasting Tool
- Functioning Rules winter 2020-21
- E-Cube Demand Response Study



Presentation on Macro Demand Forecasting Tool

by Climact

Analysis IHS forecast quality

Available IHS forecasts:

- June 2015
- February 2016
- July 2016
- January 2017
- July 2017
- April 2018
- July 2018
- February 2019
- September 2019

Forecast error	Target year 2015	Target year 2016	Target year 2017	Target year 2018
6 Months ahead	1.57%	0.43%	-0.29%	0.50%
Year ahead		0.22%	-1.52%	-0.88%

Conclusion

- **Forecast error almost always under 1%**
- **Slight tendency towards overestimation**

Functioning Rules - winter 2020-21

The clean energy package no longer allows the Economic Trigger for activation of Strategic Reserves

The following provision in the Clean Energy Package is deemed impactful for the SR functioning rules:

Art. 22 §2 (a): *"When a capacity mechanism is designed as a strategic reserve, resources in the strategic reserve shall only be dispatched in case transmission system operators are likely to exhaust their balancing resources to establish an equilibrium between demand and supply.*

This requirement is without prejudice to activating resources ahead of actual dispatch in order to respect their ramping constraints and operating requirements. The output of the strategic reserve during activation shall not be attributed to balance groups through wholesale markets or shall not change their imbalances."

=> Though the lack of unmatched purchasing orders in the "Economic Trigger" for activating SR is likely to exhaust balancing resources (1st paragraph), the selling of a Strategic Reserve Volume (SRV) makes the "Economic Trigger" not conform with CEP (2nd paragraph)

Proposal:

- **§ 6.4.1 in FR:** Remove Economic Trigger from the design
- **§ 6.4.2 in FR:** Introduce provisions in the "Technical Trigger" for risk of structural shortage via information received from NEMOs (see next slide)

Elia proposed to integrate the paragraph below during the TF 08/07/2019, now adapted to emphasize the larger contextual analysis

"Likely to exhaust their balancing resources"

Elia zal in deze analyse ook rekening houden met indicatoren op de elektriciteitsmarktinformatie ontvangen van de NEMOs, volgens de modaliteiten vastgelegd [REF OPERATIONAL PROCEDURE]. Meer bepaald:

- [DESCRIPTION OF OPERATIONAL PROCEDURE]
- Wanneer ELIA een volume van niet Gematchte Kooporders verneemt van tenminste één van de NEMOs, en dit overeenkomt met het resultaat van het Prijskoppelingsalgorithme voor de Belgische biedingszone , kan dit beschouwd worden als een voldoende voorwaarde voor risico op structureel tekort, hetgeen door andere elementen uit de contextuele analyse bevestigd dient te worden alvorens over te gaan tot activatie van Strategische reserve.
- Wanneer deze situatie echter plaatsvindt gedurende een ontkoppeling van de DAM van één van de NEMOs in de Belgische regelzone, zal dit niet in rekening gebracht worden. Ontkoppeling van een DAM is een situatie waarbij de NEMO's DAM niet gekoppeld is met andere day-ahead markten. Dit is een situatie waarbij het algoritme voor prijskoppeling met andere day-ahead markten geen resultaten oplevert voor deze DAM (bv. door IT problemen).

Operational procedures between NEMO and Elia should be adapted to facilitate this flow of information
The removal of the economic trigger will not diminish the validity of non-market clearing as a trigger for SR

Thank you

Participation of foreign out-of-market reserves in Belgian Strategic Reserves

During the previous TaskForce ISR, the CEP provisions for foreign participation to Belgian Strategic Reserves was discussed

Key question: can out-of-market reserves contracted by another member state in their mechanism serve to meet the Belgian adequacy needs in the framework of Strategic Reserves, based on the provisions in the Clean Energy Package?

Example: German grid/strategic reserves

After reviewing the legislation and considering implementation aspects, Elia concludes:

- **Articles 22 §1, 26 §2 and 26 §8:** CEP provisions do not allow for special procedures for participation in Strategic Reserves other than market-wide competitive tenders
- **Recital 52:** bilateral agreements could allow cooperation between member states for security of supply, but only to deal with crisis situations
- **Articles 26 §2 and 26 §1:** there are several implementation aspects to consider before opening Strategic Reserves to the participation of foreign out-of-market reserves

Any candidate for Strategic Reserves should participate through the Strategic Reserve tender as a rule

Article 26 §2: *"Member States shall ensure that foreign capacity capable of providing equivalent technical performance to domestic capacities has the opportunity to participate in the same competitive process as domestic capacity."*

Article 26 §8: *"Member States shall ensure that the entry capacity referred to in paragraph 7 is allocated to eligible capacity providers in a transparent, non-discriminatory and market-based manner."*

(The referred "entry capacity" is the maximum capacity available for foreign participation to SR)

Article 22 §1 (d): *"Any capacity mechanism shall… select capacity providers by means of a transparent, non-discriminatory and competitive process"*

Elia interprets the default selection of foreign out-of-market reserves in SR as non-market-based and discriminatory

Furthermore, the CEP explicitly refers to the regular tendering procedure

Bilateral agreements may still allow for certain uses of foreign out-of-market reserves, but only in “crisis situations”

Recital 52: *“It is possible that closer cooperation of Member States is also needed in crisis situations, to increase security of supply and to limit market distortions.”*

Elia interprets the following:

- Bilateral agreements between member states are allowed to better security of supply
- They should only be applied in crisis situations, when the market mechanisms in operation (including Strategic Reserves) have failed to provide it
- It should not be considered as part of a standard mechanism that envisages adequacy such as Strategic Reserves

Elia interprets that a bilateral agreement is possible, but could only come into effect should other market mechanisms fail to provide security of supply in crisis situations

Such an agreement should not be part of the Strategic Reserves mechanism

The Clean Energy Package indicates specific implementation aspects to consider

Article 26 §1: *"Capacity mechanisms other than strategic reserves and where technically feasible, strategic reserves shall be open to direct cross-border participation of capacity providers located in another Member State, subject to the conditions laid down in this Article."*

→ Elia proposes the considerations on the next slide and the article below be considered when interpreting "technically feasible"

Article 26 §2: *" Member States shall ensure that foreign capacity capable of providing equivalent technical performance to domestic capacities has the opportunity to participate in the same competitive process as domestic capacity."*

Considering the two following possibilities during Belgian scarcity:

1. **Electricity import at maximum capacity:** activating foreign out-of-market capacity does not benefit Belgian adequacy
2. **No or limited electricity import:** scarcity is simultaneous and there is a conflict of priority between member states

→ Elia sees difficulties for foreign out-of-market reserves to "provide equivalent technical performance"

Lastly, it should be considered that these resources take part in a mechanism which is not designed to deal with Belgian adequacy

- Foreign out-of-market reserves (e.g. German grid/strategic reserves) were dimensioned, contracted and financed by the inferred member states to meet **their adequacy (or congestion) concern**
  - → Belgium applies the same logic to Strategic Reserves (used only for Belgian adequacy)
  - → This gives no guarantee that either of the member states are adequate:
    - If they are not valued at real contribution in the dimensioning (i.e. real delivery of energy during scarcity to both systems), the capacity is counted double
    - Attributing a value according real contribution is not possible as there is no guarantee of contribution during adequacy need (see previous slide)
  - → No basis in legislation of joint procurement and dimensioning
  - → No basis in legislation for how such a mechanism should be financed

Elia sees practical concerns that show no feasible solution in favor of foreign out-of-market reserves participation to Belgian Strategic Reserves

E-Cube Demand response study