
Procurement strategies for a dynamic allocation of FRR means

Minutes of the second stakeholders' workshop

10 May 2022

1 Participants

- Kristof De Vos, ELIA
- Nicolas Pierreux, ELIA
- Arno Motté, ELIA
- Charles Verhaeghe, Compass Lexecon
- Fabien Roques, Compass Lexecon
- Augustin Lorne, Compass Lexecon
- Emiel Maes, Flexcity
- Loïc Donnay de Casteau, Engie
- Jean-François Waignier, FEBEG
- Steven Harlem, Luminus
- Gilles Bertrand, CREG

2 Introduction by ELIA

- 2.1 Kristof De Vos (ELIA) welcomed participants and introduced the workshop. ELIA explained the context of the study, the previous work carried out by ELIA and the objectives of the workshop.

3 Presentation by Compass Lexecon

- 3.1 Charles Verhaeghe (Compass Lexecon) presented the different options considered for the study on mFRR dynamic means procurement. The options presented included an additional option to increase of mFRR capacity procurement, suggested by FEBEG in writing in response to the first workshop. Compass Lexecon carried out a poll using an online tool, asking participants¹ whether, in their view, all relevant options had been identified. Two participants anonymously answered the poll, and both replied 'yes'.
- 3.2 Compass Lexecon presented the assessment criteria and gave a summary of the main comments made by stakeholders on the options considered in the previous workshop as well as the written submission raised by FEBEG. Compass Lexecon presented analysis addressing FEBEG's suggested additional option, noting that increasing operational security standards fell outside of the scope of the study on procurement mechanisms.
- 3.3 As regards to the evaluation of options, Engie stressed the need for a quantitative assessment of effects, particularly to check what the impacts of these options would be on balancing prices

¹ ELIA and CL did not participate in the online poll.

compared to day-ahead prices. The assessment would test whether direct procurement costs are offset by indirect price effects.

- 3.4 ELIA replied to Engie’s comments, reminding the scope of the current study to evaluate the impacts of each option qualitatively. If there is a need to further investigate elements of the qualitative analysis quantitatively, and provided that the data is available, then this could be carried out in a second stage. Elia also reminded the stakeholders on the complexity to conduct robust quantitative analyses at this point in light of upcoming market evolutions (European balancing platforms, explicit bidding and reduction of full activation time of mFRR).
- 3.5 Compass Lexecon presented an overview of the assessment of the different options with respect to operational security, covered in the first workshop. Compared to the status quo, all the considered options tend to increase operational security risks. Compass Lexecon presented analysis in response to questions/ comments raised by FEBEG in writing regarding the impacts of reducing contracted capacity on free bid availability, the inference from past data for free bid forecasting, the future evolutions in cross-border exchanges and stress testing the assessment in light of past extreme events.
- 3.6 With regards to the stress tests of the analysis in light of extreme events, ELIA noted that its internal analysis had found that sufficient non-contracted balancing means were available during the two events suggested by FEBEG. ELIA highlighted that while investigating extreme events was interesting, reserve dimensioning was carried out to cover reasonable system events with a 99% reliability level – thus not covering all possible extreme events.
- 3.7 Compass Lexecon carried out an online poll, asking participants whether they agreed that operational security is a risk or concern for implementing the different options considered, and prompted for comments on potential mitigation measures. Two participants anonymously answered the poll, and both replied that operational security was indeed a risk or concern.
- 3.8 Compass Lexecon presented a summary of the analysis of the different options with regards to economic efficiency and costs to grid users, previously detailed in the first workshop. Engie asked whether indirect effects on BRPs have been considered, pointing out the importance to consider the minimisation of direct and indirect costs for consumers – preferably quantitatively. Engie also enquired on the timeframe used to evaluate the costs and benefits of the options.
- 3.9 In response to Engie’s comments, Compass Lexecon explained that a social welfare approach had been followed to evaluate economic efficiency. This implies looking at the efficiency of the final dispatch. The study also considers costs to grid users in complement to welfare. Short-term benefits are assessed with a static approach, and long-term incentives on market players are also assessed. Compass Lexecon presented analysis with respect to indirect costs on BRPs, addressing the question submitted by FEBEG and mentioned by Engie.
- 3.10 Engie enquired about the focus of the study on upward mFRR, while aFRR was used to a greater extent for balancing. ELIA and Compass Lexecon noted that, following the 2021 Dynamic Means study, it was found that aFRR market design changes limited the data available to build free bid forecasting machine learning algorithms, and that very few free bids had been submitted for aFRR so far. As a result, the study focused on mFRR for which free bids are submitted and can be forecasted. Compass Lexecon pointed out that the theoretical conclusions of the study would also be valid for aFRR, however.
- 3.11 Compass Lexecon presented a summary of the analysis of market impacts of each option, first outlined in the previous workshop, and provided analysis in response to FEBEG’s question submitted in writing on the effects of reduced mFRR procurement on adequacy. Compass Lexecon carried out an online poll, asking participants whether they agreed that market functioning is a risk

or concern for implementing the different options considered, and prompted for comments on potential mitigation measures. Two participants anonymously answered the poll, and both replied that market functioning was indeed a risk or concern.

3.12 Compass Lexecon presented the conclusions to the study:

- 'No procurement based on post-market re-scheduling' can be an option only in systems with very high liquidity, but current observations of liquidity are far from sufficient to consider this option;
- 'Intermittent procurement' can only be an option in systems with seasonal / predictable patterns of available non-contracted balancing energy bids (e.g., to maintain a stable market), however current observation does not confirm the existence of such patterns; and
- 'Partial procurement' is technically feasible and can bring economic gains but have important associated operational and market stability risks.

3.13 Compass Lexecon carried out an online poll, asking participants for their view on which option had the largest potential for implementation. Three participants anonymously answered the poll: two voted that the 'status quo' arrangements had largest potential, while another participant voted for 'partial procurement'. Compass Lexecon concluded by providing the result of the different online polls made during the workshop to participants.

4 Wrap-up and next steps

4.1 ELIA informed market participants of the next steps for study, stating that a written report would now be compiled. Written comments can be submitted by stakeholders until the end of June to be analysed and included in the report. The report will then be published for consultation in September.